



# **ECOSAI CIRCULAR 2022-2023**

**AUTUMN / SPRING ISSUE**





ECOSAI is regional forum of Supreme Audit Institutions encompassing countries from Europe caucuses and Central Asia, Middle East and South Asian region.

Founded in 1994, the ECOSAI aims to promote the Public Sector auditing profession in member countries through exchange of ideas, experiences and by holding seminars, conferences, workshops and training courses.

**Dr. Seyed Ahmadsreza Dastgheib**

President ECOSAI & President Supreme Audit Court, Islamic Republic of Iran

**Muhammad Ajmal Gondal**

Secretary General ECOSAI & Auditor General of Pakistan (SAI Pakistan)

**Governing Board Members of ECOSAI**

SAI Kazakhstan

SAI Turkiye

SAI Kyrgyz Republic

The terms of these three members will expire in 10th ECOSAI Assembly scheduled in 2025.

The ECOSAI Journal is the official organ of ECOSAI and has the objective of providing member SAIs with the forum of sharing experiences in different areas of public sector auditing.

The Publisher wishes to thank all the individual and organizations who have contributed towards this publication.

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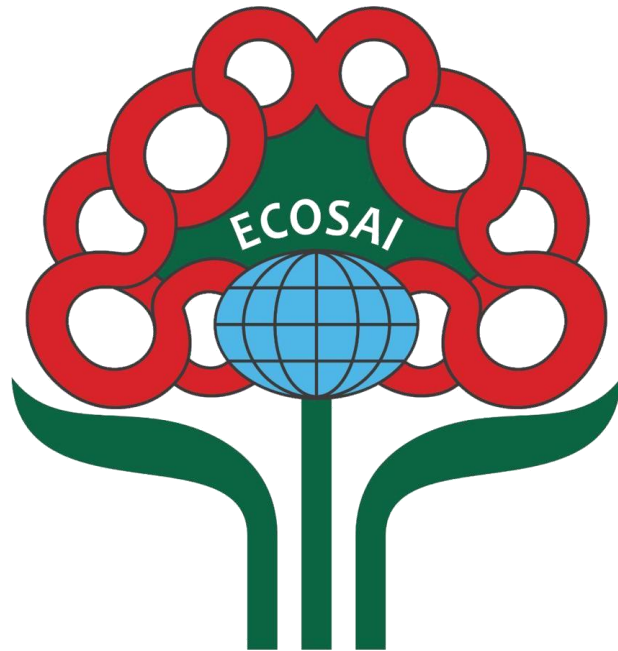
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We are members of the

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## MESSAGE OF THE SECRETARY GENERAL ECOSAI



It gives me immense pleasure to present Autumn / Spring Issue of ECOSAI Circular 2022-23. The essence of the Journal is to share news about the activities among the SAIs with respect to professional development experience, exchange of information and best practices which may benefit the member SAIs.

The Supreme Audit Institutions need to adapt to changes if we want to stay relevant. Technological advances have impacted the work of most Supreme Audit Institutions (SAIs), and emerging technologies have the potential to further shape the ways in which SAIs contribute to good governance. This demands that SAI's obtain new skills and knowledge to cope with these technologies. It is important for SAIs to understand the technological change around them and to assess the implications of this change for their audit working.

I express my sincere gratitude to all the authors who have generously made this edition of ECOSAI Circular possible. I sincerely hope that all member SAIs would continue to share their knowledge and audit experiences in the emerging and challenging auditing fields.

**MUHAMMAD AJMAL GONDAL**  
**AUDITOR GENERAL OF PAKISTAN**

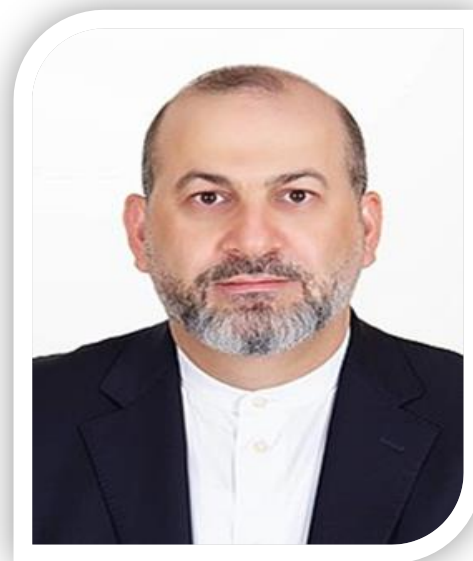


# NEWS

## NEW PRESIDENT OF SAC ELECTED BY THE PARLIAMENT

In an open session of the Islamic Consultative Assembly (Iranian Parliament) on Tuesday, 3 January 2023, Dr. Seyed Ahmadreza Dastgheib was elected as the new President of the Supreme Audit Court of the Islamic Republic of Iran with 141 votes in favor, out of the 253 votes of the Members of the Parliament.

He is preceded by Dr. Mehrdad Bazrpash.



### Personal

- Born in 1976
- Married with one son

### Education

- Ph.D. in Political Science
- M. A. in Political Science
- B. A. in Political Science

### Legislative and Executive Activities

- Associate Professor in the field of Governance and Development for Ph.D.

### Candidates

- Member of the Parliament (terms 8 and 9)
- Member of the Presiding Board of the Parliament
- Deputy-Chairman of the Standing Committee on National Security and Foreign Affairs
- Deputy-Chairman of the Consolidation Committee on Annual Budget of the Parliament



- Deputy-Chairman of the Standing Committee on Internal Procedure of the Parliament
- Member of the Committee on Article 90 of the Constitution
- Advisor to the Ex-speaker of the Parliament (term 10), and the current Speaker of the Parliament (term 11)
- Member of the Standing Committee for Cultural Affairs of the Parliament (term 9)
- Participating in a number of Parliamentary conferences, assemblies and seminars
- President of the Iranian Inter-Parliamentary Union (IPU)



## CONDOLENCE LETTER OF THE ECOSAI PRESIDENT

*Supreme Audit Court (SAC)*  
Islamic Republic of Iran



No. 108/23

Date: 7 February 2023

**Hon. Dr. Metin Yener**  
**Respected President of Turkish Court of Accounts**

### Salaam Alaikum

In my capacity as President of ECOSAI and on behalf of our valued members of this august organization, it is with extreme sorrow and sadness that we follow the news about the massive and devastating earthquake ripped through Turkiye and Syria in recent days.

I would like to convey our profound condolences to the people of brotherly Turkiye for the tragic loss of many lives, countless injuries, displacement of families and widespread damage to the vital infrastructures.

Our deepest sympathy and solidarity to the bereaved families of the victims and wishes for a speedy recovery for those who are wounded and have been affected directly or indirectly by this calamity.

I can only begin to imagine how challenging it must be for those responding to this appalling disaster.

I avail myself of this opportunity to reaffirm the strong feelings of solidarity from the whole ECOSAI Family with the Government, Parliament and People of the Republic of Turkiye.

Yours Sincerely,

  
**Dr. Seyed Ahmadsreza Dastgheib**  
**President of Supreme Audit Court of the Islamic Republic of Iran**  
**President of ECOSAI**

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SAI Pakistan

**BILATERAL COOPERATIVE MEETING WITH THE PRESIDENT OF GENERAL COURT OF AUDIT OF THE KINGDOM OF SAUDI ARABIA (GCA) FROM 22-26 JANUARY 2023 IN RIYADH, SAUDI ARABIA**



The Auditor General of Pakistan had the honor of meeting with H.E. Dr. Hussam A. Alangari, the President General Court of Audit, Saudi Arabia. The meeting reiterated the resolve to enhance collaboration between the two SAIs for sharing experiences in auditing formalizing partnership through a MoU.

## AUDITOR GENERAL OF PAKISTAN PARTICIPATED IN THE XXIV INCOSAI



The INCOSAI 2022 symbolized the INTOSAI community reunion after 3 years, following a pandemic that affected the whole world. In Rio de Janeiro, heads of SAs participated in relevant and current discussions that will guide the work of Supreme Audit Institutions for the coming years. The Auditor General of Pakistan has attended the meeting. With the adoption of the Rio Declaration, INCOSAI XXIV concluded on November 11, 2022.

## AUDITOR GENERAL OF PAKISTAN AND PRESIDENT OF THE STATE AUDIT INSTITUTION OF UAE HAS SIGNED MOU



Auditor General of Pakistan and President of the State Audit Institution of UAE Dr. Harib Saeed Al Amimi signed a MoU during INCOSAI 2022 at Rio de Janeiro to strengthen and promote cooperation between both SAIs.



## **BILATERAL MEETING WITH VICE-CHAIRMAN OF INDONESIAN AUDIT BOARD**

Auditor General of Pakistan held detailed discussions on sidelines of INCOSAI 2022 with Vice-Chairman of Indonesian Audit Board to further strengthen the existing bilateral cooperation.



## **AMBASSADOR OF THE REPUBLIC OF BELARUS H.E. MR. ANDREI METELTSIA HELD A MEETING WITH AUDITOR GENERAL OF PAKISTAN**

Ambassador of the Republic of Belarus H.E. Mr. Andrei Metelitsa held a meeting with Auditor General of Pakistan and discussed matters relating to strengthening of bilateral ties between the Committee of State Control of the Republic of Belarus and Office of the Auditor General of Pakistan.  
(October 05, 2022)



## HEAD OF INTERNATIONAL CIPFA, UK AND SENIOR INTERNATIONAL LEAD-MARKET DEVELOPMENT, CIPFA CALLED ON AUDITOR GENERAL OF PAKISTAN



Ms. Sara Breen, Head of International CIPFA, UK and Mr. Steve Watkin, Senior International Lead- Market Development, CIPFA called on Auditor General of Pakistan and discussed Implementation of CIPFA Programme in the Audit Department.

## CIPFA AFFILIATE MEMBERSHIP CERTIFICATE DISTRIBUTION CEREMONY



The Head of International CIPFA, UK and Senior International Lead- Market Development, CIPFA attended Affiliate Membership Certificate Distribution Ceremony held on 21st February 2023. More than 150 officers of DAGP got affiliate membership of CIPFA UK. This is a part of the continuous professional development initiatives undertaken by Office of the Auditor General of Pakistan. CIPFA UK also elected Auditor General of Pakistan as an Honorary Member of the Institute.

## MEMORANDUM OF UNDERSTANDING AND APPROVED EMPLOYER CEREMONY



The Association of Chartered Certified Accountants (ACCA) and the Auditor General of Pakistan signed a Memorandum of Understanding (MoU) marking a landmark agreement between the two organizations (February 20, 2023).

