

■ ***QUIS CUSTODIET IPSOS CUSTODES***
**A CASE FOR PEER REVIEWS OF SUPREME AUDIT
INSTITUTIONS**

Maria Krambia Kapardis (B. Ec., M.Bus. PhD. ACA)
holds the PricewaterhouseCoopers Chair in Applied Accounting
Research and Professor of Accounting, Intercollege, Nicosia, Cy-
prus.

Abstract

Supreme Audit Institutions (SAIs), such as Auditor Generals and Court of Auditors, are considered to be a crucial link in the accountability chain between Parliament and government. The value of the independent audit lies both in the fact that the auditor is and is seen to be independent of the audited entity, and hence is able to carry out the audit free of any externally imposed constraints. The oversight of the SAI is also very important. In response to the question, "Who guards the guardians", posed by Foster (2001), the present paper argues a case for peer review of SAIs. This practice has already been voluntarily adopted by

some SAIs even though they are under no International Organization of Supreme Audit Institutions (INTOSAI) obligation to do so. In advancing the argument for peer review of SAIs, the authors (a) review the literature pertaining to the oversight of SAIs; (b) discuss difficulties in the changing role of public sector auditing; (c) consider arguments for the need to be proactive in order to avoid a credibility crisis in public sector auditing; and, finally, (d) draw on deterrence theory in order to advocate the introduction of Statutory Audit Quality Assurance Review Panels.

Glossary

AG	Auditor General
ASOSAI	Asian Organization of Supreme Audit Institutions
INTOSAI	International Organization of Supreme Audit Institutions
JCPA	Joint Committee of Public Accountants
NAO	National Audit Office
SAI	Supreme Audit Institutions

SAI's independence from other government institutions and a democratic environment deserve particular emphasis..., is one of the permanent aims constantly pursued by INTOSAI and its members.

Introduction

Supreme Audit Institutions (SAIs) have an important mission to accomplish – that of carrying out an audit of public funds in an independent, accountable and professional manner. Such an audit, however, has been extended in recent years beyond the financial audit. In the 1990s SAIs were expected to carry out a comprehensive audit (Gill and Cosserat, 1996) covering: (a) regularity audit, or otherwise known as financial audit, which consists of: attestation of the financial accountability and compliance of the public administration; and (b) performance auditing which entails the evaluation of economy, efficiency and effectiveness (i.e., the 3 E's) of management of the government bodies.

Elcock (2000, p. 16) has argued, however, that the 3 E's are "antagonistic to the interest of working-class people who seek greater equality and are particularly dependent on public services and welfare benefits". In support of this, Sir Bourn (2000, p. 8) points out that the UK value for money "examinations also now focus much more on outputs and outcomes rather than the processes involved in delivering them". He goes on to say that the "public sector must be alive to such criticisms", as those relayed by Elcock.

After first assessing the current situation in Cyprus as far as oversight of the Auditor General is concerned, the paper goes on to develop a model of oversight of SAIs. The model draws both on the framework proposed by English and Guthrie (2000) as well as on the results of an examination carried out by the present author on the oversight of SAIs in twenty-one countries (Clark et al. 2007). Given the many

1. The International Organisation of Supreme Audit Institutions (INTOSAI) has provided an institutional framework for its 180 SAI member qualified organisations worldwide, for over 40 years.

loopholes in the current legislation covering the local Auditor General and the increased demands for accountability and oversight of SAIs internationally, particularly with regard to recent pressure by INTOSAI to improve oversight, then such a model is long-awaited². The paper should be of interest to practitioners and academics.

Before discussing the English and Guthrie (2000) framework and its implications for the AG in Cyprus, it is imperative that one looks at the different structures of SAIs and the different audits that may be performed.

The structure of supreme audit institutions varies. There are four types of SAIs:

- (a) Courts with a judicial function: This means that the SAI has judicial powers to impose sanctions, fines, and penalties on public servants who have been found to mismanage government funds. There are six countries which can be grouped as such, and these are namely: Portugal, Spain, Italy, Greece, France and Belgium.
- (b) Collegiate body without a judicial function – a feature of the Netherlands, Germany, Luxembourg, and the European Court of Auditors where the individuals appointed cannot impose sanctions.
- (c) Independent audit office headed by an Auditor General – found in the United Kingdom, Ireland, Denmark and Cyprus, where the AG simply audits and identifies weaknesses and makes recommendations.
- (d) Audit office headed by an Auditor General within the structure of the government – found in Finland.

