

Country paper on

Theme I:

**THE VALUE AND BENEFITS OF
SUPREME AUDIT INSTITUTIONS**

By:

**Supreme Audit Court of
the Islamic Republic of Iran**

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Introduction

In all kinds of societies, government plays an essential and leading role in administrative affairs. The concept of good governance requires suitable legal framework for clarifying responsibilities and accountability of government against its duties and authorities. It is in such a framework that the public's expectations from government and accomplishment of these expectations by government are clearly defined. Therefore, supervision and transparency necessitate each other. Transparency means increasing people's understanding of decisions and internal mechanisms of government. In other words, it refers to accessibility of individuals to information about government's policies and actions. Transparency is crystallized in the process of accountability and generally accountability is considered as the main criteria for measuring performance of the government and its agencies.

The Constitution of the Islamic Republic of Iran has taken into consideration these issues. In fact, government is considered as an agent of people and is elected by them to accomplish their demands, as described in the Constitution and other legislations. In the same way, people delegate the right to control the country's resources, collecting revenues, paying expenditures, and other administrative affairs to their representatives in the Parliament. So Government should be accountable to the public and regulatory bodies that have the authority for control and supervision on behalf of people's representatives. The structure of the Islamic Republic of Iran is so that the Executive, the Legislative and the Judiciary are independent powers and the duty of lawmaking is done exclusively by the Legislative (Parliament) and other powers (Executive and Judiciary) which only have the responsibility for enforcement of laws ratified by Parliament.

Supreme Audit Court (SAC) as the sole supervisory arm of the Parliament is charged with supervising the performance of programs and policies ratified by it (defined in the legislations) and reporting the results to people's representatives. In other words, for validating executive agency's performance, which is presented in the form of financial statements, SAC as an independent body from government impartially evaluates them through audit process. Obviously, if SAC can exercise its controls in the most excellent way and publish clear, accurate, impartial and updated reports, it is only in such a case that people and their representatives will ensure the performance of executive agencies.

Independence

SAC is the unique regulatory body dependent from the Legislature and among the few agencies that their independence has been confirmed directly in the Constitution and operates under the direct supervision of the Parliament.

Inclusion of the duties and powers of the SAC in the Constitution ensures its functional independence, and exclusivity of these powers to the Court.

Appointment and dismissal of the president and public prosecutor of the SAC is through election by Committee on Plan, Budget and Audits of the Parliament and approval of MPs. The Judiciary Boards members (15 persons) are recommend by the President of the SAC and elected by Committee on Plan, Budget and Audits of the Parliament. Thus, key elements of the Court during their term of tenure have due security to perform their duties. Investigation of possible infringements committed by members of the Judiciary Boards exclusively in the Committee on Plan, Budget and Audits of the Parliament provides a kind of the privilege of jurisdiction for them.

Assigning the responsibilities of examining or auditing all the revenue and expenditure accounts and other receipts and payments, as well as financial statements of all Ministries, organizations, institutions, government companies, and other organizations, which in any possible way benefit from the State Budget or public ownership is applied to, provide SAC with extensive powers so that almost no executive agencies drop out of it's jurisdiction. Furthermore controls of the SAC are not limited to budget funds and encompasses all receipts and payments and also properties and assets of executive agencies.

Examining and ensuring that appropriate financial methods and directions have been established and applied effectively makes financial discipline possible and by commenting on the internal controls of the auditees, SAC creates the ground for prevention of systematic errors and irregularities.

Legal obligation of timely delivering of financial statements and documents of all executive agencies according to procedure determined by Supreme Audit Court, power to investigate and scrutinize all financial affairs of the country and directly corresponding with all the officials, direct accountability of all individuals, agencies and officials to the SAC provides it with due authorities for performing its responsibilities and provides accessibility to information in all levels and everywhere.

Drawing up petition against the official who have refused to provide financial statements and documents or evidence required by the Court, within the determined time limits, and having sufficient legal power for dealing with infringers guarantee easy access to information. However, due to the lack of independent statistical bodies, access to reliable and independent information about the non financial performance of audited entities faces some limitations. Authorizing SAC to investigate and report on financial irregularities and inappropriate decisions of officials, lack of legal restrictions in selection of audit topics, and wide-ranging mandate of SAC grant it with sufficient freedom and independence in audit planning and determining the areas covered by its audits.

The SAC's liaison with Parliament, reporting to Parliamentary committees, preparing annual reports on financial performance of the government (settlement of each year's budget) which is publicly released, reporting likely violations of laws resulting from the order of the President, and Ministers which has had financial effects to the parliament, strengthens and ensures financial supervision and accountability in the highest level.

