

Country paper on

Theme II:

**The ROLE OF SUPREME AUDIT INSTITUTIONS ON SAFGUARDING LONG –TERM SUSTAINABILITY OF
FINANCE POLICIES**

By:

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Abstract:

Government, in charge of monetary, financial and public funds, is accountable to citizens regarding public expenditure and its financial commitments. This accountability entails not only how to finance expenditures but also supervision on the sustainability of long-term financial policies to ensure a long term and stable relationship between government's revenues and expenditures. Islamic Republic of Iran has created the right condition for the sustainability of financial policies through development of long term strategic plans, middle term and short term operational plans. The Supreme Audit Court of Iran (SAC) evaluates the implementation of such plans and policies through examination of financial laws, sustainability of public funds, and encouraging the auditees to follow key financial rules and regulations. The SAC also supervises the sustainability of long term financial policies through the following measures: expressing opinion on planning on public finance, evaluation of the impacts of public finance, auditing those organizations that deal directly with public finance, conducting financial audit, examination of public debts and evaluation of internal control of those institutions in charge of financial policies.

Introduction:

The existence of long term and stable relations between the revenues and expenditure of government which shows financial sustainability highly influences the achievement of stable macro-economics through development of tools for stabilizing public finance and avoiding unexpected fluctuations. In this paper, considering the principle paper, the role of SAC in maintaining the sustainable financial policies in the long term is discussed.

Evaluation of financial development and strategic plans:

Strategic planning is a process of development of procedures and necessary operations for future use. Strategic planning has got many advantages. Such benefits among others include: awareness of the problem before occurrence, creation of the right situation for achieving goals, knowing opportunities and limitations and creating integrity in conducting different activities.

Islamic Republic of Iran has developed strategic plans at functional level for different timelines. Among such plans we can name Iran's 20-year Perspective Plan which defines the future of the Iranian society till 2025, the five-year economic, social and cultural plans which include development plans and policies for every five years, the law on implantation of Article 44 of the Constitution which explains activity domain of public and private sectors and cooperative institutions.

In all the above plans a reference, either explicitly or implicitly, has been made to public finance. In addition to this, SAC audits the implementation of the above mentioned plans. Among different reports sent to Parliament by SAC, the report of evaluation of development plans are also prepared and submitted to the Legislature. In fact, such plans are considered as a couple of five year plans which totally makes the comprehensive strategic Plan of I. R. Iran.

Evaluation of financial laws and sustainability of financial resources:

Laws on public finance are considered as effective factors on the stability of financial resources. In Iran, various laws on the fundamental principles of financial sustainability have been approved. Such laws include: Public Audit Act, Budget and Plan Law, Budget Law, financial and transaction by-laws which explain financial resources and methods for maintaining their sustainability. The evaluation of such laws and regulations, using a different approach, is part of the audit plan in SAC. Furthermore, compliance with the above laws and regulations, the economy, efficiency and effectiveness of the activities of the government and financial reporting is also evaluated.

The compliance of the key elements that are contained in fiscal rules, in order to ensure the stability and sustainability of public finance

Financial laws and regulations, as elements which determine financing, play significant role in the stability and sustainability of financial resources. Through certain audit projects regarding the compliance of key elements in financial laws by the auditees, the Supreme Audit Court of Iran supervises the stability and sustainability of financial resources. In development plan laws as well as annual budgets, the key elements of financial resources as well as public finance are determined. SAC considers the issue of the stability and sustainability of financial resources within two steps: First and during the period of ratification of laws, the key elements of laws are discussed and negotiated with the SAC experts, and other academic and professional personalities and consequently the results are submitted to Parliament. At times, the experts of SAC attend the related parliamentary committees to express their opinion on the issues. In the next step and following the ratification of financial laws the SAC audits each programme as a special topic audit the report of which is submitted to Parliament through annual report.

Supreme Audit Court and public finance planning

With regard to the fact that SAC operates under the direct supervision of Parliament based on the Constitution, any type financial planning (without consideration of time framework) is required to be approved by Parliament as a Law. Based on the existing laws, the Parliament seeks the professional opinion of SAC regarding the content of national programs/projects. The SAC meets the requirement of the Parliament through the provision of the expert opinion.