Furthermore, the type of audit varies between the different countries. There are:

- (a) A Priori Audit, i.e. an audit in advance of expenditure. This means that the public sector auditor checks the expenditure before it is actually paid to ensure it is within the budget criteria being established. In Greece, for example, all government expenditure is subject to a priori audit.
- (b) A Posteriori Judicial, i.e. the system whereby the SAI au-

2. Exposure Draft (2002) Revision on Guideline 51 provides for external peer review.

mits the annual accounts submitted. In some countries (e.g., Belgium and France) the SAI forms a judgment on whether the accountant has carried out his duties properly. In Greece the SAI "judges the liability of the individual responsible, who make up any deficit" (NAO, 2001, p. 20).

- (c) **A Posteriori Financial:** A financial audit is conducted after the expense has been incurred and settled in full. All European Union SAIs carry out this type of audit.
- (d) **A Posteriori Performance:** This type of audit is carried out after the expense has been incurred and also assesses the efficiency, effectiveness and economic implications of the transactions. All European Union SAIs, except for Greece, perform this audit (NAO, 2001, p. 20).

The current legislation in Cyprus pertaining to the Auditor General (AG), (as amended on 12 July 2002) provides the Cypriot AG with the authority to carry out posteriori financial audits and posteriori performance audits. Whilst it is not enshrined in the constitution, the Auditor General carries out priori audits for such major projects as the construction of government buildings. The Constitution does not provide for any oversight of the Auditor General nor does it provide it with any judicial powers like the Court of Auditors.

Oversight of SAIs: A Literature Review

The available literature on the oversight of SAIs is recent and limited in volume. The main work has been conducted in Australia by Barrett (1996), Mulgan (1997), English and Guthrie (2000), Favere-Marhese (2000) and DeMartinis and Clark (2003). A major stimulus for that work was the (1989 and 1996) reports by the Joint Committee of Public Accountants regarding the Independence of Auditors General. Mulgan (1997) acknowledged a model of accountability that comprises a number of complementary 'agencies', processes, and channels of accountability between the public and public servants. The four main processes of accountability comprise: reporting or accounting, information-seeking or

investigation, assessment or verification, and direction and control. The literature also acknowledges the effectiveness of the accountability agencies, particularly in the context of the role of public sector audit, its independence, autonomy, funding and a comprehensive mandate.

In the context of this model, three issues surface that serve as a back-drop to this study. First, there is no reason to expect any one agency, channel or institution to fulfil all functions of public accountability. Second, there may be a perception that any channel may be considered ineffective or lacking power if it does not “direct and control”. Mulgan (1997, p. 34) has pointed out that focus should be placed on whether their “scrutinising and auditing activities leads eventually to appropriate responses from government, provoked if necessary by other channels of acceptability”. Third, although public sector audit is a necessity it is not a sufficient agent for achieving at least the first three processes of accountability. Therefore, Mulgan (1997) argues that the key is to improve the scrutinising and auditing function of the auditor-general, as well as the other complementary channels including parliament and other officers such as the ombudsman.

The recommendations of the Joint Committee on Public Accountants (JCPA, 1989; 1996) were used by English and Guthrie (2000) to develop a framework for the SAIs. It is worth noting here that no similar work has been conducted by the European Union,³ no directives have been issued or any US similar work carried out thus far to such an extent⁴. The model was initially tested by DeMartinis and Clark (2003) and Clark et al. (2007). DeMartinis and Clark identified weaknesses and deviance to the framework but no pol-

3. Drawing on correspondence with the Presidency, European Court of Auditors (Mr. Dieter Bockem) “there is no EU – ‘acquis communautaire’ in the area of the setting-up of public external audit bodies. Therefore there are no EU obligations for any of the SAIs to be audited by another external auditor and it is up to the national legislative bodies to define these requirements.”