SAC has close relationship with the Islamic Consultative Assembly (Parliament) and during ratification of legislations and budgeting process comments on the matters which are assigned by Parliamentary committees. Also its auditors participate in meetings of committees of Parliament for reviewing performance reports of the executive agencies which is held in attendance of relevant authorities. SAC has judicial powers for punishing authorities who have caused losses to public funds or violated rules and regulations and whenever its judgments are not enforced, the Public Prosecutor informs the Parliament about the case. The above mentioned arrangements are effective mechanisms for following-up of recommendations and resolving problems and weaknesses reported by SAC. SAC's financial and administrative independence is emphasized in the Constitution and its required budget after being proposed by the Court and after the approval of the Committee on Plan, Budget and Audits of the Parliament will be included separately in the General Budget Bill of the country. Therefore, there is no possibility that government uses its influence to make any changes in SAC's budget.

SAC is exempted from general employment and financial regulations and follows a special by-law for its employment and financial regulations which is approved by Parliament's Committee on Plan, Budget and Audits. It can

employ adequate number of auditors and technical experts and also deploy necessary skills and expertise through outsourcing.

Transparency and accountability

Preparation of annual financial performance of the government (settlement of each year's budget) which is reported to Parliament and released publicly establish a unique structure of accountability, and thus makes the public informed about SAC's responsibilities and the process of implementing them.

In appropriate circumstances, senior officials of SAC make clear its policies, strategies and activities by attending in interviewing by the media and national TV and in case of those important reports that is challenged via related authorities, full information service coverage is provided officially. Meanwhile, such cases immediately are described and published in the SAC's website that is accessible to the public.

Developing and issuing professional principles and code of ethics by SAC that is obligatory for auditors and all those carrying out the audit tasks, makes it possible to achieve the objectives through observing fundamental principles like professional competence, integrity, impartiality, independence and professional secrecy. Adherence to these principles is guaranteed by predicting disciplinary measures in code of ethics. As professional principles and code of ethics is also applicable to external experts, adherence to it is guaranteed in the whole audit activities. SAC has a policy for accurate evaluation of the performance of audit units through benchmarking and comparisons between them and as the results, such evaluations are the main factor in the annual evaluation of personnel. As experience shows deploying this policy improve the quality and credibility of audit works.

Since SAC's reports are analyzed and challenged in Parliamentary committees in the presence of officials of the audited entities, and because of the fact that the attention of the public and media is focused to the activities of SAC, it is inevitable to consider the components of economy, efficiency and effectiveness in implementing every audit. Although SAC is not regularly evaluated by independent institutions, a lot of its consultants, known as professionals and university professors, provide professional services and participate in planning and evaluation activities within the

organization. Therefore, the public usually have confidence about SAC's activities and rely to its reports and consider its independence and consequently there is no need to such evaluations.

Service excellence and quality considerations

Leadership processes for service excellence in the organization originates from scientific basis and organizational activities are carried out through a pre-defined and programmed process and according to logical principles and the latest scientific methods. Developing strategic plan by SAC provides it with the possibility of gaining a comprehensive understanding of the real situation and its strengths and weaknesses and set planning process in the proper scientific path. At joint meetings, the top management's activities regarding different divisions are continuously assessed and the upcoming events and organizational issues are discussed. Determining duties and responsibilities of each senior manager in resolving organizational problems in these meetings, and reporting about follow-up measures, creates a sense of commitment and accountability in the organization.

Due to promoting ethical values and adherence to boosting them, SAC has become a model organization with prominent staff that enjoys absolute confidence among public, MPs and government managers. Since SAC has described its preventive policies for government managers and has close interactions with them, they trust it and share their problems with SAC's auditors and seek their advice.

Auditing is a service that its effectiveness depends mostly to service providers. Choosing the exact personnel and ascertaining adequate supervision concerning their competence, and promoting their ethical and professional values ensures organizational excellence and service quality. Participation of auditors in organizational decision making process also helps achieving these goals.

Activities of auditors are guided through strategic audit committees that are established for various kinds of audit and quality of their work is measured through evaluation and appraisal of the audit reports. Process of audit works is supervised through monitoring progress of preparing reports according to timetables. Even though INTOSAI auditing standards reflect diversity of experiences and is applicable to all its members, SAC is determined to prepare its own national standards.

Good governance arrangements

Introducing the powers and responsibilities of the SAC in the Constitution creates a strong framework for performing its supervisory tasks. Existence of Public Prosecutor's Office in the structure of SAC is an important factor for strengthening financial supervision. Since performance of SAC is exclusively supervised by Committee on Plan, Budget and Audits of the Parliament (consisting of various political parties and factions) through scrutinizing SAC's performance, the government and audited entities can not have any influence on its activities or harm its independence.