## AUDITOR GENERAL OF PAKISTAN VISITED EMBASSY OF TURKIYE ISLAMABAD TO EXPRESS CONDOLENCE



Auditor General of Pakistan Mr. Muhammad Ajmal Gondal visited Embassy of Turkiye Islamabad to express condolences on behalf of officers and staff of the Department to Turkish Ambassador H.E. Mr. Mehmet Pacaci. (February 20, 2023)

## SAI Uzbekistan

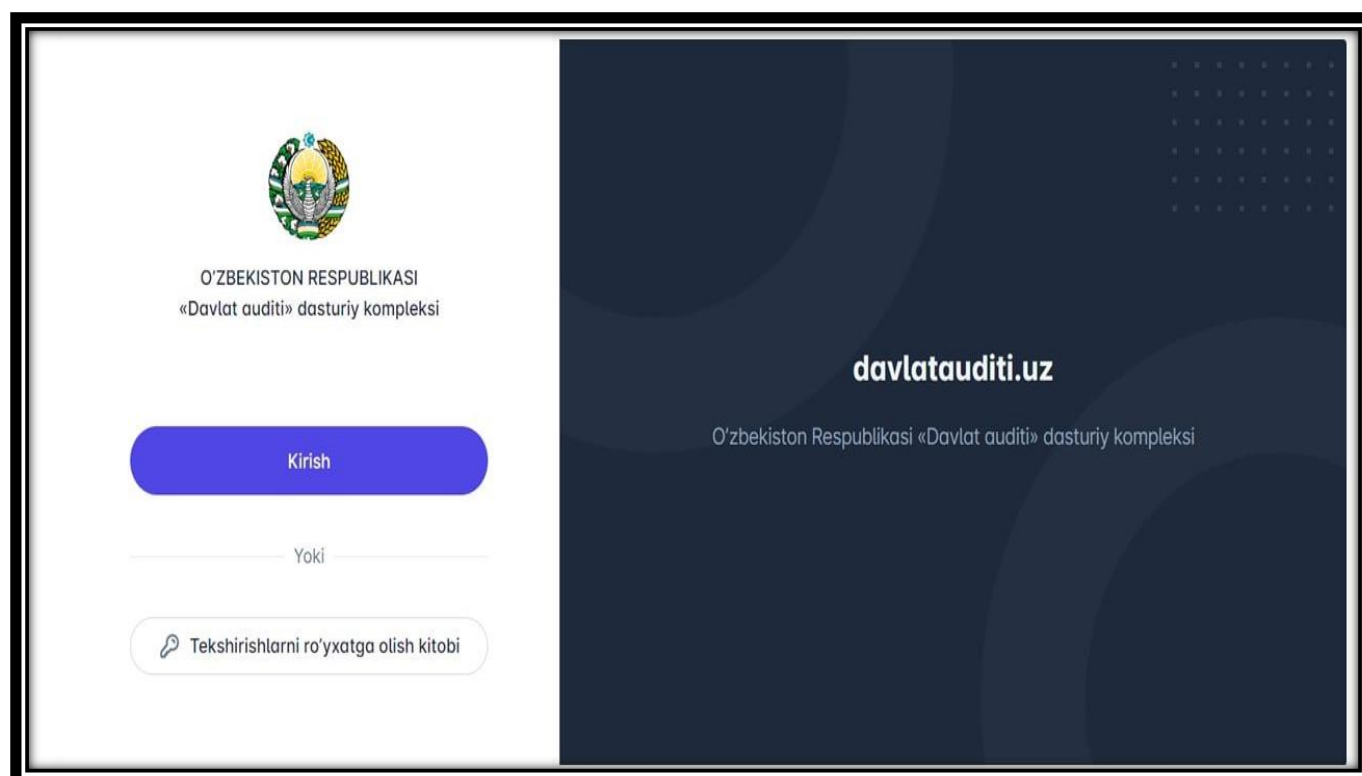
**A NEW E-PLATFORM “STATE AUDIT” LAUNCHED IN UZBEKISTAN**

In accordance with the Decree of the President of Uzbekistan on August 27, 2021, the Chamber of Accounts launched a special e-platform “State Audit”.

Its priority objective is to streamline inspections in public organizations, increase the effectiveness of audit control and reduce the human factor.

Starting from January 1, 2022, all public financial activities, including internal audit services, are compulsorily registered in the “State Audit” e-platform.

At the same time, the executive officer of the organization under inspection will have an opportunity to check the validity of the control activity by means of a QR code. Carrying out control activities without pre-registration in the e-platform is not authorized, and such activities are declared illegal.





The newly launched e-platform provides protection of the interests of public organizations. It prevents the occurrence of repeated inspections and illegal interference in their activities.

Public organizations will be able to put their written opinion about the accomplished financial control into the e-platform and assess the results of the control activities.

This, in turn, will increase the objectivity of control activities and the responsibility of auditors.



# ARTICLES



## AUDIT OF CRISIS MANAGEMENT IN THE WAKE OF FLOOD 2022 IN PAKISTAN

By  
Muhammad Raza Shah (Director General)



### I- Background

In the aftermath of monsoon season 2022, massive rains and flash floods caused widespread damages impacting over 33 million people in Pakistan. While the provinces of Sindh and Balochistan have been the most affected, all other provinces and regions are affected at varying scales. Around 1500 have died and 3,500 people have been injured so far. Hundreds and thousands of people have been displaced with over 6.5 million homes washed away/damaged. Around one million livestock and standing crops on 2.2 Million acres are lost so far. The extent of damage is still unfolding with massive damage to infrastructure and livelihood<sup>1</sup>.

The currently available statistics of the damages caused by the floods are as

<sup>1</sup> <https://pakistanconsulatehouston.org/prime-ministers-flood-relief-fund-2022/>

under<sup>2</sup>.

Effects of flood 2022	Numbers
Districts affected	116
Livestock lost	Over 800,000

The massive devastation has necessitated immediate need for relief activities including but not limited to shelter, food, water and health facilities for affectees and livestock.

### II. Prime Minister's Flood Relief Fund-2022

The Government of Pakistan mobilized its resources immediately after the disaster. For immediate help with food, shelter & medicines and rehabilitation efforts, a fund was established in August, 2022 titled, 'Prime Minister's Flood Relief Fund- 2022'. The Fund accepts donations both from domestic and international sources. In this regard, State Bank of Pakistan (SBP) has

<sup>2</sup> <https://mofa.gov.pk/the-prime-ministers-flood-relief-fund/>



devised guidelines for collection of donations/contributions from overseas Pakistanis and other donors to help the needy.

Overseas donors including overseas Pakistanis can donate to the Fund through wire transfer in the Fund account maintained with their respective bank. The banks will transmit the consolidated amount of donations received in the Fund account to the SBP on daily-basis through 'Real Time Gross Settlement (RTGS)'. Transfer through Money Service Bureaus, Money Transfer Operators and Exchange House; Overseas donors can also donate/ contribute through Money Service Bureaus (MSBs), Money Transfer Operators (MTOs) (e.g. MoneyGram, Western Union etc.) and other Exchange Houses (EHs) in line with the arrangements in place for receiving remittances. Banks receiving such remittances in the Fund Account shall transfer the consolidated amount through RTGS to the SBP on daily basis.

The commercial banks offering Roshan Digital Account (RDA) have made the "PM Flood Relief Fund" (Account No. G-12164)

available on their Roshan Samaji Khidmat page/portal enabling RDA holders to contribute to the Fund in a hassle-free manner/ the banks will transmit donations received through RDA to SBP along with donations received through other sources on daily basis through RTGS.

As per Finance Division letter dated 05 August, 2022, the 'Prime Minister's Flood Relief Fund- 2022 is to be administered by NDMA in consultation with Finance Division.

### **III. Need for statutory audit by Auditor General of Pakistan**

Supreme Audit Institutions (SAIs) have an important role in ensuring accountability and transparency in the way disasters are managed (when pre-disaster activities are put in place, when a disaster strikes and during post-disaster activities). This include raising awareness of those issues (especially of risk reduction), assessing the cost effectiveness of risk reduction actions and auditing the post disaster aid and rehabilitation and reconstruction work in a context where, often, ex-ante controls may not work, standard operating procedures are not in place and institutional mechanisms are



weak.

Office of the Auditor General of Pakistan has planned to undertake the audit of expenditure related to flood 2022 including the donor assistance. This requires a comprehensive, multifaceted and risk-based audit approach to examine the accounts of the organizations involved in managing relief activities and implementation of assistance packages. The purpose of the audit activity is to highlight key issues observed during the whole process of flood relief activities and rehabilitation 2022, besides suggesting measures to assist the Government in improving the system and to further streamline the disaster related spending.

#### IV. Terms of Reference (ToRs) of audit

The following terms of reference have been identified for carrying out the audit:

- To analyze the policies, strategies and operational framework with respect to flood operations by the government and the respective agencies.
- To check that what was approved / ratified by ECC and Cabinet for flood operations emergency response and how much fund(s) were released by

Finance Division and to whom?

- To check what was received / contracted by EAD, from where and for whom?
- To assess the demand generation and criteria set for making projections to purchase emergency food, NFIs, medical supplies and equipment etc.
- To ascertain that whether the donations and aid received by each recipient agency was properly budgeted, receipted and banked promptly
- To check whether the donations (local & foreign) received in kind like food items, NFIs, medical supplies etc.were properly recorded and distributed in accordance with need assessment criteria.
- Examine the expenditure incurred on supplies/relief items and their distribution to end users.
- To ascertain that the temporary camps were built with due regard to propriety in emergency situation.
- To examine the budgetary allocation



for various disbursement programs under BISP and verify the grants released to the recipients on a sample basis.

- To assess criteria and procedures / processes for receipt of rations, NFIs, medical supplies and cash aid by the disbursement agencies
- To study the need assessment mechanism for identifying the population requiring government support for survival through provision of ration and direct cash transfers.
- To detect violations of internal controls, misuse of public resources and frauds, if any.
- To check the procedures adopted for data collection, data management and internal controls for effective utilization of available information/ data
- To scrutinize whether goods and services were procured in accordance with the PPRA rules.
- Fixed assets procured, donated or inherited were in existence and properly managed.

- To check the procedures adopted for hiring and payment of transport to deliver the relief items at designated locations.
- To ascertain the capacity of entities regarding storage of perishable and non-perishable items. Further, proper stock taking and inventory maintenance also be checked.
- To evaluate the criteria for transfer of funds/ NFIs/ equipment's to different public sector disaster management institutions and provincial governments.
- To assess the policies and plans for inter-agency coordination and evaluate the effectiveness of coordination among different agencies.

#### **V. Methodology**

The audit teams will use desk audit techniques, which include examining permanent files, and other relevant documents, related policies and rules followed by the audited entities. Similarly, Audit and Inspection Report (AIR) of past



similar audits will also be examined to identify the important risk areas. Desk audit review will help auditors in understanding the systems, procedures, internal controls and overall environment of the audited entities and identification of high-risk areas for further scrutiny.

The evidence will primarily be gathered by applying procedures like inquiries from the management; review of policy documents and reports; comparison of policies and action plans with actual implementation; interpretation and analysis of primary/secondary data. Data will be collected through observation and structured/unstructured interviews of the relevant officials.

The audit of relief will be conducted by using mixed techniques of financial, regulatory, compliance and performance audit methodology in accordance with the guidelines contained in the Financial Audit Manual (FAM) and Performance Audit Manual (PAM) of DAGP which are in line with the International Standards of Supreme Audit Institutions (ISSAIs). Key features of methodology are summarized below:

- Application of desk audit techniques which includes examining data related to flood activities obtained from different sources, along with policies and rules followed by the auditee entities.
- Desk review of the systems, procedures, environment of entities to identify the high risk areas for detailed scrutiny.
- Development of comprehensive audit questions on different aspects on the basis of identified risks and red flags identified/ audit check-list developed based on international and local experiences in emergency response.
- Possible replies of the management will be framed on presumptive basis to maintain focus on high risk areas.
- Tracking of funds on the basis of different aspects of government intervention such as prevention, rescue, curative, relief and rehabilitation.
- Coordination with different departments, EAD, FDs (Federal & Provincial), Accountant General Offices and Field Audit Offices (FAOs) during the course



of audit for collecting relevant data.

## VI. Scope of Audit

The scope of assignment extends to audit of 2022 flood relief operations / activities carried out during the FY-2022-23, covering concerned government agencies at federal, provincial and district level in the whole of Pakistan. The audit activity will extend to the assistance and donations received in cash and kind along with the rescue, relief, temporary settlement and rehabilitation activities.

## VII. Red Flags / risks identified at planning stage

- i. **Planning:** Proper planning was not carried out in the form of a monsoon contingency plan. Emergency stock was not maintained and framework contracts were not concluded with suppliers to conduct procurement on the economical rates.
- ii. **Unintended recipients:** Unintended recipients are organizations and people who are not entitled to receive aid.
- iii. **Undistributed funds and materials:** Inappropriate human or organizational

resources, a lack of information on the procedure for requesting and distributing aid can all cause aid to remain in storage. Another reason for non-distribution might be an inappropriate need assessment, resulting in the delivery of aid or materials that are unnecessary or unsuitable for the culture or circumstances of the affected population.

### iv. **Insufficient fiduciary controls:**

Rapid response to the epidemic is critical in efforts to minimize damage. To deliver services and goods swiftly, the procurement processes and flow of funds must be well-defined and include sufficient flexibility to accommodate unexpected events. These processes should have built-in mechanisms to detect delivery bottlenecks and make adjustments to processes during implementation.

- v. **Fraud and corruption:** When substantial flows of aid arrive quickly, it provides an opportunity for fraud and corruption in the form of



overstated needs and data manipulation, demands for kickbacks from suppliers and those applying to receive aid, embezzlement or asset theft.