4. The US Legislation under the Inspector General Act of 1978 and Amendment of 1988 and 2001 Independence and Law Enforcement Amendment Act provides for oversight over their SAI.

icy implications or recommendations were proposed. The present paper will examine one of those issues addressed in the framework, that of oversight and how to overcome the said weaknesses/loopholes in the local legislation. Firstly, however, attention will focus on the structure of the English and Guthrie (2000) framework.

In the first part of the framework, the four accountability mechanisms available to parliament relate to:

- (a) Scope of audit of the public sector (i.e., there should be no impediment to the auditor-general conducting financial statement and performance audits of all government entities);
- (b) Powers of parliament in relation to audit (i.e., the parliament should have the power to request audits, have all audit reports tabled in parliament, and have a parliamentary audit committee appoint and oversee the auditor-general and his/her office);
- (c) Funding should be determined by parliament (i.e., funding should be determined by parliament via input from parliamentary audit committee), and
- (d) Oversight of the Auditor-General (i.e., an independent financial and performance audit of the Auditor-General's office should be conducted regularly by an independent auditor who ought to be appointed by Parliament and report to Parliament).

In the second part of the English and Guthrie (2000) framework, the powers or autonomy required by the Auditor General to conduct audits relate to three issues:

- (a) The mandate to perform audits (i.e., the SAI should perform financial statement and performance audits of all government agencies, authorities, companies and individuals);
- (b) Independence from direction by the executive arm of government i.e., independence of the SAI should be enshrined in law and should include: (i) free of direction/control from the executive arm of government, and the Auditor General ought to be reporting to parliament, (ii) have wide information gathering powers, (iii) be appointed by parliament, and appointed as an officer of parliament, and (iv) be able to determine the terms and

- conditions of employment of staff, and
- (c) Funding (i.e., funding should be sufficient to enable the auditor-general to exercise effective mandate, and the funding should be recommended by the parliamentary audit committee).

Let us next take a close look at the AG in Cyprus, utilising the English and Guthrie (2000) framework.

1960 Constitution of the Republic of Cyprus, Chapter II, Article 115

The Current Cyprus Legislation provides for the following:

- (a) Auditor-General (AG) and Deputy AG are appointed by the President,
- (b) Appointment is until retirement age,
- (c) AG's salary is financed from consolidated funds, therefore the AG maintains his/her independence (i.e., regardless of whether the budget is approved or not he/she receives his/her salary),
- (d) The audit plan is not required to be submitted to Parliament,
- (e) The audit report is tabled in Parliament by the President, and
- (f) Audit staff is appointed based on public service requirements.

It is worth noting that in Cyprus:

- (a) If one reads the annual local Auditor General's report, the list of weaknesses identified is extensive. Entities that are funded by the government are not legally bound to comply with the AG's recommendations. Therefore, it is impossible to be definitive about the effectiveness of the annual AG's report in remedying the problems identified. However, the fact that such entities are audited may well mean that some taxpayers' money is saved as a result of indirect pressure on them to comply with at least some of the AG's recommendations. Such pressure may be exerted, for example, by the Ministry of Finance when discussing the budgets of government departments.
- (b) Since the appointment of the Auditor General and the

Deputy is made by the President, it is a Political Decision in which case the AG's independence may be jeopardised;⁵

- (c) Appointment of audit staff is based on the public service regulations, which in the case of Cyprus turns out, once again, to be a political decision, depending on which party is in power, and practices nepotism, and
- (d) Given the budget for the AG department is currently approved by the Ministers before going to parliament, this could affect the extent of the audit testing.

Given that (a) the Cypriot Legislation is decades old, (b) both the Auditor General and the Deputy are political positions, (c) their annual report is presented first to the President and then to the Parliament, (d) the Auditor General has no judicial powers to impose any sanctions on those who mismanage public funds and, finally, (e) Parliament which reads the report has never imposed any fines, penalties or sanctions on those who mismanage public funds, one cannot but conclude that there is a need for more regulation.

