

IV EUROSAI/ARABOSAI JOINT CONFERENCE

“Modern challenges for SAI’s capacity building”

Baku, Azerbaijan

April 16-18, 2013

COUNTRY PAPER: LATVIA

STATE AUDIT OFFICE OF THE REPUBLIC OF LATVIA

ROLE OF SAIS IN FORMULATION AND IMPLEMENTATION OF NATIONAL DEVELOPMENT POLICIES

(Theme II: Role of SAIs in achieving national development goals)

In respect of the role of supreme audit institutions (SAIs) in achieving national development goals there are at least several questions which arise. First of all one could wonder, - how institutions formally entrusted just with an auditing function are able to facilitate development of national economies? Isn't this the main responsibility of Parliaments and Governments?

Should SAIs intervene in formulation of national development policy and policies of each and every sector at all? After all, isn't there a certain conflict of interest for SAIs, when afterwards auditing the formulated policies?

The answer is straightforward. Contribution of SAIs to the national development is not just an obligation, even more – it is our mission.

After all, this is derived from one of the fundamental values defined by the UN Millennium Declaration, namely – shared responsibility. Yes, Millennium Declaration refers to responsibility over development of the world to be shared among all of the nations. Well, we would invite to think wider and apply those values not only at a

global level, but at the level of countries, municipalities, separate institutions, families.

Namely, start with ourselves and the institutions headed by us – SAIs.

This would lead us to understanding that SAIs share responsibility over development of national economies and initiate our thinking about the most appropriate mechanisms for SAIs to contribute to the processes effectively and efficiently, in parallel ensuring that the role of SAIs as an external and impartial auditor is maintained and not questioned.

And this is where we come to sensitivity of the issue.

Sustainability of a national development policy and good governance during implementation of said policy have always been fundamental pre-conditions for economic growth. However, SAIs must always remember that *formulation* of policies is still a prerogative of Governments.

At the same time, SAIs still keep responsibility over regularity, accuracy, transparency and efficiency of budget expenditure. And national budgets are the main tools for implementation of national policies. Therefore the right balance must be sought by SAIs when intervening into policy *formulation* issues through auditing of budget expenditure, however the question is - how would we see this balance?

In first instance SAIs should play the role of friendly, but insistent “watchdog” signalling about cases, where:

- either national or sectoral policies are not formulated at all or
- formulated policies are contradictory, namely reflected differently in different policy planning documents or

- link and co-ordination between sectoral policies are lacking or
- indicators for achievement of policy objectives are not linked with said objectives
or
- short-term action plans for implementation of policies do not exist, etc.

Secondly, SAIs possessing sufficient administrative capacity and sectoral knowledge could intervene even more, namely - provide an opinion, whether the actions selected for implementation of policies are those ensuring achievement of policy objectives in the most efficient way. However, this could turn out to be one of the most sensitive tasks to be performed by SAIs, where we balance on the edge of intervening into policy *formulation* too heavily.

The before mentioned was to describe challenges faced by the SAI of the Republic of Latvia, when contributing to *formulation* of development policies of the country.

Auditing *implementation* of well defined policies seems to be more “standard” action aiming at providing assurance over accountability, transparency, efficiency and cost effectiveness of public management. However, “standard” does not mean “easy”.

Therefore it would be essential to touch upon the main challenge our SAI faces, when auditing *implementation* of policies.

The existing legal framework governing performance of public service defines a set of requirements regarding regularity and transparency of public expenditure. However, the requirement to spend public funds efficiently and effectively is not enforced by the existing legal framework. In combination with the fact that our society still have not agreed upon the basic moral values, and subsequently – those values have not yet become an integral part of our everyday lives, including everyday lives of civil

servants, this has led to the situation that almost all audits still reveal inefficient and ineffective use of budget resources.

And here we talk about such professional moral value as “working only for interests of the society”.

Unfortunately, we are still at the level of development, where we tend to abide laws, because otherwise we risk to be punished, but still do not respect values. Therefore at the current stage efficient and effective use of public funds could be facilitated only by inserting into the law relevant provisions and responsibilities of public officials. This is among the initiatives our SAI has approached the Parliament with.