- vi. **Damaged equipment:** During transportation items can become damaged or obsolete and no longer meet required standards for distribution, because of inappropriate storage or inadequate human and organizational resources to manage them.
- vii. **Unequal distribution of aid:** When agencies or groups are favored in aid distribution at the expense of others, there is inequality. This may result in disaster related aid not reaching the population most acutely affected by the disaster. For example, a particular region may receive more support than another.
- viii. **Unspent aid:** Due to multiple significant aid flows there is an absorption risk, with unspent funds sitting in bank accounts.

#### VIII. Key issues and Challenges

1. Flood relief and rehabilitation is an ongoing activity and determining the cutoff date of expenditure is a challenge
2. Human Resources
3. Financial resources
4. Coordination among executing Field Audit Offices (FAOs)
5. Reporting the findings of audit activity either as one report or several reports covering federal and provincial entities.

#### IX. Conclusion

In recent years with the advent of Covid-19 and successive floods in Pakistan, a considerable amount of resources are being spent on relief and rehabilitation activities in the post disaster situations. These resources flow both from the regular budgetary allocations of the federal and respective provincial governments as well as donations and assistance from the donor agencies and countries. In such a scenario the responsibility of the Auditor General of Pakistan has increased manifold to carry out audit of all such funds and assistance both in



cash and in-kind to ensure transparency and fairness of the expenditure made by the executing agencies. In the case of flood 2022, the expenditure on relief and rehabilitation is scattered at the level of multiple entities and several tiers with distinct geographical locations across the country and carrying out a comprehensive audit by the Auditor General would require a well thought out audit plan along with application of innovative audit tools and methods. The audit findings and recommendations resulting from such audit activity will assist the Government in improving the system and streamlining the disaster related spending.



## CHALLENGES ENCOUNTERED IN IMPLEMENTING INTOSAI AUDITING STANDARDS AND SOLUTION PROPOSALS<sup>1</sup>

By: *Assoc. Prof. Dr. Murat İNCE*<sup>2</sup>



### INTRODUCTION

The process of developing auditing standards specific to the public sector was a significant development that resulted in fundamental changes in public financial management and control systems around the world. This period began in 1977 with the publication of the Lima Declaration, which is regarded as the constitution of public sector auditing, and lasted more than fifty years, during which time the experience and achievements of SAIs in financial auditing, compliance auditing, and performance auditing were reflected in the codification of INTOSAI auditing standards. As a result, the international audit community managed to develop a final reference framework for public sector auditing practices.

<sup>1</sup> This article is an extended English summary of the book chapter "Challenges Encountered in Implementing INTOSAI Auditing Standards and Solution Proposals" from the book "Audit and Accountability in Public Administration-Concept, Theory, and Practices," which was published in Turkish in 2022.

<sup>2</sup> Assoc. Prof. Dr., Head of Professional Development Group/Principal Auditor, Turkish Court of Accounts, muratince@sayistay.gov.tr, ORCID: <https://orcid.org/0000-0003-1519-0321>.

The body of public sector auditing standards is referred to as the INTOSAI Framework of Professional Pronouncements (IFPP) as of 2019. This framework contains a considerably rich guidance and application material that Supreme Audit Institutions (SAIs) can use in their respective jurisdictions in many areas of public sector auditing, particularly financial auditing, compliance auditing and performance auditing. Again, this framework defines the institutional and audit-level field requirements for various tasks to be carried out by SAIs in detail as binding norms. As with all standard development processes, the International Organization of Supreme Audit Institutions (INTOSAI) auditing standards are constantly updated and the INTOSAI community works hard to develop standards and principles that are more appropriate for today's evolving needs. In this context, the incorporation of financial auditing standards (International



Auditing Standards-ISAs) developed by the International Federation of Accountants (IFAC) in relation to private sector auditing as a whole into INTOSAI auditing standards in 2010 has been a critical turning point in the development of public sector auditing standards. In fact, as the IFPP entered into force in 2019 within the scope of the revision of the auditing standards (revision of the old ISSAI Framework), the policy of reference to the private sector auditing standards in the field of financial auditing continued as in the previous ISSAI Framework, and unlike the old framework which included additional guidance (practice notes) for the public sector, this time the IFAC financial auditing standards were adopted as a direct part of the new framework (IFPP) without any additions or deletions. As a result, SAIs faced the obligation to use a methodology that essentially reflects the private sector audit approach in financial audits, which are one of the primary components of public sector auditing. Although it is not correct to view this development as entirely negative in terms of the current state and future of public sector auditing, developing a critical perspective on the applicability of private sector auditing

standards in the public sector is crucial<sup>3</sup>.

During the implementation of the INTOSAI auditing standards by SAIs, many practical/technical issues may arise in terms of understanding and interpreting the standards. Some of these practical/technical issues can be avoided by cross-reading and/or interpreting the texts of standards that contain numerous references.

The main methodological difficulties, which

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<sup>3</sup> There are very few and scattered studies in the public sector auditing literature that present critical perspectives on current auditing standards. As a result, it is impossible to claim that competent academic studies on this subject exist. Indeed, the International Journal of Government Auditing (IJGA) published by INTOSAI is expected to include many academic studies that discuss various problem areas related to audit standard implementation and offer guiding solutions in this regard. However, the views and opinions in this journal and many other academic publications contain more of a descriptive analysis or evaluation of public sector auditing standards, and as a result, critical opinions addressing the difficulties of applying auditing standards are almost never encountered in these studies, where an affirmative rhetoric stands out. For a few studies that present a limited critical perspective, see (Azuma, 2008:77-97); (Lyubenko, 2015: 52-60). More than two decades of field experience we have in the implementation and interpretation of auditing standards demonstrates that the INTOSAI community has considerable knowledge about the challenges of implementing auditing standards, but critical insights in this area have not yet been adequately reflected, particularly in academic studies. In this regard, it is critical that the IJGA, as an important publication organ of public sector auditing, moves beyond being a limited forum with mostly bulletin-related introductory articles to a peer-reviewed-academic journal with much more qualified standards publications.



are discussed separately below in the context of the main audit methods defined in the INTOSAI auditing standards, highlight some extremely important and general problem areas that have not yet been adequately discussed in the INTOSAI community. These general issues are discussed below, along with some solutions that may be useful for both practitioners and those who will interpret the standards.

### 1. Financial Audit Standards

In ISSAI 200 Financial Audit Principles, financial audit is defined as determining, through the collection of audit evidence, whether an entity's financial information is presented in its financial statements in accordance with the financial reporting and regulatory framework applicable (INTOSAI ISSAI 200, 8). This definition corresponds to a simpler version of the definition of financial auditing in ISAs in the context of the public sector. According to ISA 200, the purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are

prepared, in all material respects, in accordance with an applicable financial reporting framework. (IFAC ISA 200, 77). Also, as per ISA 200, the objectives of an auditor in the audit of financial statements are as follows:

- (a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
- (b) To report on the financial statements, and communicate as required by the ISAs, in accordance with the auditor's findings" (IFAC ISA 200,79).

In the financial audit, the audit work as a whole and the process of reaching the audit results are carried out based on the reasonable assurance model. Although it provides a high level of assurance, reasonable assurance is not an absolute level of assurance. A financial audit is



essentially a risk-based audit. The auditor must lower the audit risk (that is, the risk of the auditor expressing an inappropriate or incorrect opinion if the financial statements contain material misstatement) to an acceptably low level due to the inherent limitations of the audit as well as the fact that a complete audit of all documents and transactions is not performed. The auditor accomplishes this through the audit procedures designed against risks and by obtaining sufficient and appropriate audit evidence at the end of these procedures. This is reasonable assurance in the audit. The main reason why it is called reasonable assurance is that, since the audit approach applied is risk- and system-based, the auditor bases its final opinion mostly on convincing evidence rather than conclusive evidence.

As previously stated, the ISAs have been incorporated into the INTOSAI financial audit standards (International Standards of Supreme Audit Institutions – ISSAIs 2000 - 2899). In this regard, the applicable INTOSAI auditing standards framework, i.e., the IFPP permits referring to ISSAIs or ISAs

in financial audits. In accordance with the current framework, ISSAIs may offer additional practice material for the public sector. However, individual reference to ISSAIs, which also includes ISAs, is not permitted because the ISAs make up an integral body of standards, and the main requirements that an auditor must follow in financial audits are the same. Provided that ISSAIs or ISAs have been adopted by SAIs as financial auditing standards, the audit reports should refer to these standards. This is also valid for financial audits conducted in conjunction with other types of audits. However, one of the main issues that may cause confusion in terms of the application of financial auditing standards is that the incorporation of ISAs in INTOSAI financial auditing standards (ISSAIs 2000 - 2899) is actually not a re-codification or adaptation. In the context of financial auditing standards, INTOSAI users are now directly referred to ISAs, making the distinction between ISAs and ISSAIs in terms of reference or access to auditing standards contradictory. As a matter of fact, when referred to ISSAIs in the context of financial auditing, the reference is only to ISAs within



the body of IFAC, which makes a conceptualization like "INTOSAI financial auditing standards" or a standard classification in the form of "ISSAI 2000-2899" meaningless. We believe that the INTOSAI community should undertake a codification of financial auditing standards tailored to the public sector in order to overcome this contradictory situation. In fact, as an extension of such a codification or adaptation effort, the financial auditing standards "practice notes" included in the previous ISSAI Framework were a positive step. However, since the practice notes available in the previous framework have proven to have a limited content by briefly repeating the guidance information and materials in the ISAs and remaining insufficient to provide additional guidance for the public sector as a whole, the method of adapting financial auditing standards to the public sector through the inclusion of practice notes in the ISSAIs has been abandoned. As is well known, ISAs developed within IFAC are essentially based on private sector auditing knowledge and experience. These standards contain numerous conditions or requirements that

do not fully correspond to public sector auditing, and this may cause various difficulties or hesitations in the sound application of the aforementioned standards in public sector auditing. As a result, codifying public sector-specific financial auditing standards should be one of the top priorities on the INTOSAI community's agenda.

In many ways, the applicability of ISAs developed within IFAC in the public sector auditing practices is contentious. To begin with, it is not possible to assert that the objectives of financial auditing in the private sector and those of financial auditing in public sector always overlap. The main objective of financial audits performed in accordance with ISAs is to increase users' confidence in financial statements. On the other hand, it is clear that financial audits implemented in the public sector should take into account wider accountability mechanisms than confidence building. A final opinion, which affects the decision-making processes of many financial statement users, such as shareholders, investors, lenders, creditors, or



stakeholders, is provided at the end of the financial audit conducted in accordance with ISAs. However, it is worth debating whether such a straightforward opinion format on financial statement reliability is relevant for the public sector. In fact, an ideal financial audit practice in the public sector would be expected to pursue a much broader public interest or purpose than simply producing an opinion on the reliability of financial statements. As we stated in another study, financial auditing in accordance with ISAs is a technical opinion-oriented audit methodology. Although the final "opinion" in this audit is obtained after a lengthy and complex audit process involving a wide range of analytical techniques, it is a fairly static/situational picture of the auditee's financial situation. A dynamic view of the auditee cannot be obtained without delving deeper into the analytical procedures underlying this static/situational picture in financial auditing. Considering this point, it can be concluded that the financial audit methodology is also incompatible with the "follow up" mechanism, which is an extremely important issue in public sector auditing, since the audit opinion reached in

the financial audit aims to give a general and static idea about the financial statements of the auditee" (Ince, 2016:5-8; 2020: 249).

