

Country paper on

Theme I:

National Audit and National Governance

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Abstract

Public audit plays an important role in the process of national governance and is an inseparable part of it through maintaining citizens' rights, safeguarding the compliance of laws and regulations, promoting social security, improvement of people's lives, improvement and increasing government's efficiency and proper management of public sector activities.

According to the Constitution of the Islamic Republic of Iran, the Supreme Audit Court (SAC) is required to audit executive organizations; the Supreme Audit Court Act specifies the objective of SAC as continuous control and supervision in safeguarding public treasury.

In recent years the SAC has made every effort to apply the latest audit methods and approaches including conducting performance audit through changing the audit environment. In addition, the SAC expresses opinion on different financial and operational matters through annual report to Parliament as the sole law-making authority. Furthermore, considering the changes in the business sector this has affected audit environment, the SAC is examining financial and audit laws and consequently makes some proposal for amendments to Parliament. Regarding the development of audit regulations, the SAC is in the process of localizing INTOSAI ISSAIs and as the result this will increase the quality of opinions expressed in audit reports.

Introduction

Public audit as the evaluation tool for the assessment of the quality of national governance and the factor to improve such quality plays an irreplaceable role in the process of governance. In this regard, the SAC as the external auditor of public sector has assumed this responsibility. The measures taken by SAC highly influences national governance. In this paper, first of all we explain the relationship between national governance and auditing and then discuss the role of auditing in the improvement of national governance. This will be followed by the examination of the challenges and solutions to strengthen national governance. Having discussed the above topics we will present some suggestions.

Relationship between national audit and national governance

Auditing acts as a tool that ensures the citizens about the compliance of laws and regulations and the fact that those activities in public sector are conducted with regard to efficiency, economy and effectiveness as the result auditing and national governance are loosely related.

Audit system in public sector is an important component of the national political system which influences the interactions and relations of authorities with citizens through accomplishment of accountability. Government as the representative of citizens utilizes public resources and reports about the result and consequences of their actions through financial reporting system. The auditing system evaluates the implicit or explicit claims included in the financial report and as the result fulfills the responsibility of accountability.

National governance is realized through government structure where the executive organizations operate and manage the whole country. The public audit system then evaluates the government's activities and reports to citizens.

In fact, how governments perform their duties influences the major characteristics of public audit. Supreme Audit institutions precisely examine the government activities and establish themselves as the external auditors of public sector.

Article 55 of the Iranian Constitution clarifies that Supreme Audit Court is required to examine all the accounts of ministries, government institutions, and companies as well as other organizations that utilize in any manner the national budget. This is to ensure that no expenditure exceeds the allocations approved and that all sums are spent for the specified purpose. The SAC will collect all relevant accounts, documents, and records, in accordance with law and incorporates them in the form of annual report together with its own comments. This report is submitted to the Islamic Consultative Assembly (Iranian Parliament). It has also been stressed that this report must be made available to the public.

The objective of the SAC is to exert the continuous financial control and supervision in order to safeguard the public treasury through the following ways:

- To control financial operations and activities of all Ministries, institutions, government companies and other organizations which in any manner whatsoever benefit from the state budget?
- To examine and audit funds spent and the revenues and other sources of obtaining revenues in relation to the financial policies stipulated in the approved budget with consideration of the operational and auditing report received from the related auditees.
- Preparation and drawing up of the annual report together with its own comments and its presentation to the Parliament

The role of national audit in the improvement of national governance

Through conducting compliance, financial and performance audits, public auditors express opinion on the quality of government activities and in this way they improve the relationship between citizens and government through accountability. This will lead to ensuring the public about the activities of government and as the result not only the democracy will be strengthened but also citizens participation in public decision making is ensured. On the other hand, public audit creates the situation where not only the laws and regulations are implemented properly but also the dignity of the MPs who have passed such laws are maintained.

SAI and the evaluation of accountability role

Based on the Constitution of the I. R. of Iran and Supreme Audit Court Act, an annual report regarding the implementation of national budget is sent to Parliament. The latest comprehensive report to Parliament this year contains more than 4000 individual reports together with the opinion and audit recommendations of auditors regarding the improvement of government activities. In addition, Since SAC operates as the supervision arm of the Legislature; it helps the improvement of laws and regulations while being passed by the Parliament.