Therefore, to overcome, the above loopholes the answer should lie within regulation and adequate oversight. Foster (2001, p. 3) addresses an important question of "quis custodiet ipsos custodes" or "who guards the guardians", an issue that ought to be addressed by INTOSAI generally. However, the individual SAI must take the initiative to ensure that their audit office has been reviewed by an independently appointed auditor. Foster, in his capacity as the Comptroller in the UK National Audit Office, argues that auditors in the public sector need to show the same openness "to challenge and the evaluation of [their] activities that [they] expect from [others]." He has argued that the auditors ought to be prepared to undertake themselves, every challenge that they impose on their clients.

This oversight should not only cover a financial audit but also a performance audit of the SAI. The report should be

5. Recent eruption of public servants' corruption has indicated that the Auditor General not only did not identify the cases but she stated that it was not her duty to find them, and one wonders whether she acted as a reasonable auditor would have.

sent directly to parliament and should be available to the funding institutions (e.g., European Union, World Bank etc). English and Guthrie (2000) recommend that the independent auditor ought to be appointed by Parliament; however, in countries like Cyprus where the Auditor General and her Deputy are both appointed by the President, this could result in a political decision being made and the 'independent' auditor would not, therefore, be so independent. The present author argues that the English and Guthrie (2000) model should be extended, by suggesting that there ought to be an audit committee independent of the government and parliament, incorporating amongst its members, representatives from all the political parties plus perhaps academics in the field of audit and corruption who would review the audit report from the independent auditor. This would be very important in countries like Cyprus where the SAI does not possess judicial powers and the Auditor General merely reports weaknesses and mismanagement of funds in the audit report but no further action is then taken beyond that.

As far as the oversight of SAIs is concerned, an interesting question is raised as to what relevant legislation currently exists in European and neighbouring countries. To answer this question, twenty-one SAIs⁶ were selected from the INTOSAI web site. At the time of selection there were 180 countries. The following two criteria were used to select the twenty-one countries:

- (a) Different structures of SAIs were represented in the sample.
- (b) Different types of audit were represented in the sample.

A check was made as to whether the legislation of those countries provided for:

6. The SAIs selected were: Cyprus, Norway, Israel, Switzerland, Bulgaria, Czech-Republic, Denmark, Finland, Egypt, Luxembourg, Malta, Ireland, Netherlands, France, Spain, Portugal, Italy, Germany, Greece and the European Court of Auditors. The first thirteen were using the system of Auditors General and the other eight are Court of Auditors. The sample tried to cover systems performing different type of audits, and an attempt was made to cover European Union member, accession countries as well as non European but close to Cyprus. The research was carried out in 2003.

- (a) An independent auditor to be appointed to oversee the SAI,
- (b) Who appointed the independent auditor,
- (c) Who the independent auditor reported to, and
- (d) Whether the independent auditor performed a financial and/or a performance audit.

Based on the legislation reviewed, one-third of those twenty-one countries had oversight of the SAI. It is worth noting that in Ireland the independent auditor is appointed by the Auditor General, and one might surmise that his report may not be so independent. On the basis of the available information, it is not possible to ascertain the effectiveness of the work of the SAIs in countries where they are subject to oversight. Suffice it to point out that SAIs are indeed expected to undergo "external peer review" (Revision of the Exposure Draft of Guideline 51 (2002), European Implementing Guidelines for the INTOSAI Auditing Standards).

Difficulties in the Changing Role of Public Sector Auditing

Recent years have seen the public sector auditing being extended, due to: (a) criticisms on the public sector generally, (b) the increasing needs of the public sector, (c) private funding, (d) privatisation, and (e) globalisation. Consequently, there have been reports of public sector auditors carrying out probity auditing, integral auditing (Khemakhe, 2001), forensic auditing (17th Commonwealth Auditor-General Conference, 2000), environmental auditing (Environmental Auditing Moving Forward to XVII INTOSAI, 2001), over and above a priori audit, a posteriori judicial audit, a posteriori financial, and/or a posteriori performance (NAO, 2001) as well as more attention being paid to E-Government (Stuiveling, 2001). As public sector is globalised (i.e., as the number of countries receiving funds from the World Bank grows and more countries enter the European Union and are thus entitled to receive European funds), public sector auditing must remain totally independent, accountable and open to change.

The difficulties which face public sector auditors can be conceptualised in a framework that comprises:

- (a) Those difficulties public auditors have in common with private sector auditors, and
- (b) A broad range of additional difficulties.