One of the major challenges in implementing financial auditing standards in the public sector is that the set of standards, which is highly elaborated and based on algorithmic "requirement" architecture, requires significant resource allocation. Both INTOSAI and IFAC standards do not offer partial reference options in the implementation of standards. This is undeniably reasonable given the need to implement a consistent reference policy in the audit. However, if an SAI uses ISAs as the primary reference in its financial auditing practices, it is required to meet all of the requirements in these standards, which may result in the concentration of limited audit resources, particularly in financial auditing practices.<sup>4</sup> In fact, due to the nature of the

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<sup>4</sup> This is especially the case in the implementation of the TCA's "regularity audit", which consists of "compliance audit" and "financial audit". The financial audit technique accounts for a large portion of the audit planning and field studies in terms of time and resources, and as a result, auditors must devote the majority of their time to financial audit studies. Without a doubt, this de facto situation is not a choice of audit policy, but is a requirement of the prevailing provisions of the legal legislation. TCA regularity



work, the planning phase of financial audit necessitates an intensive use of resources. Many SAIs, which are in charge of auditing a large number of public entities under their mandate and jurisdiction, do not have such extensive resources. Another related issue is that the scale and size of the auditees were not taken into account in the standard's implementation. As a result, an SAI that adopts ISAs as authoritative standards is required to implement the same requirement architecture in the audits of all public entities covered by the mandate and jurisdiction of the respective SAI, regardless of the size, scope, or volume of the budget, which further complicates the effective and efficient allocation of resources. Adopting a simpler set of standards in financial audits of small and medium-sized public entities could be one solution to the problem in question. Again, as in the case of IFAC providing additional guidance for ease of implementation in financial audits of small and medium-sized institutions/firms<sup>5</sup>, rather than developing a

separate set of standards, preparing a more simplified financial audit guide that will provide ease of implementation for small and medium-sized public entities could be another solution.

Another disadvantage of adopting an opinion-based financial audit methodology as the dominant audit method in the public sector is that the audit opinions expressed as a result of the audit may always be misunderstood by the users of the audit report, the responsible parties and the

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been a topic of debate in the IFAC community. In the private sector, approximately 95 percent of the companies audited are small and medium-sized enterprises. IFAC/IAASB addresses issues specific to audits of small and medium-sized enterprises under specific headings in the development of international financial auditing standards. In this context, it is intended to apply ISAs uniformly in the audit of small and medium-sized businesses by including a section titled "Special Considerations for Smaller Entities" in ISAs where necessary. High-quality auditing standards (i.e. ISAs) can be applied to audits of financial statements of organizations of all sizes, according to IFAC's 2012 policy document titled "IFAC's Support for a Single Set of Auditing Standards: Audits of Small and Medium Enterprises" (IFAC POLICY POSITION PAPER, 2012) While IFAC has made it a fundamental principle that ISAs can be used in the financial audit of organizations entities of all sizes, a separate guide has been prepared to assist practitioners in the financial audit of small and medium-sized entities. This guide provides non-mandatory guidance on the implementation of ISAs. Mostly intended as an additional guidance to support the consistent application of ISAs in audits of small and medium-sized entities, this guide does not cover all aspects of ISAs. For more details, see also (IFAC GUIDE, 2018; IFAC GUIDE TO USING ISAS IN THE AUDITS OF SMALL AND MEDIUM\_SIZED ENTITIES, 2018).

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audits are performed on a yearly basis for public entities within the scope of the general government in accordance with the relevant legislation.

<sup>5</sup> The issue of creating a separate set of financial auditing standards for small and medium-sized businesses has long



public. Being a highly technical, opinion-based audit method, financial audit makes the correct understanding of the audit results challenging and could instead draw attention to the opinions presented as a result of the audit. As in other public sector audits, the general public/parliamentary expectations or demands must be carefully taken into account in the methodology adopted by the SAI and in the creation of the reports published in accordance with this methodology. However, in countries where the public financial management and accounting system has not yet developed sufficiently, more focus is placed on instances of corruption or abuse, and thus, parliamentary or public interest in financial audit reports may not be sufficient. As a result, in these countries, there may be a tendency among the intended users to misinterpret the financial audit results purposefully or unintentionally, or to mistake certain reported minor accounting errors for severe wrongdoing due to the lack of awareness and knowledge regarding financial auditing. Due to one of the most common misconceptions observed in this area, the opinions expressed on the

financial statements can also be extended to the “compliance” and “performance” of public entities. This may lead people to think that the financial audit results are the ultimate results of the entire audit process, even though this is not the case. Contrary to compliance and especially performance audits, many SAIs typically conduct financial audits regularly on an annual basis as an independent audit for each public entity. In fact, the incorporation of ISAs developed by IFAC into the body of INTOSAI auditing standards as a whole in 2010 has been a highly significant event that has strengthened the tendency towards the regular performance of financial audit in the public sector. As a result, a common belief that financial audits should be carried out regularly has emerged, which was followed by the inclusion of the need to regularly perform financial audits as a dominant audit method in the national legislation of many countries. However, this event gives the misleading impression that financial audit is the general form of audit regarding the primary financial responsibilities, income, expenditure and expenditures of public entities audited in the context of the public





sector. However, one cannot argue that financial audit has or should have a specific weight in ensuring public accountability. In fact, compliance and performance audits are equally important in the public sector. Especially in the context of the public sector, experience has shown that, unlike other audit procedures, both responsible parties and intended users frequently misunderstand the final financial statement opinions provided by SAIs as a result of financial audits that are routinely conducted on an annual basis. As a significant audit policy that may lessen the likelihood of the aforementioned misunderstandings, SAIs may conduct financial audits in elective intervals rather than on an annual basis, unless their mandates and jurisdictions state otherwise.

Finally, financial audit opinions in private sector audit practices are an important tool that influences the economic decisions of financial statement users. Users of financial statements shape their strategic decisions in accordance with the final opinions provided by audit firms. Although final opinions on financial statements can be

viewed as an important component of public accountability in the context of public sector auditing, a broader financial audit perspective should be observed in the financial audits of public entities. Without a doubt, the adoption of ISAs as authoritative standards in financial audits does not preclude SAIs from adopting a broader financial auditing perspective. In line with this, the IFPP allows for the use of combined/mixed audit methods in conjunction with other SAI audits. Given the long-term and strategic effects of auditing on managers' decision-making processes, audit outputs produced in the context of public sector auditing are expected to produce far richer results than the attestation of financial statements. It is obvious that an audit approach limited to the attestation of financial statements cannot be an adequate audit approach on its own in terms of the principles of public accountability and good governance. Many reporting activities that include more detailed advice or guidance on the performance of public institutions or the compliance of public activities with legal standards can, in most cases, produce far



more effective results than producing a limited opinion on the financial statements.

## 2. Compliance Audit Standards

ISSAI 400 Compliance Audit Principles defines compliance audit as an independent assessment of whether a given subject matter is in compliance with applicable authorities identified as criteria. In accordance with the said standard, compliance audits are carried out by assessing whether activities, financial transactions and information comply, in all material respects, with the authorities which govern the audited entity (INTOSAI ISSAI 400, 2019: 8).

Compliance Audits are possibly conducted on the basis of two different axioms: regularity and propriety. When based on the regularity axiom, the purpose of the compliance audit is to determine whether public activities, financial transactions or information comply with official criteria such as relevant laws, regulations and agreements. Compliance audits based on the propriety axiom, on the other hand, report whether public activities, financial transactions or information conform

to the general principles governing sound financial management and the conduct of public officials. As per ISSAI 400, while regularity is the focus of compliance auditing, propriety may also be pertinent given the public-sector context, in which there are certain expectations concerning financial management and the conduct of officials. Depending on the mandate of the SAI, the audit scope may therefore include aspects of propriety (INTOSAI ISSAI 400, 2019: 8).

Auditing standards related to compliance (ISSAI 400 and ISSAI 4000) are not clear enough with respect to the concept of "propriety". The expression "general principles governing sound financial management and the conduct of public officials" included in the relevant standards to explain the concept of propriety is ambiguous in many aspects. Apart from this ambiguity, the concept of "propriety" has a content that can be misunderstood, primarily in the sense that it allows an assessment of the propriety of public activities in many national jurisdictions as a concept. Without doubt, given that the principle that the results of independent audits cannot be used to replace



public activities, transactions, or decisions in any way is one of the essential elements of modern democratic public administration culture based on the principle of separation of powers, it is suggested that the concept of propriety in the aforementioned standards does not actually mean such a negative definition of propriety that could result in a conflict of functions. However, in order to prevent possible misunderstandings, this concept of propriety should be explained more clearly and concretely in the aforementioned standards.

Compliance audits can be performed as an attestation engagement, a direct reporting engagement, or a combination of the two. However, auditing standards regarding compliance do not provide adequate explanations as to which types of compliance audits will be attestation engagements, which will be direct reporting engagements, and which will be a combination of the two. In our opinion, compliance audits based on the regularity axiom should be described as an attestation engagement, while compliance audits based on the propriety axiom as a direct reporting engagement. This can be

explained as such: in compliance audits based on the regularity axiom, audit criteria are the applicable authorities. In case the responsible parties prepare the subject matter information in line with the applicable authorities (criteria) and make it ready for the audit, the compliance audit will be more of an attestation engagement. From this point of view, it is possible to say that compliance audits based on the regularity axiom will be more of an attestation engagement, while it is not possible to argue the same for compliance audits based on the propriety axiom. In the latter, the criteria to be used in the audits might be developed by the auditors themselves on the basis of the “general principles governing sound financial management and the conduct of public officials”. This implies that compliance audits based on the propriety axiom should be classified primarily as direct reporting engagements. Naturally, different compliance audit tasks performed by SAIs can also be formulated as a combination of both engagements.

The most significant difficulty encountered in the implementation of compliance auditing



standards is that these standards are directly based on the financial audit methodology. Many issues that are central to financial audit methodology, such as "reasonable assurance approach," "audit risk assessment," and "determination of materiality" also exist in compliance auditing standards. It is therefore impossible to argue that compliance auditing standards offer a unique audit methodology in this regard. Given the long history of compliance auditing, which reflects the traditional audit approach of SAIs, defining this audit as a separate auditing form by limiting it to financial audit terminology is contradictory. Because in this case, it is difficult to distinguish a compliance audit performed in accordance with standards from a financial audit.

Actually, from a technical point of view, the compliance audit defined in the standards has already been incorporated in the financial audit methodology through the testing (verification) of the "compliance" assertion, which is listed among the financial statement assertions in accordance with the relevant reporting frameworks, along with other audit assertions by the auditor. In financial auditing,

the concept of assertion refers to the basic financial statement propositions that are at the core of the financial statements and are expressed or implied statements of the administration. The entity's management, which is responsible for the preparation and fair presentation of the financial statements, makes certain assertions through the financial statements it prepares, either explicitly or implicitly, regarding the recognition, measurement, presentation and disclosure of various elements and related disclosures in the financial statements. In fact, unless otherwise stated, the figures and disclosures in the financial statements are management's claims. In financial auditing, the majority of the auditor's audit work consists of collecting and evaluating evidence to determine whether the claims (assertions) in the financial statements are presented accurately and fairly. To put it another way, management declares its actions in the financial statements and claims that they are fairly presented, whereas the auditor seeks to reach a conclusion based on reasonable assurance as to whether these claims are true. The management claims are also "audit assertions" that will be tested for accuracy by



the auditor. Various assertions that form the basis for the preparation of financial statements, such as completeness, periodicity, valuation, presentation and disclosure, have already been defined in the relevant financial reporting frameworks. The auditor uses these assertions when evaluating the different types of misstatements that are likely to occur. In many financial reporting frameworks, a “compliance” assertion is also included among the assertions listed above. Technically, the auditor has to perform audit procedures in relation to the “compliance” assertion, which should be used as a basis in the preparation of the financial statements, as well. To summarize, the compliance assertion, like other management/ audit assertions, is one of the assertions that are at the core of the financial statements in accordance with the relevant reporting frameworks. The auditor performing the financial audit makes an inference as to the accuracy of the compliance assertions along with other assertions. Therefore, it is technically correct to say that the compliance audit defined in the standards is actually an inherent element of the current financial audit

methodology.

On the other hand, many SAIs carry out compliance audits by concretely determining whether there has been compliance with the written norms (official criteria) stipulated in the national legislation. In most cases, the concrete audit here requires the examination of all accounts and transactions (one hundred percent audit) in order to detect illegality, and in this context, it is essential that the audit results be based on conclusive evidence rather than convincing evidence. It is not correct to distinguish such legal compliance tasks from the compliance audit method defined in the standards and to include them in the other tasks of SAIs such as investigation, inspection, or examination that are not covered by the applicable standards. Because such tasks meet the requirements of a compliance audit in the strict sense of the essence. It is obvious that such legality audits, which must be based on conclusive evidence, are incompatible with a methodology that is based on reasonable assurance, and thus, in most cases, on convincing rather than conclusive evidence. In this regard, we believe that developing a



unique compliance audit standard that is more suitable for SAIs' audits of compliance with the law based on conclusive evidence and does not essentially repeat the financial audit methodology should be one of the INTOSAI community's top priorities.