Conducting performance audit

One of the functions of public audit is to evaluate the way how financial resources have been utilized and report to the stakeholders for improving the operations of the auditees and increase their productivity. Through conducting

performance audits which is an effective mechanism for measuring the efficiency of government activities, the SAC helps the government and the auditees. According to Supreme Audit Court Act, the SAC is required to supervise the financial operation of the auditees; the improvement of the performance of SAC has also been stressed in the five year strategic plan. Accordingly, it has been approved that until 2016 at least 20 percent of the audit reports deal with performance auditing. Currently, the SAC prepares at least 200 performance audit reports so that the stakeholders benefit from them. Many of the recommendations presented in the same reports are taken seriously by the auditees.

Prevention of administrative corruption

One of the functions of public audit which improve national governance is the development of administrative honesty. Misuse of power and administrative corruption is a significant element in destroying national governance. Public audit both prevents and detects such acts through institutionalization of compliance with laws and regulations. Based on the Supreme Audit Court Act the SAC is required to express opinion on the necessity to have proper internal controls and also on the fact that the current internal controls in the auditees are insufficient.

In case of detecting administrative corruption or misuse of power, the auditors of SAC will take necessary action. The auditees are informed of such cases through the management letters of SAC auditors. After following up of the cases by the auditors, in case the auditees take no action on the recommendation of audits, the cases are referred to the Public Prosecutor's Office for prosecution where the culprits are condemned to the administrative sanctions stipulated in the related laws and regulations.

Safeguarding national security

Safeguarding national security is also another function of public audit which will eventually lead to the improvement of national governance. Islamic Republic of Iran, as a developing country, is implementing huge number of development projects in different sectors such as economic, social and cultural sectors; such projects utilize large amount of public budgets. Public audit, through timely, objective and reliable information, informs the policy makers

regarding the existing risks. It also identifies risks and provides constructive recommendations. Such functions will reduce the risk to national security considerably. Since the main objective of SAC is to safeguard public property, most of the efforts of SAI Iran are focused on audit of infrastructure development projects which influence national security. Almost 40 percent of the annual audit reports sent to Parliament deal with such projects.

Promote the improvement of people's livelihood

Another role that public audit can play is the improvement of national governance through improvement of people's livelihood. Public audit identifies and reports to Parliament the challenges that affect the quality of people's life; this will make the government plan and implement project to improve people's livelihood. In compliance with its duties, the SAC has taken extensive measures in this regard. The audits conducted in this regard include subsidies, economic subjects, environment and health. As an example, the quality of air in Tehran Metropolitan has been audited and the result has been published in a book.

The role of audit in strengthening national integrity

Promoting social harmony is another area that strengthens national governance and respectively public audit helps its realization. Through public audit, it is possible to supervise the proper distribution of resources among different social class. Since the SAC pays particular attention to the equality in distribution of resources, it provides proposal in this regard to the Parliament. In the annual reports to Parliament, the SAC explains about the regional balance in distribution of resources and also examines the amount of appropriated budgets and the amounts spent by the respective organizations.

The challenges and countermeasures for the improvement of national governance

Due to factors such as globalization, the development of information technology, and increasing awareness toward citizen's rights, national governance has turned to be more complex; this complexity has created different commitments and requirements for public audit. Close relations between economies in every country has created a situation where all countries are considered as a member of the world village meaning that every

economic and social action in one country such as environmental pollution, lack of resources, population explosion, etc. will affect , either directly or indirectly, other countries. Considering this issue, the SAC has included in its examinations the issues affecting the countries in the region and even the issues affecting the world. As an example, audit of anti-terrorism at national and at the regional level is one of the audit projects.

In the past, public audit in Iran was limited to compliance audit, but in recent years SAI Iran has turned to performance audits in different sectors as well. In addition, environmental auditing as well as audit of fight against corruption and money laundering is being done.

Change of needs

The audit environment as an influential factor on audit process and its result highly influences the audit efficiency. By audit environment we mean all the external factors affecting the audit process; for instance laws and regulations, internal control system in the auditees, financial reporting system, and management perspective are among the examples for audit environment. As the result of change in economy, society and respective developments, audit environment has also been changed and consequently the audit process has been influenced.