Thus the many difficulties facing public sector auditors (comparable to private sector auditors) in their role as external auditors (Krambia-Kapardis, 2001) are:

- (a) Time pressures;
- (b) Budget constraints;
- (c) The scope of audit testing and inquiries may be inadequate;
- (d) Management or government or even political parties may place restrictions on auditors;
- (e) Auditors may fail to understand or identify related party transactions; and
- (f) Auditors may rely on uncorroborated representations from management or government officials.

SAIs, however, face a number of additional difficulties by virtue of the fact that their role has been extended beyond the role of private auditors who, according to auditing guidelines, only have to form an opinion on the truth and fairness of the financial statements. SAIs must audit not only the financial statements of government departments but also evaluate public servants or management in cases where governments have a controlling or even minority interest in entities; in addition, they consider budget allocation, all within a political framework. Therefore, in addition to the difficulties in common with private sector auditors, SAIs have further difficulties to consider. These include:

- (a) Given the extension of their duties, do they have the expertise in such a wide area?
- (b) Do they have the funds available to carry out such an extension of audit services?
- (c) Auditors General and Court of Auditors have a different degree of jurisdiction and power, can their effectiveness be compared?
- (d) Staffs in some countries are appointed by the normal procedures of the civil service concerned in the relevant country. Such procedures involve political decisions by

the “who-you-know”, rather than the “what-you-know”, process. Therefore, can the individuals who are appointed be totally independent when they come to audit departments or individuals known to them, who have helped them to acquire their position? After all it is the audit staff who conduct the audit and the Auditors General who basically sign the reports.

- (e) Some countries have legislation that is decades old. Whilst in many countries auditing has changed over time, the legislation or the rules governing the SAI in some countries is anachronistic and leaves the SAI open to criticism.
- (f) Fraud in the public sector is growing as is the case in the private sector. Fraudsters are becoming smarter, and so should auditors. For example, Krambia-Kapardis (2001) has suggested that auditors should improve their knowledge of the aetiology of fraud and fraud indicators by drawing on relevant knowledge in other disciplines such as criminology, sociology and psychology.
- (g) More and more public departments are privatised and the funds received are left unaccountable
- (h) As Beekman (2000) outlines, there is: growing competition within the public sector, downsizing of the central government and organisations, growing importance of national interests in international development projects and a need to improve the coordination of international assistance projects. The right framework should, therefore, be introduced to avoid certain SAIs gaining a competitive advantage over others.

Time to be Proactive Rather Than Wait for the Crisis

In view of the above difficulties, the public sector will, in due course, face a credibility crisis, similar to the one faced by the private sector in the middle of 1990s. Public sector auditors should not wait until faced with a credibility crisis before reacting (as their counterparts did in the private sector). In an attempt to avoid co-regulation (regulation by the governing body), the accounting profession, in Australia for

example, decided to self regulate. According to Grabosky (1990),

“self-regulation or delegated regulatory tasks have emerged as complementary, if not alternatives to government regulatory oversight. The devolution of regulatory control responsibilities to independent professionals appears increasingly common” (pp. 76-77).

Self-regulation has been a clear objective of the accounting profession (Grice, 1993:17) and the European Commission (see EU press release, 16 March 2004 which proposes that a Public Oversight Board ought to be set at a national level in an attempt to strengthen the regulatory framework. Obviously self –regulation is better than co-regulation but, if no self-regulation exists, then co-regulation is inevitable. Unless the public sector auditors are regulated, then others will endeavour to do that for them. The present authors maintain that self-regulation of (a) private sector auditors and (b) the SAI of a country should take the form of peer reviews or accept the recommendation of the above proposal at the national level for (a) and international level for (b). The main justification for the peer review advocated (see below for details) is that it will significantly increase the quality of the audits performed because there will be a risk that the public auditors or the SAIs involved will face consequences if found to be lacking. The consequences proposed for public auditors (see below for details) include, in the first instance, having to implement recommended improvements to procedures they use within a certain period of time and, if they fail to comply, being reported to «higher authorities» and having to face the consequences (see below) of being reported.