Consistent with the findings given above, the legal compliance audits carried out by the SAIs with judicial powers should also be considered as an element of the “compliance audit”. However, according to INTOSAI auditing standards, legal compliance audits performed by SAIs with judicial powers are not directly related to the compliance auditing standards and practices defined in the framework, and it is specifically stated that such judicial audits are distinct from other audits. As a matter of fact, with the amendment made in the INTOSAI auditing standards in 2019, a new standard not included in the previous framework is added to the IFPP, and special principles are developed for the SAIs with jurisdictional powers. This standard, known as “INTOSAI-P 50 Principles of Jurisdictional Activities of SAIs”, defines the model of jurisdictional SAI as one of an organisation that can carry out

all types of audit that a SAI has to perform and which is, in addition to those, invested with the power to rule on the liability of the persons accountable by law in case of irregularities or mismanagement. As per the said standard, jurisdictional activities differ from financial, performance or compliance audit even if they can occur in conjunction with such audits or follow them (INTOSAI P 50, 2019: 6). We believe that this type of judicial audits based on final judgment and conclusive evidence should essentially be characterized as “compliance audit”. However, since the IFPP essentially adopts a concept of compliance audit based on the repetition of the financial audit methodology, it is obvious that the legal compliance audits performed by SAIs with jurisdictional power do not categorically qualify as compliance audit as defined in ISSAI 400.

### **3. Performance Audit Standards**

In ISSAI 300 Performance Audit Principles, performance audit is defined as an independent, objective, and reliable examination of whether government undertakings, systems, operations, programmes, activities, or organisations are



operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement (INTOSAI ISSAI 300, 2019:8). Also known as the “3E” audit in the audit literature, performance audit, unlike other audit types, aims to provide new information, analysis, or insights for economic, efficient and effective use of public funds and, where appropriate, makes recommendations for improvement.

In this context, the main objective of performance audits performed by SAIs is to contribute to accountability and transparency by constructively promoting economical, effective and efficient governance.

ISSAI 300 Performance Audit Principles defines the principles of economy, efficiency and effectiveness, which form the basis of performance auditing, as follows:

“The principle of economy means minimising the costs of resources. The resources used should be available in due time, in and of appropriate quantity and quality and at the best price.

The principle of efficiency means getting the most from the available resources. It is

concerned with the relationship between resources employed and outputs delivered in terms of quantity, quality and timing.

The principle of effectiveness concerns meeting the objectives set and achieving the intended results” (INTOSAI ISSAI 300, 2019:9).

In the performance audit, the audit subject matter is not necessarily limited to a certain program, entity or funds. It can include activities (with their outputs, outcomes and impacts) or existing situations (including causes and consequences). For example, within the scope of performance auditing, issues related to a specific service delivery concerning numerous public entities or impacts of the implementation of a general service policy on the management, stakeholders, businesses, citizens, and society can be examined. The subject matter is determined in line with the objective of the audit and systematically expressed in the audit questions and sub questions formulated by the auditors.

As in the other audit types, in performance audits, criteria are the benchmarks used to



evaluate the subject matter. These criteria, which can be qualitative or quantitative and general or specific depending on the case, provide a basis for evaluating the evidence, developing audit findings and reaching conclusions on the audit objectives. Since the confidence of users in the results of a performance audit is highly dependent on the selection or development of correct/objective audit criteria, determining reliable and objective criteria is of great importance. However, in performance audit practices carried out in accordance with the relevant auditing standards, some difficulties, which are briefly mentioned below, may be encountered especially in the selection or development of criteria.

The explanations related to the audit criteria in ISSAI 300 Performance Audit Principles imply that the audit criteria can either be obtained directly from the applicable authorities or can be obtained/developed as the product of an objective analysis process regarding what should be” in line with sound principles, scientific knowledge and best practices. In the said standard, it is specifically emphasized that, whereas in

some audit types there are unequivocal legislative criteria, this is not typically the case in performance auditing (INTOSAI ISSAI 300, 2019:16-17). Since performance audits are primarily direct reporting engagements, auditors might need to get involved in the process of developing or selecting the relevant criteria in certain cases (in particular when there are no official criteria related to the subject matter). Whether there is an existing official criterion on the subject matter or whether this criterion needs to be developed by the auditor, obtaining subject matter information in accordance with existing or developed criteria is in any case in the responsibility of the auditor, due to the nature of the direct reporting engagements. However, performance auditing standards (ISSAI 300 and ISSAI 3000) do not have sufficient explanation as to how the criteria should be selected in case of a conflict between the existing official audit criteria (defined performance indicators) and the criteria developed by the auditor on the basis of general principles and scientific methods. In such a case, it can be argued that the auditor should use scientifically confirmed (developed) criteria, which he or she





considers more accurate, rather than the official criteria. However, since performance indicators are official criteria stipulated in written legislation in the mandates of many SAIs, the auditor may be unable to disregard these criteria in accordance with the relevant legislation. It is obvious that a performance audit conducted by auditors who are bound by taking official criteria as a basis in accordance with the relevant legislation will not be a direct reporting engagement, because a performance audit engagement that must be conducted based on the official criteria should essentially be classified as an attestation engagement, as defined in the standards. Therefore, specifying in the performance audit standards that performance audit engagements based on official criteria (defined performance indicators) shall essentially be considered as attestation engagements, and ensuring that such engagements are categorically separated from direct reporting engagements, where the criteria are developed by the auditor, could be very useful for the correct understanding and application of the standards in terms of providing sound

guidance.<sup>6</sup>

On the other hand, while it is clear that performance auditing as defined in the relevant auditing standards is not a propriety audit, in some jurisdictions, there may be a false impression that the audit conducted is essentially a type of propriety audit. Such a false impression is possible, especially when the criteria to be applied in the audit are developed by the auditors as the product of an objective analysis process regarding “what should be” in line with sound principles, scientific knowledge and best practices. In this respect, we believe that the relevant auditing standards should include additional information and guidance to prevent such misunderstandings in the performance auditing process.

Performance auditing, which has been widely used by many SAIs especially since the 1980s, is a highly effective audit method whose contribution to public accountability has been demonstrated over time thanks to

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<sup>6</sup> I owe the critical assessment developed here regarding the audit criteria in the implementation of performance auditing standards to the opinions of my esteemed colleague, Principal Auditor Çiğdem Aslankara, who has extensive experience and knowledge in performance auditing. Our fruitful conversation was extremely beneficial in bringing this point to light.



its unique methodology and systematics defined in INTOSAI auditing standards. Actually, the performance auditing standards (ISSAI 300, ISSAI 3000, GUID 3910, and GUID 3920) included in the IFPP are a rich reflection of international experience and knowledge in the field of performance auditing. In this respect, we cannot talk about the methodological difficulties mentioned above for financial auditing and compliance auditing standards in the implementation and understanding of the standards related to performance auditing. One of the most significant challenges that SAs may face with performance audits, nonetheless, is that this audit method, which is very similar to scientific research methods and processes, requires a much more qualified human resource allocation than other audit methods. In performance auditing, due to the technical nature of the work, auditors must work as a team with different and complementary skills. Also, in terms of professional competence, members of the audit team should have a solid knowledge of auditing, research design, social science methods, and research-evaluation techniques, as well as personal strengths such as analytical skills, writing and

communication skills.

In the performance audit literature, although it is not yet widely expressed, it is stated that there is a need for a richer performance audit conceptualization in terms of definition and scope (Cameron, 2004: 61-64). As a result, it is possible to say that a performance auditing approach, which takes into account the classical principles of performance auditing, economy, efficiency and effectiveness (3e), as well as equity, ethics and environment (6e), is becoming more widespread. "With this new definition and scope, performance audits emerge as a dynamic evaluation of the conditions necessary for the realization/maintenance of the principles of economy, efficiency, effectiveness, equity, ethics and environment in the public sector" (Ince, 2020: 253). In this regard, it is possible to anticipate that existing performance auditing standards will evolve into developing a richer performance audit approach that incorporates the principles of equity, ethics, and the environment in the coming years.

Finally, we need to mention another important point that is not directly related to performance auditing practices but that we



believe is extremely useful in terms of disseminating performance auditing methodology. This point is related to “thematic audits”, which has begun to be widely used by SAIs and are emerging as a new form of auditing. As seen in many financial audit and compliance audit practices, public sector audit methods are mainly based on a methodology that focuses on the annual transactions, activities or expenditures of a specific entity and issues a holistic report about the relevant entity. However, as in performance auditing, auditing of cross-cutting and important issues that affect many public activities and possibly attract more public and parliamentary attention is becoming more popular among SAIs. As a matter of fact, “thematic audit approaches being implemented in some jurisdictions under names such as “investigation audit” (UK's National Audit Office), or “horizontal audit” (the case of the Georgian SAI), or “reactive and rapid audit reporting” (the case of ECA) present a dynamic framework that keeps the parliamentary and public interest in SAIs alive, can be concluded in less time, and allows for a multi-faceted evaluation of a

specific issue, as well as proposals for solutions” (Ince, 2020: 263). However, there is not a direct guidance on these thematic audits mentioned in the INTOSAI auditing standards. As a result, some hesitations may arise about what kind of methodology should be followed in the implementation of such audits as an effective audit method that can attract the attention of the public and parliament. We believe that there is an urgent need for a stand-alone standard specific to these audits in order to eliminate this methodological ambiguity. In this framework, it will be extremely beneficial for both SAIs and practitioners to formulate thematic audits with an approach based on a shorter and accelerated form of the performance audit process by essentially using the performance audit methodology.

## CONCLUSION

As the main international reference source for public sector auditing, the INTOSAI auditing standards are a very important framework that guides audit practices of SAIs. This framework, currently known as the IFPP, regulates the minimum requirements to be applied in financial, compliance, and



performance audits carried out by SAIs and also sets out the normative principles regarding the basic elements of an ideal SAI.

The IFPP includes three different audit types in the context of public sector auditing. These are financial audit, compliance audit and performance audit. According to the principles set out in the Framework, principles and requirements included in the standards can never override the national laws, regulations, or mandates of SAIs, or do not prevent SAIs from fulfilling various tasks such as investigations, inspections or examinations not covered by the applicable standards. SAIs, on the other hand, are strongly encouraged to abide by the INTOSAI auditing standards or develop their own standards in compliance with them. Otherwise, the SAI cannot refer to INTOSAI auditing standards. While the application of INTOSAI auditing standards is not mandatory, it is widely accepted that these standards reflect a consensus on “best practices” among SAIs, and thus each SAI must decide for itself to what extent the standards are compatible with its mandate. Without a doubt, in today's circumstances, reference to the INTOSAI

auditing standards is one of the primary criteria for the reputation and reliability of an SAI.

Concerning the implementation of INTOSAI auditing standards, it is worth noting that many Western countries, such as the United States and the United Kingdom, which have already developed their own auditing standards, and others that do not have national standards in this field, do not consider themselves directly bound by the declaration of application of the norms and principles set out in the IFPP. In this sense, it seems as if the SAI practices in these countries are already compatible with the INTOSAI auditing standards, and the IFPP is an imperative framework exclusive to SAIs in developing or underdeveloped countries. Without a doubt, what we are discussing here is a de facto situation, rather than a de jure one. As an example we observe that the SAI Performance Measurement Framework (PMF), which is developed by the INTOSAI Development Initiative (IDI) to measure/ evaluate the extent to which INTOSAI auditing standards are fulfilled by SAIs and which offers a very useful framework for the



effective functioning of SAIs, is not implemented by many western countries in their own jurisdictions. This critical issue, which is not directly related to the subject of this study, is an extremely important political issue that deserves to be mentioned in terms of global recognition and adoption of auditing standards.