To avoid political interference in audit and technical affairs SAC's organizational structure is in a way that audit tasks are solely directed by related deputies and separated from deciding strategies and decision making. According to the inherent independence of SAC, its activities are not subject to any external audit and only Committee on Plan, Budget and Audits of the Parliament evaluates and monitors its activities. Although SAC has made various efforts for renovation of its management through modern management approaches, the results of these efforts has not led to the establishment of a risk management system so far. Regarding its legal requirements, SAC has appointed an auditor as its own auditor who reports to the President of SAC in performing his task.

Ability to be responsive to changing environments and stakeholders' expectations, without compromising independence

Considering the SAC's close relationships with MPs and government managers, its auditors are well aware of their expectations and consider such expectations in audit planning and selection of audit topics.

SAC is developing an online surveillance system (SANA). It is the most effective and recent mechanism for data collection and supervision which plays an important role in increasing interaction with the auditee's officials, and increases the speed of information gathering and decision making. It is an online monitoring system that, if implemented, auditors can exercise real-time supervision on financial transactions and payments and comment on whether payments comply with accepted accounting principles and rules and regulations. Thus effectiveness of SAC audits will increase.

Active participation of auditors in the conferences and seminars held by audited entities for declaring views and strategies of SAC, inviting officials of the executive agencies for lecturing at seminars and training workshops held by SAC, establishing specialized committees in which ministers and heads of audited entities are invited for discussing about their problems increases interaction with them and prevents likely violations without compromising SAC's independence.

Application of Code of Ethics

Code of ethics of SAC is developed through modeling standards and code of ethics issued by INTOSAI and other professional organizations, including Audit Organization (affiliated to the Ministry of Finance and Economic Affairs) This code has been approved with consideration of religious and national values as well as the attitudes of SAC's members (auditors, for the most part). Compliance with the Code of Ethics of SAC is obligatory for auditors and all those carrying out the audit work.

Code of Ethics of SAC encompasses fundamental principles like trust, confidence, credibility, professional competence (both obtaining and maintaining), integrity, impartiality, independence and professional secrecy. This code has been published and distributed among auditors and therefore they are familiar with the values and principles contained in it and act accordingly. Adherence to Code of Ethics is ensured by disciplinary measures predicted in it. Although supervising its application is not the responsibility of a particular person, compliance to the Code of Ethics is an effective factor contributing to the annual evaluation of personnel and their promotion.

Knowledge sharing

As SAC is in the eve of commencing new audit approaches, such as performance audit and IT audit, its auditors are eager to learn more about the techniques and methods used to implement these types of audits. SAC's President devotes most of his effort to create the ground for knowledge sharing with other supreme audit institutions and international organizations and motivate auditors to provide new knowledge and skills. It is for this reason that continuous learning and equipping staff with new knowledge and technology has always been a major priority for SAC. SAC's officials frequently emphasize on providing new knowledge and experience concerning techniques and methods necessary for performing its legal duties, and obtain due supports for improving staff's knowledge and

therefore give them motivation and encourage them to improve their knowledge.

Due to the fact that financial documents should legally be delivered to SAC, the protection of such documents is the responsibility of SAC and audited entities should not be accountable in this respect. Since SAC is a member of regional and international audit organizations such as INTOSAI, ASOSAI, and ECOSAI, it actively participates in activities and meetings of these organizations, especially in training courses held by them. SAC has close cooperation and interaction with other national audit institutions and academic professionals and through employing them as consultants has created the ground for their participation in organizational decision making and audit steering committees, especially sharing their knowledge about new approaches to auditing.

Enhancing SAC reputation

According to audit definition, the main mission of audit institutions is to validate claims of the audited entities' management. Credibility and reputation of audit institutions is an independent variable of the validity of audit reports and at the same time, the whole process of audit planning, conducting audit operations, and audit reporting. The amount of audit reports influence the stakeholders, especially managers of audited entities necessarily depend on the credibility and reputation of audit institution. In this respect, preserving and strengthening the independence of SAC is a key factor which can overshadow the audit process from two different aspects: The first aspect is the nature of SAC and philosophy of its establishment i.e. SAC is supervised by an institutional body representing people (Parliament) which grants it a kind of inherent dignity and credit. The second aspect is the functional measures of SAC including neutrality at the entire process of audit, interaction with the Parliament and etc; such measures improve the independence of SAC despite the fact that at the same time they interact with authorities of the audited entities.

In addition, SAC holds and participates in expert conferences and professional seminars and presents practical topics and current issues. Such activities in addition to the exchange of information and notifying audited entities can promote organizational position. Consistent with this policy and in order to prevent financial violations and also to clarify existing uncertainties, training workshops and meetings are held in which managers,

financial directors and comptrollers or financial officers of government ministries and institutions take part.