The Reasons for Regulation

In the light of the difficulties which face public sector auditors together with the fact that most SAIs do not possess judicial powers, there is a need for the oversight of SAIs to

ensure that the funds utilised by the Government on SAIs are used in an economic, effective and efficient manner. A number of arguments can be presented for the oversight proposed:

- (a) The public want to be informed as to how the Auditor General's budget is used each year.
- (b) Funding Institutions, like the World Bank or even the European Union, need to ensure that its funds are allocated as initially proposed. And finally,
- (c) In countries like Cyprus where the Auditor General is appointed by the President, it is vital that the opposition ensures that the Auditor General does not cover-up any mismanagement of funds by the Governing Party.

Regarding the question of who is to audit the SAIs, Thordarsson (2000) is of the view that, "private audit firms [are] considered less appropriate for the review because they do not normally possess the specialised knowledge of governmental affairs needed to audit an SAI's performance". An alternative could be the peer review initiated by the Icelandic National Audit Office (NAO). As Thordarsson outlines, the UK NAO office was invited by Iceland to carry out a review of this type, on the basis that such an audit office has the international reputation and expertise in working with audit entities in countries around the world. The final report was published and submitted to Parliament. The UK Comptroller "stated that the benefits of a peer review can be mutual" (Thordarsson, 2000). Other countries may well decide to copy the example set by Iceland. In an attempt to improve further the peer review process, a model of Statutory Audit Quality Assurance Review Panels is proposed below.

Making self-regulation effective

In order for self-regulation to be successful one can draw on relevant knowledge within criminology, especially deterrence theory (Kapardis and Kapardis, 1995). The concept of deterrence was put forward by Bentham (1789). To 'deter' means discouraging someone from behaving in a particular manner through fear of consequences (Walker, 1991). De-

terrence theory assumes that human beings are rational and weigh up the pros and cons when deciding to do or not to do something. Furthermore, for a measure to be an effective deterrent, it is held that (a) there should be a high risk (as perceived by the culprit) of being found out, and (b) the misbehaviour needs to be punished severely enough in order to discourage the individual concerned from repeating the misbehaviour and/or others who contemplate committing the same deed. Both elements proposed by deterrence theory must be present for the existence of a sanction to be an effective deterrent. Of course, it is also imperative that a sanction is considered punitive enough from the point of view of the person misbehaving. In the context of public auditors in a particular country or a country's SAI, being 'stigmatised' by being reported, this paper argues, is punitive and, consequently, a sanction that could deter.

It should be noted in this context that, as indicated above, very few SAIs (e.g., Czech Republic, Denmark, Finland, Malta) are audited by an independent auditor who is a private auditor employed by the same body that appointed the Auditor General (i.e., the Parliament) and whose report is submitted to Parliament (English and Guthrie, 2000). In the absence of data regarding the effectiveness of auditing SAIs by independent auditors, no conclusions can be drawn. Drawing on deterrence theory, it is argued that if the risk of being found to be ineffective is satisfactorily high and the severity of the likely sanction is also high, then peer reviews of public auditors and the SAI within a given country will be effective.

The Proposed Statutory Audit Quality Assurance Review Panels (SAQARP) Model

The aim of such a review would be to ensure that the standards issued by the Auditing Standards Committee at the XIVth Congress of INTOSAI in 1992 in Washington, D.C., United States, as amended by the XVth Congress of INTOSAI 1995 in Cairo, Egypt are adhered to. As provided in the INTOSAI web site these standards are:

- (a) Basic Postulates in Government Auditing;
- (b) The General Standards in Government Auditing (Independence, Competence, Due Care, Other General Standards for SAIs);
- (c) The Field Standards in Government Auditing (Planning, Supervision, Review, Study and Evaluation of Internal Control, Compliance with Applicable Laws and Regulations, Audit Evidence, Analysis of Financial Statements); and
- (d) Reporting Standards in Government Auditing.