Following the end of the Iraqi imposed war against Iran in 1991, the necessity to reconstruct the social, economic and cultural destruction of infrastructures was strongly needed. For this reason, the first law on national development programme was approved; this programme recommended fundamental changes in the audit environment. In this regard, appropriation of huge amounts of budgets to public works, the change of laws and regulations, and the change in the organizational structure of the auditees brought considerable change to the audit environment. Due to the above mentioned changes in the audit environment, the SAC made alterations in the type of audit, and the reporting framework. Having faced the new audit environment, the main challenge of the SAC is lack of information system and the necessary criteria for evaluation of the operation of the auditees.

Making the national audit serves for national governance

The question here is the type and the nature of measures necessary for ensuring the effectiveness of audit in the national governance process. Different measures have been taken by the SAC in order to ensure the role and effectiveness of audit in local governance process. For instance, through annual reports, audit follow up, development of theoretical aspect as well as accounting standards, every efforts has been made to ensure the effectiveness of public audit on local governance. In addition to this, anti-administrative corruption, improvement of social security system, and improvement of organizational functions has been stressed on by the SAC in order to ensure the effectiveness of public audit in national governance.

Promote continuous improvement of audit laws and regulations

With the objective to improve the process of public audit and ensuring its effectiveness, the SAC has started the localization of public audit standards considering ISSAIs. The same standards have been provided to the public for their comments. In addition to this, the SAC has prepared the bill regarding the amendment of some financial and audit laws including Plan and Budget Law, Public Audit ACT and sent it the parliament for approval.

Strengthening the institutional capacity of SAIs

In order to overcome the challenged posed by external factors to public audit and in order to increase public audit effectiveness, the SAC has not only improved financial and audit laws but also have paid enough attention to the employment and training of human resources. In this regard, every attempt has been made to recruit qualified candidates having at least a bachelor degree in required fields of study. On the job training is as a priority at all levels and every year of public service has further improved the human resource management. The SAC has established the Center for Training and Planning and also a research division for publication of books, journal etc. which have highly helped the development of professional knowledge among employees.

In addition to what was mentioned above, the SAC has approved a strategic document and also a five year plan for improvement of performance and continuous development. This plan aims at a dynamic perspective, knowledge oriented and more efficient supervision on public property so that current capabilities are strengthened.

Broaden exchanges and cooperation among countries

The SAC has held bilateral meeting with a few SAIs including Indonesia, Malaysia, India, China, Turkey, Russia and some ECOSAI members SAIs for technical cooperation and exchange experience and knowledge in public audit. In addition to this, the SAC has held training programme on performance auditing for SAIs of ECO countries with the objective to facilitate exchange of experience and promoting professionalism.

Facing the challenges of public audit by INTOSAI

With the continuous changes in the audit environment, the challenges, and problems facing SAIs is something inevitable. Rapid changes in information technology, increase of the citizen's awareness, scarcity of resources and changes in national security are among the variables that form the changing environment of public audit.

INTOSAI as a reference organization for supreme audit institution should identify such factors and conducts necessary studies so that such threats and challenges are reduced.

It seems that through proper and timely identification of such audit challenges and taking necessary measures, INTOSAI can improve the national governance in the world.

Conclusion and suggestions

Considering the function of public audit, it can be concluded that public audit has close connection with national governance. Based on what was said earlier, according to the Constitution of the Islamic Republic of Iran, Supreme Audit Court of Iran is responsible to audit the executive organizations. The Supreme Audit Court Act assigns SAC to exert continuous financial supervision in order to safeguard public property.

In line with improving and strengthening national governance, the SAC has turned to new audit methods and approaches. It prepares the annual report together with its own comments regarding a variety of financial and operational topics for the Parliament. The SAC also reviews and comments on the financial laws and regulations, as effective factors on national governance,

with the intention to improve such laws. In this regard, the localization of ISSAAs and development of local audit standards is in its working policy.

Based on the studies and evaluation conducted by the SAC, it is recommended that a new audit topic such as anti-terrorism audit is considered by SAs. It is also suggested that audit standards are revised in a way that they guide auditors to take into account concepts such as equality and fairness in government operations. In addition to this, it will be beneficial to organize and implement research projects to address audit challenges in order to improve and strengthen national governance.