Improvement of the lives of citizens, by enhancing accountability

The objective is the exertion of continuous financial control and supervision in order to safeguard the public treasury through controlling financial operations and activities, examining and auditing the funds spent and the revenues and other sources of obtaining revenues with consideration of the operational and auditing reports received from the related auditees, and also commenting on the necessity of the existence of the internal control units or the insufficiency of the existing internal controls in the auditees.

So in order to avoid partiality, substantive tests are designed and accomplished only after assessing internal controls and preparing management letter. In the end of each fiscal year SAC prepares and draws up budget liquidation report together with its own comments (to be considered by Parliament in the process of upcoming year budget ratification) and submit this report together with audit reports to the Parliament. According to article 55 of the Constitution, budget liquidation report which is annual report on performance of the government, must be made available to the public.

Considering the fact that the responsibilities for legislation and supervising the proper enforcement of laws is with Parliament, the effectiveness of these responsibilities requires obtaining accurate and updated reports on government's compliance with statutory laws.

Considering the unique nature of the Supreme Audit Court as the sole supervisory arm of the Parliament, this duty falls within the responsibilities of SAC. The reports not only evaluate the performance of government operations but also impact on the outlook of future programs including laws related to development programs.

The SAC's judicial actions could be explained from two perspectives: The first is that in case of financial irregularities, cases are referred to Public Prosecutors Office in SAC for issuing verdict. The second is that SAC acts as expert in referring the cases against or in favor of a particular government organization in judicial courts.

Insight and planning:

Supreme Audit Court as a primary principle collects evidences confirming audit findings and conclusions contained in the audit reports because these reports largely affect the decisions made by the Parliament. Meanwhile, findings are sent to the auditees in writing and the opinions of the related authorities are obtained for further investigation. Findings from the audits of internal control bodies are also sent to auditees for improvement and follow up. In addition, interim reports at three-month interval between the occurrence of financial operations and audit conducted are also prepared. This by itself will reduce the possibility of preventing irregularities and making improvement during the financial year.

Reporting:

Parliament is the people- oriented body and this shall require the SAC, operating under Parliament, to provide the authorities as well as public with understandable information in a transparent way. By understandable information we mean that information should be clear for those who have an accepted level of technical knowledge in the audit field. In this regard, the SAC chooses audit subjects only with regard to its own planning independently and assign the audit teams accordingly.

In addition, some audit cases are also referred to SAC by the Parliament in relation to the supervisory role of parliament. Considering the timeliness as the primary characteristic of accounting information, the SAC submit its reports to Parliament regarding the annual programs (Budget law) and long-term programs (development plans) in certain situations where such reports could be utilized for approval of future plans/programs. Such reports are read publicly in the Parliament and are provided to the related authorities. In line with its duty in communicating with public, the SAC informs people through answering machine, uploading their opinions on its official website and replying to queries through email. The establishment of technical and legal consultation body in the SAC is another measure for providing official answers to queries and ambiguities raised by authorities in audited organizations. This initiative has not only increased the trust and confidence of such people on SAC but also has removed concerns about non-unique procedure in the measures and opinion of SAC.

Communication with beneficiaries:

The SAC holds regular meetings with the Committee on Plan and Budget and Audit of Parliament. The presence of experts and auditors of SAC in different committees of Parliament for explaining the opinions of SAC on rules and regulations and daily important issues provides an opportunity for SAC to communicate with the authorities and decision makers and express its ideas transparently for prevention of financial irregularities.

In addition to this and based on the pre-planned schedules, members of different Parliamentary committees are invited to SAC to be briefed about the audits conducted and the reports prepared. The presentation of audit findings regarding performance evaluations at the macro level (Government and Parliament) and at micro level (officials of auditees) creates an integrated accountability system that aligns the internal outlooks of auditees with accounting laws and guideline.

Audit recommendation:

In order to improve the systems, audit findings and executable recommendations are provided to the audited organizations through joint meetings, management letters and final reports. These issues are followed up later. In this regard, specialized committees have been established in the SAC which hold meetings, as appropriate, with the high ranking managers of auditees. To follow up the issues raised, they could be referred to the Public Prosecutors Office in SAC for further investigation or they might be followed up ordinarily. Furthermore, the SAC, through replying to the queries, provides the opportunity to make use of audit recommendations by the auditees in the best possible way.

In order to strengthen the accountability system, all the previous reports and documentations are submitted to the new audit units. Also in public companies under the audit of SAC, the reports issued by internal audit committee and legal investigator as well as the recommendations mentioned in the audit reports are followed up. Furthermore, if any action is taken by the auditees regarding the implementation of recommendations, the results of such actions and their adequacy are evaluated.