Using the philosophy behind the peer reviews that will be carried out on the various accounting bodies, the idea of a quality assurance review being carried out by professional accounting bodies all over the world (e.g., Institute of Chartered Accountants of Australia, Australian Society of CPAs etc.), and the framework behind Sigma's Guidelines and recommendations for self-assessment and the above standards provided by INTOSAI, the present author recommends the following (see Diagram 1 below):

- (a) A number of Review Panels (similar to audit teams) should be introduced consisting of auditors from all the SAI members of INTOSAI. Members of the panels should be on a rotational basis and as representative as possible, taking into consideration cultural, religious and language barriers, the economies of the member states, the balance of power, the structure and size of the legislatures as well as geographical locations, and more importantly the structure of the Supreme Audit Institution, i.e. whether an Auditor General or a Court of Auditors.
- (b) Such a review should be financed by the SAI under review. The report could be used to prove to INTOSAI, funding institutions and the country's Parliament that the SAI is independent, accountable and maintains a high standard of work, as expected by INTOSAI. Thus, it is in each country's interest to ensure that it has been reviewed and has received a clean bill of health.
- (c) The purpose for such a review will be to ensure: (i) all members of the panel benefit, rather than just one country as has been the case in the Iceland - UK review, (ii) have an educational as well as a disciplinary approach.

As far as the educational aim is concerned, the Review Panel may identify that a certain country, for example, does not comply with a certain standard (e.g., supervision); it may then recommend that all the members of that SAI attend seminars on the certain audit standard. If the said individuals fail to comply with the recommendations, they will face disciplinary action and, in extreme situations, the country's SAI may cease to be a member of INTOSAI, perhaps jeopardising funding to the relevant country from the World Bank or the European Union etc.

- (d) Where significant weaknesses have been identified in the procedures being followed then the SAI being reviewed should be given guidance and recommendations to improve its system within a time limit before it is reviewed again. Should the SAI not follow up the recommendations, INTOSAI, funding institutions and other relevant parties should be notified. For the countries eager to join the European Union and/or receive European funding, such funding should cease until the recommendations have been enforced.
- (e) The chairperson of the review panel should be a partner of a private audit firm, and each team should have a representative from each of the Big 4 firms but not from the same country as the SAI being audited. The reason for this is to ensure that the public sector auditors are not compromised in any way.
- (f) Each country should have an independent audit committee made up of individuals from different political ideologies and totally independent of the government and, in the case of the European Union, EU decisions. In addition to a country's Parliament this audit committee, ought to be receiving the final audit report from the SAQARP. A summary of the report should also be published in the International Journal of Government Auditing.

Diagram 1 illustrates that the national Parliament should appoint the Auditor General/ Court of Auditors and the Audit committee. INTOSAI should appoint the members of

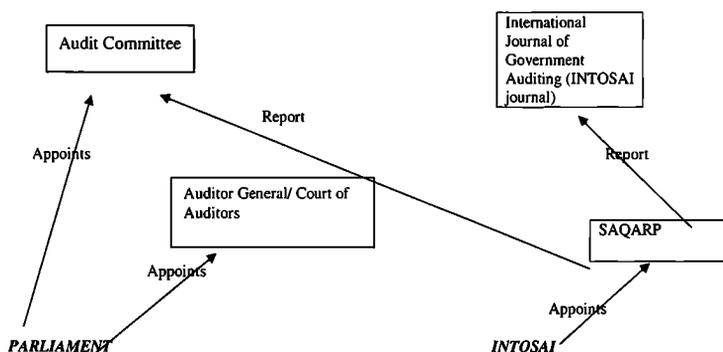


Diagram 1

SAQARP and SAQARP should report to INTOSAI via its journal and to the National Audit Committee

Conclusions

Bhalakula has argued that the five essential characteristics of good governance in the public sector are: “rule of law, transparency, participation, accountability, effectiveness and efficiency” (ASOSAI Assembly)⁷. If good governance is to be addressed, one answer is SAQARP, the model proposed.

Some may argue that this is costly for the hosting country. However, members of the panel will be paid and, therefore, their country’s SAI will benefit, if not financially, at least educationally, hence the benefit will outweigh the cost in the long run. It is an improvement over selecting a private auditor, or a particular SAI. INTOSAI ensures its members maintain a high standard of work and comply with the auditing standards. It is an extension to Sigma’s work and funding institutions and hosting governments also know how effective, accountable and independent the SAI has been.

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