Evaluation of the impact of public finance

Public finance and its related policies are set of decisions that governments make in order to maintain and create economic stability and also an effort to establish a revenue system consistent with expenditures. Public finance is deeply related to the concept of governance. In countries where public sector is larger than private sector, public finance is more influential on macro- economic indexes such as economic growth and social development. With the objective to measure the impact of public finance on the national economy, the SAC evaluates target indexes in development plans. Through expert opinion, the SAC evaluates the content of the approved programmes; the same opinion implicitly explains the impact of public finance on the economic, social and cultural indexes.

Audit of Financial laws and public debt

In order to examine the situation of national public finance, the SAC examines public debt. Public debts which show the unfulfilled commitments not only affect the national economic power but also reduces the flexibility of public finance. The SAC creates the right situation for the better

management of public debt through the audit revenues and expenditures and also expressing opinion on the unfulfilled commitments. The same opinions are submitted to parliament through interim audits and special case reports. In fact, such reports make government to be accountable regarding the unfulfilled commitments and finally they will report their measures accordingly.

Supreme Audit Court and audit of institutions related to public finance

In the governance structure of the Islamic Republic of Iran, the Economic Affairs and Finance Ministry as well as the Central Bank are in charge of fiscal and monetary policy making at national level. Both institutions are accountable to SAC based on the Iranian Constitution. In addition, the revenues and expenditures of the above institutions are audited regularly. Any fiscal and monetary decisions made by the above institutions can be referred to the SAC's public Prosecutor's Office in case of irregularity.

Examination of the structure of internal control system of institutions in charge of financial policies

Based on Supreme Audit Court Act, SAI Iran is required to express opinion on the necessity to have internal control unit or on the lack of insufficiency of such units in the auditees. This duty is accomplished based on the audit reports in order to safeguard public properties. In this regard, in case an important issue is raised during audit in the audited organizations, the same issue will be included in the final audit reports to the Parliament.

Supreme Audit Court and sustainability of public fiscal policies

According to Supreme Audit Court Act, SAI Iran is required to ensure that appropriate financial methods and guidelines are available and they are applied adequately. In this regard, SAC has taken the following measures to fulfill the requirement of sustainability of fiscal policies:

- Evaluation and expressing opinion on the financial methods and guidelines
- Supervision on the proper implementation of financial methods and guidelines
- Expressing opinion on implementation of financial methods and guidelines and providing solution in line with the optimized implementation of financial methods and guidelines

Development of new ISSAIs by INTOSAI

In spite of the fact that INTOSAI has developed a set of standards, it is recommended that INTOSAI also develops new standards on compliance audit of financial and monetary policies as well as standards on performance audit of the above policies.

Benefiting from the opinion of SAC regarding fiscal policies

According to the Iranian Constitution and the Supreme Audit Court Act, the SAC submits annual reports to the Iranian Parliament. Expressing opinion on the financial performance of the auditees, this report summarizes the fact that how national budget has been utilized. Following the submission of the annual report which, implicitly or explicitly, deals with financial and monetary policies, the Parliament in joint meetings with SAC and the organizations in charge of financial and monetary policies discusses the opinion expressed in the annual reports. The result of such joint

meetings can lead to the change in the approach and executive methodologies of public finance sector or related policies in the field.

Interaction with academic institutions

One of the information tools that SAIs normally use regarding public finance is the research and analysis conducted by the research institutions. This by itself will create in-depths knowledge. Considering this undeniable reality, the SAC supports research in different fields including public finance through study projects, MA and doctoral degree dissertations as well as the research conducted by academics.

Conclusion and recommendation

Considering the main objective of Supreme Audit Court of Iran in safeguarding public treasury and considering the roles and responsibilities of SAC in related laws, it can be concluded that SAC plays an important role in sustainability of fiscal policies in the long term; this is because of the fact that there is a long-term stable and sustainable relations between the revenues and expenditures of government. Based on what was said earlier, the SAC has created the sustainability of fiscal policies through development of long term strategic plans, middle term and short term operational plans.

The Supreme Audit Court of Iran (SAC) evaluates the implementation of such plans and policies through examination of financial laws, sustainability of public funds, and encouraging the auditees to follow key financial rules and regulations. The SAC also supervises the sustainability of long term financial policies through the following measures: expressing opinion on planning on public finance, evaluation of the impacts of public finance, auditing those organizations that deal directly with public finance, conducting financial audit, examination of public debts and evaluation of internal control of those institutions in charge of financial policies.

It is recommended that due to the importance of the sustainability of fiscal policies, INTOSAI develops two more standards: 1. a standard related to audit of strategic plans 2. a standard related to the examination of internal control system in institutions in charge of fiscal and monetary policies.