Regardless of the points raised above, the main challenges encountered in the implementation of the INTOSAI auditing standards, as discussed in this study, and the solutions proposed in this context can be summarized as follows:

- In many ways, the applicability of ISAs developed by IFAC in public sector auditing is contentious. First, it is not possible to assert that the objectives of financial auditing in the private sector always fully correspond to those of financial auditing in the public sector.
- ISAs are not incorporated into the INTOSAI financial auditing standards as a result of recodification or adaptation. Therefore, codification of a public sector-specific financial audit standard should be one of the top priorities of the INTOSAI community.
- One of the major challenges in implementing financial auditing standards in the public sector is that the set of standards, which is highly elaborated and based on an algorithmic "requirement" architecture, requires a significant allocation of resources. If an SAI uses ISAs as its primary reference in its financial auditing practices, it is obliged to comply with all of the standards' requirements, which may result in the concentration of limited audit resources, particularly in financial auditing practices.
- Again, an SAI that uses ISAs as authoritative standards is required to use the same requirement architecture in audits of all public entities covered by its mandate, regardless of the size, scope, or volume of the budget, which makes the effective and efficient allocation of audit resources even more complicated. One solution to this problem could be to use a simpler set of standards in financial audits of small and medium-sized public entities.
- Experience, particularly in the public sector, shows that, unlike other audit methods,



the ultimate financial statement opinions issued by SAIs as a result of annual financial audits are frequently misunderstood by both responsible parties and intended users. To reduce the above-mentioned misunderstanding possibilities, it may be a significant audit policy choice for an SAI to perform financial audits in elective periods rather than on a regular basis every year, unless otherwise stated in the respective mandate and jurisdiction of an SAI.

□ Given the long-term and strategic effects of auditing on management decision-making processes, audit outputs produced in the context of public sector auditing are expected to yield far richer results than the attestation of financial statements. It is clear that an audit approach limited to the attestation of financial statements cannot be sufficient on its own to realize the principles of public accountability and good governance.

□ The most significant challenge in implementing compliance auditing standards is that these standards are developed directly on the basis of financial audit methodology. Many key issues in the financial audit methodology, such as "reasonable assurance

approach", "audit risk assessment" and "determination of materiality" are also repeated in compliance auditing standards. In this regard, it is not possible to claim that compliance auditing standards provide a distinct audit methodology. As a result, the formulation of compliance auditing as a separate audit method, despite being restricted to financial audit terminology, is a contradiction since, in this case, it is difficult to distinguish a compliance audit performed in accordance with standards from a financial audit.

□ On the other hand, it is not entirely clear what is meant by the concept of "propriety" in compliance auditing standards. In order to prevent possible misunderstandings regarding propriety, this concept should be explained more clearly and concretely in the aforementioned standards.

□ Many SAIs conduct compliance audits to determine whether the norms (official criteria) stipulated in written form in national legislation are met. In most cases, the concrete audit here requires the examination of all accounts and transactions (one hundred percent audit) in order to detect illegality, and



it is critical that the audit results be based on conclusive evidence rather than convincing evidence. In this respect, adopting a unique compliance auditing standard that is more compatible with conclusive evidence-based legal compliance audits of SAIs and is not essentially a repetition of the financial audit methodology should be one of the INTOSAI community's top priorities. Again, in line with this, the legal compliance audits carried out by SAIs that have jurisdictional powers should also be considered as an element of the "compliance audit".

□ The methodological issues raised above in relation to financial and compliance auditing standards are not encountered in the application and understanding of performance auditing standards. However, in performance audit practices carried out in accordance with the relevant auditing standards, some challenges may arise, especially in selecting or developing the audit criteria.

□ There is no sufficient explanation in the performance audit standards on how the criteria should be selected in the event of a

conflict between the existing official audit criteria (defined performance indicators) and the criteria developed by the auditor based on general principles and scientific methods. Therefore, specifying in the performance audit standards that performance audit engagements based on official criteria (defined performance indicators) shall essentially be considered as attestation engagements, and ensuring that such engagements are categorically separated from direct reporting engagements, where the criteria are developed by the auditor, could be very useful for the correct understanding and application of the standards in terms of providing sound guidance.

□ Again, while it is clear that performance auditing is not a propriety audit as defined in the relevant auditing standards, in some jurisdictions, a false impression may arise that the audit conducted is essentially a type of propriety audit. In this respect, it is critical that the relevant auditing standards include additional explanations and guidance to prevent such misunderstandings in the conduct of performance audits.



□ Finally, in thematic audits, which are now widely used by SAIs, there may be a methodological uncertainty, since there is no direct guidance in the standards on this issue. In this framework, it would be extremely beneficial to formulate thematic audits with an approach based on the performance audit methodology and to create an independent standard setting specific to these audits.





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## SAI Turkive

## SAI 20 INITIATIVE AND THE FIRST SUMMIT<sup>1</sup> By. Nilay SAYAR<sup>2</sup>



### INTRODUCTION

The G20 was formed in 1999 by the gathering of 20 developed and emerging countries from different continents to represent the developed countries and emerging economies with increasing importance even more in the global economic decision-making processes and to ensure a more stable structure for the international financial system. Representing more than 80% of the Global Gross Domestic Product, 75% of international trade, and 60% of the world's population, the G20 members are: Türkiye, the United Kingdom, Germany, France, Italy, the Russian Federation, and the European Union from the European continent; the United States, Canada,

Mexico, Argentina, and Brazil from the American continent; the People's Republic of China, India, Japan, South Korea, Indonesia, and Australia from the Asia-Pacific region; South Africa from the African continent and Saudi Arabia from the Middle East.

Indonesia has been the term presidency of the G20 as of 01 December 2021. During Indonesia's presidency, SAI20 (Supreme Audit Institutions 20) has been launched as a new platform for the supreme audit community, with the initiative of the Indonesian SAI, to achieve the goals set by the G20 and for member country SAIs to play an active role. The main motivation for creating the SAI20 was to be able to cope with the effects of the global crisis due to the Covid-19 pandemic and to respond to the increasing needs and demands for transparency and accountability in the management of public funds in the pandemic

<sup>1</sup> This is a translation of the article published in the Journal of the Turkish Court of Accounts, Issue 126, September 2022.

[https://dergi.sayistay.gov.tr/Upload/95906369/files/dergi/pdf/126\\_M6\(2\).pdf](https://dergi.sayistay.gov.tr/Upload/95906369/files/dergi/pdf/126_M6(2).pdf)

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period by the SAIs of the G20 countries (SAI20, 2022a) SAI20 was created within the framework of the document titled “Value and Benefits of SAIs: Making a Difference to the Lives of Citizens” (INTOSAI-P 12)<sup>3</sup> developed by INTOSAI within the scope of “Prerequisites for the functioning of SAIs”. It is characterized as a forum where member countries come together to discuss matters related to SAIs, and new initiatives are made in this context (BPK, 2022).

## 1. PURPOSE, PRINCIPLES AND PRIORITIES SAI20

### 1.1. Purpose and Principles of SAI20

Pandemic conditions have led to a global crisis by creating fiscal and social pressures on countries and required the urgent use of large amounts of public resources by governments, which increased the importance of auditing public entities. Given

<sup>3</sup> Published by the INTOSAI, INTOSAI-P12 covers 12 principles under the main titles of: “Strengthening the Accountability, Transparency and Integrity of Government and Public Sector Entities”, “Demonstrating Ongoing Relevance to Citizens, Parliament and Other Stakeholders”, and “Being a Model Organization through Leading by Example”. For the full text: [https://www.intosai.org/fileadmin/downloads/documents/open\\_access/INT\\_P\\_11\\_to\\_P\\_99/INTOSAI\\_P\\_12/INTOSAI\\_P\\_12\\_en\\_2019.pdf](https://www.intosai.org/fileadmin/downloads/documents/open_access/INT_P_11_to_P_99/INTOSAI_P_12/INTOSAI_P_12_en_2019.pdf).

the multi-dimensionality of the current crisis, multi-stakeholder engagement is needed to accelerate joint efforts by creating an oversight ecosystem where all actors operating in the field of public financial management, such as legislatures, public entities, and non-governmental organizations, come together (SAI20, 2022a).

In this context, the SAI20 initiative, which is planned to serve as a platform to share strategic insights for developing good and accountable policies among G20 member states, has two main objectives. These are (SAI20, 2022a):

1. Promote collaboration among SAIs in G20 countries and other stakeholders to contribute adjust oversight, develop insight, and provide strategic foresight to foster accountable economic governance; and
2. Develop a platform for strengthening SAI’s role as a partner of G20 member states in responding to global issues.

The Rules of Procedures (RoP) of SAI20, which have been acknowledged at the SAI20 Summit in August 2022, list the principles of SAI20 as follows (SAI20, 2022b):



1. Independence
2. Transparency
3. Accountability
4. Collaboration
5. Continuity
6. Inclusiveness

## 1.2. SAI20's Priority Issues

In line with the theme of "Recover Together, Recover Stronger", which has been identified for the G20 under the Indonesian Term Presidency, the SAI20 initiative focuses on two main priority issues, namely: Accelerating Economic Recovery and Supporting the Achievement of SDGs (Wakil President Republic Indonesia, 2022).

**Accelerating Economic Recovery:** During the pandemic period, topics such as public financial management, transparency, and accountability have gained more prominence worldwide with the recognition of the important role of SAIs from G20 countries in this global effort, it has become clear that they need to partner effectively with governments. In this context, it is believed that the SAI20 can help develop ideas and share best practices about SAIs audits of

emergency response and rescue activities, with an emphasis on effective cooperation between the SAI, government, and other stakeholders.

**Supporting the Achievement of SDGs:** The United Nations has determined the Sustainable Development Goals (SDGs), with the goals of ending poverty, protecting the environment, taking measures against the climate crisis, and fair sharing of wealth and peace (UN Türkiye, 2022).

As a part of their activities to support the achievement of the SDGs, which is one of the main objectives of the G20, SAIs play a strategic role in contributing to the consistent implementation of SDG programs, especially during the pandemic. INTOSAI encourages its member SAIs to contribute to the monitoring and review of the SDGs in the context of each country's specific sustainable development efforts and SAIs "mandates" (SAI20, 2022c).

## 2. Events in the Formation Process Of SAI20 and SAI20 Summit

### 2.1. Events in the Formation Process of SAI20



The following events have taken place since December 2021 in the formation process of SAI20. The Turkish Court of Accounts (TCA) participated online in these events<sup>4</sup>.

**1. SAI20 Technical Meeting (26-27 January 2022- Hybrid):** The first draft of SAI20's RoP was presented, and priority issues were discussed at the meeting.

**2. SAI20 Seminar (17 June 2022-Hybrid):** Matters related to the importance of SAIs' contribution to accelerating economic recovery and the achievements of the 2030 Agenda were discussed at the seminar.

**3. Senior Officials Meeting (20-21 June 2022- Hybrid):** The preparations for developing the RoP of the SAI20 were discussed at the meeting.

**4. Meeting for the Final Draft of the SAI20 Communique (12 August 2022-Online):** The Final Draft of the SAI20 Communique was discussed at the meeting.

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<sup>4</sup> The following texts, which were shared with the participants, were used regarding the matters related to the meetings: "Terms of Reference (ToR) The Supreme Audit Institutions 20 (SAI20) Summit, 2022" and "Terms of Reference (ToR) SAI20 Seminar: The Supreme Audit Institution's (SAIs) Contribution to the Acceleration of Global Economic Recovery and the 2030 Agenda, 2022".

**5. SAI20 Summit (29-30 August 2022-Hybrid):** The first summit of SAI20 was held with the following objectives and agenda.

## 2.2. SAI20 Summit

SAI20 Summit<sup>5</sup> was held in a hybrid (face-to-face and online) manner in Bali, Indonesia, on 29-30 August 2022, with the participation of senior officials from the SAIs of the G20 countries, and it was hosted by the Indonesian SAI.

The summit started with the opening speeches of the President of the Republic of Indonesia and the President of the Indonesian SAI. Following the adoption of the Agenda, the RoP, which is the basis for the establishment and operation of SAI20, was adopted. In line with the priority issues of the

Indonesian G20 Presidency, a session on the Global Health Architecture was held, including experience sharing. Negotiations were started after the sharing of experiences and ideas.

On the second day of the Summit, a special

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<sup>5</sup> "Program of Works SAI20 Summit (29-30 August 2022, Nusa Dua, Bali)" which was shared with the participants, was used regarding the matters related to the summit



session of the Parliament was held first. After the approval of the SAI20 Draft Communiqué, a presentation was made by the President of the Indian SAI, the next SAI20 President. Afterwards, two separate sessions were held on sharing experiences on Energy Transition and Digital Transformation. The summit ended with the closing speech of the SAI20 Presidency.