Just to add that this initiative was put forward by our SAI already some time ago. The economic crisis that our country was forced to experience, significantly reduced cases of inefficient use of public resources and we believed that some lessons were learnt. However, recovery from crisis was accompanied again with evidence of “old traditions” in spending public funds, therefore our SAI believes that more stringent legal framework requiring efficiency and effectiveness of operations is of utmost importance.

In parallel, the role of SAIs in acting as examples of *good practice* regarding regular, transparent, efficient and effective use of public funds should not be overestimated.

We are strongly convinced that SAIs are obliged to use their unique opportunity of setting the necessary “tone at the top” in public service within each particular country and these must be the highest standards.

The SAI must act as a model for “ideal” public institution. This means not only just defining the values. This also means demonstration of values in a daily work. In other words - “say what you do, do what you say”.

State of art or policy audit findings and conclusions

The outcome of the challenges, described before, is clearly reflected in our audit findings and conclusions. During the past years we have identified cases of lack of sectoral policies, contradicting sectoral policies, unclear policy objectives supplemented with a lack of indicators of achievement and the last, but not least – numerous examples of inefficient and ineffective use of public resources.

And coming back to the essence of this topic – the role of SAIs in achieving national developments goals, we fulfil our role of persistent and boring “watchdog”, who insists on implementation of recommendations regarding quality of policy documents and spending development budgets accordingly. Because it is very difficult to talk about development of national economy, if the basic pre-conditions – clearly defined objectives, activities to ensure achievement of objectives and reliable sources of financing are not identified.

Achievements and success stories

By switching from challenges to achievements it is worthwhile mentioning that in the fall of 2012 the Parliament of the Republic of Latvia approved the National Development Plan 2014-2020, which is supposed to be the first overall planning document for the development of national economy, clearly identifying objectives, providing for co-ordinated approach between different sectors and linking activities with the available financing. Talking about financing - for the first time the activities financed by the European Union structural instruments form an integral part of the overall plan, which was not the case before.

Our SAI congratulates this achievement of the government and will scrupulously monitor further actions of the public service – development of short-term action plans by ministries and ensuring link between the National Development Plan and medium-term budget planning.

Other initiatives to be implemented by SAI of the Republic of Latvia

Development of national economy is the process guided and managed by governments, but implemented by each and every member of the society.

Success or failure very much depend on ability of the government to form a “partnership” between the government as a manager and each and every member of the society. In other words – the government must ensure that society members feel as “shareholders” of the process, who, in fact, they are.

However, successful partnership can be established only between partners, who treat each other in an honest and fair way.

It must be admitted that sometimes governments fail to provide sufficient information to the society or to explain reasoning of one or another action.

It must also be admitted that after audit reports drafted by SAIs are made public, media tend to disseminate only the cases involving crime and corruption, while other audit findings and recommendations are not well communicated to “shareholders”.

We see that our role in explaining to the society audit findings and steps to be made, could be significantly strengthened. This relates not only to time periods when audit reports are published. Even more, this relates to time periods when audit recommendations are already implemented, where our SAI intends to illustrate to the society the benefits of audits and joint efforts made by SAI and public service

institutions in correcting mistakes, improving systems, in particular those having financial impact and thus leading to saving of public funds.

Another improvement in our work is related to increasing “mobility” of the SAI in order to ensure timely reaction to national development related issues.

So far, we have adhered to our annual audit plans, being produced in the fall of preceding year and based on strategic risk analysis.

However, life is not so predictable anymore, as it was before. *Ad hoc* events take place; unexpected risks arise with very short notice.

Therefore, and apart from our annual audit plans we intend to allocate resources to additional, so-called *ad hoc* audit teams being able to perform small operational audits with a short notice.

To conclude, we would like to once more emphasize, that to our confidence, the key elements towards increasing role of SAIs in achieving national development goals are:

- proactive, but at the same time – careful approach, auditing each and every phase of national development process
- acting as a “model” public institution thus promoting moral values at the national level and setting the “Tone at the Top”
- being open and facilitating information flows to each and every member of the society and
- being creative and adaptive to new circumstances we all face each and every day.