Attending the meeting online at the Presidency level, the TCA expressed its firm belief that the formation of SAI20 will greatly contribute to member SAIs in terms of professional cooperation, as well as governments in terms of accountability, and effectiveness in tackling global challenges, and expressed its acceptance of the SAI20 RoP and full support for the approval of the SAI20 Draft Communiqué. In addition, in the experience sharing sessions, information was shared about the projects on the "Use of Information Systems in Audits" and "UN-TCA Relationships in SDG Audits", which were carried out under the EUROSAI Strategic Plan.

### 2.3. SCOPE OF SAI20 COMMUNIQUE

SAI20 Communiqué<sup>6</sup> was approved at the SAI20 Summit in August 2022. It has outlined the recommendations on matters that are planned to be addressed in more detail at the G20 Leaders' Summit, which is to take place in November 2022.

The communiqué puts a special emphasis on the following three priority issues during Indonesia's G20 Presidency:

**Global Health Architecture:** The aim is to create a more inclusive, equitable, and crisis-sensitive global health system.

**Sustainable Energy Transition:** G20 member states share a great responsibility to ensure that energy sustainability works at its best and to provide a platform for investment.

**Digital Transformation:** It is considered that digitalization plays a key role in making the post-pandemic global economic order stronger, inclusive, and collaborative (G20, 2021). In line with this consideration, the

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<sup>6</sup> The communiqué was prepared with the support of the SAIs of 12 G20 member countries (Argentina, Australia, Brazil, China, India, Indonesia, Korea, Mexico, Russia, Saudi Arabia, South Africa, and Türkiye). For the full text: SAI20 (2022d).



communique includes the following key issues focusing on the Covid-19 pandemic, SDGs, and stakeholder cooperation:

□ They recognized that the COVID-19 pandemic has not only increased the risks of fraud due to the rapid implementation of government response programs but also widened inequality across the globe due to unachieved development targets, thus hindering the achievement efforts of Sustainable Development Goals (SDGs) globally.

□ They acknowledged that SAIs need to focus on the government's response to accelerate economic recovery and resume intensifying efforts to achieve the 2030 agenda<sup>7</sup>.

□ Referring to United Nations General Assembly Resolution A/66/209 and INTOSAI Principles 12, they noted that public sector auditing has an essential role in promoting the efficiency, accountability, effectiveness, and transparency of public administration

<sup>7</sup> "2030 Agenda for Sustainable Development", launched by the UN Summit in September 2015, envisions "a world with universal respect for human rights and human dignity, the rule of law, justice, equality, and non-discrimination". Within this framework, 17 Sustainable Development Goals were determined (Council of Europe, 2022)

while supporting the global response to the COVID-19 crisis and SDGs implementation.

□ In line with the priorities of the G20 presidency and SAI20, with an emphasis on the sustainability and inclusiveness of economic recovery that benefits all and leaves no one behind, they call on the governments of the G20 to collaborate with all related stakeholders (SAI20, 2022d).

## CONCLUSION

International cooperation and solidarity have gained importance in responding to the effects of the pandemic, and the conditions and results have led countries to create new international and regional formations in this sense.

SAIs have a strategic role in generating effective policies to accelerate economic recovery and supporting the consistent implementation of SDG programs in an environment shaped by the global health crisis, and the advice they will give to administrations is of critical importance in this regard.

In response to the need to develop a platform



for SAIs to strengthen their role as strategic partners of G20 governments in responding to global challenges, the SAI20, which has been established with the initiative of Indonesia, the term president of the G20, has continued its existence with various events since December 2021.

In line with the theme of "Recover Together, Recover Stronger" adopted during Indonesia's G20 Presidency, the priority topics of SAI20 have been "Accelerating Economic Recovery" and "Supporting the Achievement of SDGs". The "SAI20 Communique" and "RoP", which were adopted at the SAI20 Summit on 29-30 August 2022, have presented the basic vision, objectives, and operating framework of SAI20. At the summit, the TCA also contributed by sharing its thoughts and experiences and expressed its full support for the establishment of SAI20.

The SAI20 initiative has set off with a strong motivation, and it is expected to make significant contributions to the principle of making a difference in the lives of citizens with the works that it will carry out in the light of the knowledge and experience sharing of

member countries by focusing on the new conditions after the Covid-19 pandemic, SDGs, sustainable energy policies, and digital transformation.



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## SAI Afghanistan

**Role of Internal Audit in Improving the  
Performance of Public Sector in Afghanistan**

by:

**Waheedullah Poya  
(Audit Director)****Abstract**

The internal audit significant role in preventing, detecting and minimizing the risk. This paper aims to examine the role of internal audit in public sector to see if it works in accordance with IIA's standards and guidelines. The question, therefore, that this paper tries to find an answer is whether or not internal audit in public sector organization of Afghanistan has linkage with improving the performance of public sector entities in Afghanistan. A questionnaire was designed in a manner so as to collect spontaneous responses from respondents. Due to paucity of time and resources, we made sure we collected the data through emails. The survey concluded that in order to improve the performance of public sector in Afghanistan, the internal audit departments need to establish the following principles:

1- The internal audit departments of the

public sector entities need to have a clear understanding of the vision and mission of the entity.

- 2- The internal auditors themselves need to be qualified and competent enough to understand any updating in the international best practices of internal audit.
- 3- The management has to be committed in the implementation of internal audit recommendations.

This survey is an attempt by an officer of SAI Afghanistan to have a better understanding of internal audit mechanism and this could possibly be a foundation for more research activities in future so as to understand the role of internal audit in improving the performance of public sector of Afghanistan.



## Introduction

The purpose of this paper is to examine the role of internal audit as pre-emptive body for detection and prevention of fraud, embezzlement or misappropriation, thereby resulting in good governance in the public sector of Afghanistan. It precisely investigated the relationship among some internal audit variables such as financial controls, managerial controls, public sector efficiency and public sector management (Tamimi, 2021, p. 114). The function of the internal auditor in risk management has also generated a lot of discussions. Numerous concerns have been expressed about the new risk management framework's idea, elements, link to internal control, and relationship to institutional controls (Tamimi, 2021, p. 115). Some managers believe that there is no need to increase the number of employees and pay attention to risk management departments because their costs outweigh their benefits, and as a result, internal audit units perform the tasks of these departments in the public sector. The study's importance is to understand the role of internal audit in risk management from the

perspective of risk managers and based on the results, it can be determined whether the board of directors'/top management should pay more attention to risk management departments. Whether one works in the public or private sector, there is widespread agreement that internal audits must be modified to better support value creation beyond standard compliance, and existing research points to changes in audit reports, planning, and procedures (Lenning & Gremyr, 2022, p. 3). The internal audit function is an important component of the corporate governance and public sector frameworks. It is considered as a basic function that has a leading role in the governance process of the public sector and corporate governance. Its mission is to provide control and consulting services that assist entities in achieving their objectives (خطاب et al., 2022, p. 4). Internal audit is one of the primary functions of the consulting activity that adds value to institutions (Hazaea et al., 2021, p. 2).



## Problem Statement

Afghanistan unfortunately has taken the first place and is at the top of the most corrupted countries of the world for many years. According to scientific and research surveys conducted by scientific societies and aid organizations, Afghanistan has been always at the top of the countries where government officials and employees abuse government facilities the most, where bribery and fraud have been common at different layers of the society. Poverty, illiteracy, lack of security and lack of economic prosperity are the basic challenges that the government institutions should deal with (Afghanistan\_Inequality and\_Poverty\_ have. Pdf, n.d., p. 4). Despite the numerous aid from donor countries in the past 20 years, the country still continues to struggle with more problems than before. One wonders why the problem didn't go away and why it didn't get better every day. Don't the government departments play their role in such a way so as to achieve their goals? Why are supervisory institutions, such as the internal audit departments of Afghan public institutions not effective? These questions prompt one to find answers in a scientific manner with regard to effective evaluation of

internal audit mechanism in improving the performance of the public sector in Afghanistan. The question, therefore, that this study aims to address is:

### ***What is the role of internal audit in improving the public sector entities performance in Afghanistan?***

In order to find the answer for the above research question, the following sub-questions are raised to approve identify whether there is a link between internal audit impact on the public sector performance.

- Do the entities have a clear vision and mission and whether their day to day activities aligned with the vision and mission?
- Have the entities established appropriate preventive and corrective control measures?
- How effective is the establishment of internal audit in achieving the entities' goals and objectives?
- Are the internal auditors qualified and fully independent? If yes, to what extent do they carry out their roles without management's interference?



- How effective are the internal auditors in detecting the risk in the entities?

### Scope of Study

The scope of this study is limited to entities in the public sector in Afghanistan, notably ministries, agencies, departments, commissions, universities, municipalities, public companies, legislation departments, supreme audit office, revenue, customs department and tax department. The choice of these public entities is based on that there are strong internal audit divisions monitoring entities' activity.

### Theoretical Framework

The role of internal audit departments in private and public sectors have been discussed by many researchers and they came up with varying results. First, some of the researchers have defined internal audit roles as assisting senior management and providing management consultancy services for the entity's improvement. Secondly, the internal audit departments help the organizations achieve their goals. Thirdly, the internal audit compares what was planned with what is actually on the ground, and

ensures good control measures are in place and function as per management's desires. Fourthly, Internal audit works to improve the entities' operations. The task of the internal auditor is no longer to inspect, but to contribute to the continuous improvement of the organization (Brody and Lowe, 2003). Finally, the internal audit increases the entities' value, because they have professional internal auditors in performing their duties in addition to auditing standards, it will indirectly have a positive effect on the entities. (Tamimi, 2021, p. 9). The above reasons and justifications mentioned are identified based on best exercise and ideal situation. The only factor not highlighted by the researchers is the management commitment to internal audit findings and recommendations and their onward implementation in the public sector of Afghanistan. Moreover, lack of understanding of organizational goals and objectives on part of the employees and officials is one of the major reasons of ineffectiveness of government departments. Internal audit through its findings and recommendations can impress upon the management to make some improvements in the working of the



departments. However, if the employees are not unknowledgeable about the vision and mission of the organization can actually mislead the auditors in forming a good audit conclusion and fair opinion.

### **Literature Review**

So far there have only been theories about internal audit in private sector and not internal audit in public sector. Authors have tried to place internal audit in selected economic theories. They focus upon how internal audit can solve problems arising from the organization depending on the objectives and management commitment to implement the audit findings (Przybylska & Kańduła, 2019, p. 2). In the public finance sector, three distinct management approaches have evolved over time. From the 1950s to 1980s, it dominated management, or rather hierarchical governance, as a result of Max Weber's views, which were collected in the form of the so called theory of bureaucracy. In a bureaucratic system, the internal controls are expected to be in place and work well while the internal audit itself is part of internal control. The market approach, known as New Public Management, then became extremely

popular until around 1995. Then New Public Management NPM is based on the findings of the following theories: public choice, agency, transaction costs, technical rationality theory, and institutional theory. In this theory the internal control systems are set well and the segregation of duties have been prepared based on the profession and responsibilities of each person. Internal audit is now playing a larger role in promoting transparency and accountability in commercial and government transactions. In fact, it is one of the most important components of a corporate governance structure in a company whose mission is to ensure financial integrity (Izedonmi & Olateru-Olagbegi, 2021, p. 6)

### **Internal Audit Definition**

Auditing has evolved significantly as a result of the development of economic projects and emergency situations of the internal control system. It is no longer just a means of keeping cash. Its main task is to ensure the achievement of the entities' goals. internal audit is one of the most effective ways to avoid shortages in the organizations. Effective internal control is critical for any business because it aids in the



implementation of policies and objectives (Tamimi, 2021, p. 2).

To discover the nature of internal auditing, you need to go back to the beginning, modern internal auditing originated in 1941 when the Institute of Internal Auditors (hereafter IIA) was founded in the United States. The purpose of establishing of internal audit in an organization is to gather auditors to give assurance to management that the entity's operation is in line with law and regulations implied in the organization (Izedonmi & Olateru-Olagbegi, 2021, p. 3). Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. According to this concept, internal audit has experienced a paradigm change from focusing on past accountability to enhancing future results to assist auditees in operating more effectively and efficiently. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Getie Mihret & Wondim Yismaw, 2007, p. 3)

Internal audit is one of the most important tasks of organizations. It is an independent and objective activity that provides assurance, added value to the organization and improves its operations by providing consulting services. This activity helps to achieve the organization's goals through a systematic approach to evaluate, improve the effectiveness of the governance, risk management and control process.

### **Audit Risk Identified in the Public Sector**

Considering that audit risk is the risk that the auditor may express an insufficient audit opinion if the financial statements are incorrect. The concept of audit risk is a very complex concept in the overall audit process. According to the IAASB Glossary of Terms, audit risk is defined as follows: "The risk that the auditor will express an inappropriate audit opinion if the financial statements are materially misstated. Audit risk is a function of material misstatement and detection risk (Nikolovski et al., 2016, p. 3). Audit risk is considered as an integration of these two components:

1. **Risk assessment** - risk when



collecting and evaluating audit evidence by auditors

2. **Entities risk** - the risk which exists in the entity by default or nature (inherent risk). The auditor always plans adequate procedures that minimize audit risk and maximize the detection of errors, fraud, and other irregularities in the financial statements. It is especially important for the auditors to identify high-risk areas where mistakes are repeated. In order to minimize the audit risk in an entity we need to establish principles, and give objective assurance to stakeholders, management and citizens to help them take necessary and timely decisions.
1. **Objectivity** -to not allow conflict of interest, any bias in decisions making; or any influences from other entities that are contrary to professional or business department.
2. **Integrity** – An auditor must be honest and truthful in all professional and

business dealings.

3. **Confidentiality** - The auditor must respect the confidentiality of information to which he has access as a result of his professional judgment and business activities. This means that the information in his possession is not allowed to be disclosed to other persons without having a relevant and specific authority, except in cases where he is legally allowed or required to disclose such information. Also, the auditor should not use the information obtained in the audit process for any kind of personal gain, and if such activity is proven, he will be punished by law.
4. **Professional conduct** - the auditor is obliged to comply with the relevant laws and regulations and refrain from any action that discredits the profession.
5. **Conflict of interest** - If there is any conflict of interest with the subject under investigation, the auditor



should not perform the audit activity (Nikolovski et al., 2016, p. 5)

The efficiency and effectiveness of the audit of the units largely depends on the understanding and implementation of three basic concepts of auditing: the concept of materiality, the concept of audit risk, and the concept of audit evidence. Although these three concepts are inextricably linked and realize mutual interactions, the core of this article's explanation is exactly the concept of audit risk. The audit process is constantly accompanied by a risk - the risk that the auditor may be wrong in expressing his opinion about the accuracy and validity of the data presented in the financial statements. Audit risk is generally the potential possibility for the auditor to express a positive opinion on the audited financial statements (in error or on purpose), even when the results actually have material deficiencies. Providing professional auditing standards that identify audit risk with the above types of risk: inherent risk, control risk and the possibility of not revealing all significant deficiencies in the presentation by the auditor (detection risk).

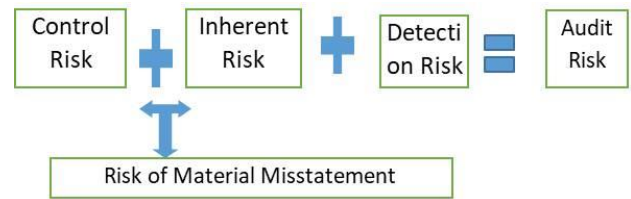


Figure 1: Three Components of Audit Risk

### Internal Audit Effectiveness

The internal audit process ensures good control in the entities, and guarantees the effectiveness and makes the outcomes of the entity more efficiently. Applying professional and ethical evaluation techniques will result in accurate lead the management to realize what the shortage into their organizations was. Moreover, applying the professional knowledge and ethics of the internal auditors could make the audit product more efficient. Professional internal auditors who perform their duties in addition to following auditing standards will have a favorable indirect impact on the entities value of the public sector and makes management's functions effectiveness (Tamimi, 2021, p. 5). An organization's internal audit quality mitigates fraud and other opportunistic behaviors while minimizing risk, enhancing control, and paying for external oversight (خطاب et al., 2022, p. 13). The characteristics of internal



auditors in organizations have been introduced in the evaluation of internal controls. For instance, a study conducted by Mihret and Grant (2017) revealed that the amount of execution of prior economic activities and consulting services, viewing the relationship between them as a later guarantee, is related to internal auditors' function in the entities (Hazaea et al., 2021, p. 11). Prior research on the effectiveness of internal audits has either emphasized the internal audit's capacity to plan, carry out, and fairly disseminate important results. In order to evaluate internal audit effectiveness from a new perspective, this article identifies organizational characteristics that have an impact on audit effectiveness (Getie Mihret & Wondim Yismaw, 2007, p. 4). In order to explain audit effectiveness, the model takes into account four main elements:

- 1- Internal audit quality.
- 2- Management support,
- 3- Organizational setting,
- 4- Auditee traits.

It then demonstrates how the interaction of these aspects to enhances audit effectiveness. Internal audit effectiveness is largely dependent on the internal audit

department's ability to deliver insightful findings and suggestions. Internal audit needs to establish its worth to the entity and build a solid reputation there. Internal audit must assess its operations and make continuous service improvements. Without the management's commitment to putting the audit findings and recommendations into practice, they won't be very useful and effective. The management of an organization is considered as the client receiving internal audit services, and implementation of audit recommendations is extremely relevant to audit effectiveness. Organizational settings refer to the organizational characteristics, internal organization's structure and budget status of the internal audit department, as well as organizational policies and procedures that guide auditee operations. It provides the context in which internal audit operates. Therefore, organizational settings can influence the level of effectiveness that internal audit can achieve. The audited characteristics are related to the auditee's ability to achieve the desired objectives. Audit characteristics that affect audit effectiveness include the ability of auditees to achieve



organizational sub-goals efficiently and effectively, their attitude towards internal audit; and the level of cooperation provided to the auditor (Getie Mihret & Wondim Yismaw, 2007, p. 5). To fulfill the objectives of the internal audit, it is required to set some principles within organizations.

#### **Internal audit quality:**

Internal audit quality, as demonstrated by the office's ability to provide useful audit findings and recommendations, is one of the most prominent factors on which audit effectiveness rests. The IIA Standards of

Practice (2018) require the auditor to plan and perform the work so as to achieve useful audit findings and make recommendations for improvement. The office's ability to plan, implement, and properly communicate the results of audits is a measure of audit quality. Therefore, audit quality is likely to be a function of the broad expertise of the staff, reasonable scope of service; and effective internal audit planning, execution and communication (Getie Mihret & Wondim Yismaw, 2007, p. 7)

#### **Staff knowledge:**

IIA Standard 1210 on Auditor Competence requires that internal auditors have the knowledge, skills, and other competencies necessary to perform their responsibilities.

#### **Services provided by internal audit:**

The internal audit department is involved in a range of audit activities, Compliance audit, Performance audit, and financial audit. However, the auditors are not involved in the entire range of tasks that would be expected of them by professional standards, such as consulting for the auditees and the auditing of specific projects.

#### **Planning:**

Preparing a strategic plan, annual plans, and programs for specific audit assignments are all examples of planning, which is widely seen as a crucial audit activity. The audit plan considered as starting point of audit, guarantees the effectiveness in an organization.

#### **Observations and quality assurance:**

Fieldwork entails carrying out the actions listed in the audit programs in order to gather data for evaluation of the auditee present



operations in light of the specified audit criteria. The field work should be accurately and consistently documented in the audit working papers.

### **Management Support:**

One of the two key elements affecting internal audit quality and audit effectiveness is management support.

### **Institutional context:**

The organizational setting includes the position of internal audit within the organizational structure, the integrity of the internal structure of the internal audit office, the financial standing of the internal audit office, and the presence of reliable standards for judging the practices of auditees.

### **Internal Auditors Competency**

The IIA's standard 1210 on the auditor's proficiency mandate that internal auditors have the knowledge, skills, and other competencies necessary to carry out their duties. The International Professional Practices Framework (IPPF) requirements for the success of the internal audit profession are defined by the IIA Global Internal Audit

Competency Framework. A competency is a collection of outlined knowledge, abilities, and behavior that enables a person to successfully do a task. The IIA International Audit Competency Framework offers a structured framework that makes it possible to identify, assess, and improve those competencies in individual internal auditors to fulfill their audit works.

The world of internal auditing is constantly changing, and evolving from performing an oversight role, focusing on compliance audits, to one that now evaluates financial controls for management, plays the role of a business partner, and it is the eyes and ears of management. The International Professional Practices Framework of the Institute of Internal Auditors (IIA) calls for internal auditors to become "skilled partners" of the organization's management, with a primary focus on improving governance and control systems. This requirement has forced internal audit managers to find new ways to more effectively apply their knowledge and skills in managing internal audit activities (Internal Audit Competency.Pdf, n.d., p. 1). The IPPF emphasizes the importance of the knowledge skills and experience required by internal



auditors to perform their work competently (IIA 2011:2). The required abilities (competencies and skills) of internal auditors (including internal audit managers) are divided into three general categories, which are:

- General competencies (skills that are necessary to perform all tasks).
- Behavioral skills (managing one's own actions and interacting with others)
- Technical skills (applying subject matter or terminology in a specific context).

The above mentioned skills led the internal auditors to perform the task given as subject matter in three phases of audit cycle.

### **Internal Audit's Independency and Objectivity**

The assurance services provided by auditors derive their value and credibility from the fundamental assumptions of independence of mind and independence in appearance. According to literatures and prior research there are two important terminologies have been identified and focused they are:

Independency and Objectivity.

- Independence – The freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional and organizational levels.
- Objectivity – An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to that of others (Internal Audit Competency. Pdf, n.d., p. 6).

The IIA has issued standards 1100 of independency and objectivity of internal auditors in their audit and professional activity in the auditee. Independence is defined as "the state or quality of being independent". Freedom from the influence, control, or determination of another or others. To



achieve the necessary level of independence, it is important that the Chief Audit Executive ("CAE") has direct and unrestricted access to senior management and the Board of Directors. The CAE, senior management, and the board of directors typically work together to determine the best fit for the internal audit organization within the entity and the CAE's reporting relationships to ensure independence and objectivity are maintained. These decisions are generally documented in the internal audit charter.

Standard 1120 stated the objectivity-Objectivity refers to the unbiased approach of internal auditors. The CAE should be aware of entity policies and policies within internal audit that can prevent or enhance an unbiased mindset. An example of this would be to tie auditor compensation to customer satisfaction surveys. They may be hesitant to disclose negative findings if they feel their compensation will be affected.

Standard 1110 discuss organizational independence based on the CAE report to a level within the organization that allows the internal audit function to fulfill its responsibilities. This standard emphasizes

that the CAE must certify internal audit's organizational independence to the board of directors at least annually (Stewart & Subramaniam, 2010, p. 7)

### **Conclusion**

The role played by internal auditors, such as audit competence, objectivity and performance, are qualities that promote public sector management. Public sector management is a major concern for stakeholders. Therefore, internal auditors attach great importance to combating the problem. In order to prevent irregularities or frauds by public officials, auditors must rely solely on objectivity, competence and performance to check the excesses of public sector institutions. This study shows that there is a relationship between internal audit quality and public sector management. Also, this study shows that internal audit quality such as objectivity, competence and performance can help control financial irregularities in government entities.

### **Recommendation**

Based on the findings of this research, we provide the following recommendations that



will be useful to stakeholders: Efforts to improve public sector entities should focus on internal audit competency, internal audit purpose, internal audit challenges, and internal audit performance. Positively related to the future of public sector management, both the internal audit team and the public sector management team should actively participate in the management of public sector units. This increases overall management performance. Also, necessary measures should be taken for the mandatory compliance of internal audit standards in order to improve the quality of the financial statements of government units. Management advocates of public sector entities should promote public sector service delivery in relation to the role of internal audit. The public sector management team should put more emphasis on management control, financial control and public sector service delivery to improve efficiency and effectiveness in public sector institutions.

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