

## **Memorandum of Understanding between the International Organization of Supreme Audit Institutions (INTOSAI) and the Donor Community**

### **I. PREAMBLE**

1. WHEREAS INTOSAI, representing the Supreme Audit Institutions (SAI), and the Donor Community<sup>1</sup> share common goals of ensuring accountability, transparency, good governance, and sound utilization of public funds in partner countries;
2. WHEREAS the Donor Community and INTOSAI have engaged in dialogue to develop a strategic approach to strengthen and maintain the capacity of SAIs;
3. WHEREAS governance has become widely recognized as a major aspect of poverty alleviation and in achievement of the United Nations Millennium Development Goals (MDGs); and
4. WHEREAS it is recognized that properly functioning SAIs need to be independent institutions that play a vital and specific role in public management and have a special position among the government institutions that engage with the Donor Community in that they are not part of the executive branch of government;
5. NOW, THEREFORE, this Memorandum of Understanding aims to optimize the joint efforts of these partners in enhancing the capacity of SAIs in developing countries. It recognizes that the Donor Community seeks assurance about the proper use of funds and will be able to place even greater reliance on country financial management systems as a result of stronger and more effective SAIs. It also recognizes the importance of full SAI independence and individual mandates.
6. Although this Memorandum of Understanding is not legally binding, and does not itself represent a commitment to obligate funds, it sets forth the intent of the signatories to strengthen the audit capacity in partner developing countries so that there is sustained improvement in national (public sector) accountability, transparency, and governance. It brings together all the SAIs and the Donor Community in a common approach that provides

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<sup>1</sup>For the purposes of this Memorandum of Understanding, “Donor Community” means each individual bilateral aid agency, multilateral organization, and development bank that is signatory to this Memorandum of Understanding.

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- a strategic focus for donors and the SAI Community in strengthening SAI capacity in developing countries and
- a variety of mechanisms for facilitating donor funding and support in line with donor mandates, priorities, and requirements.

## II. PARTNERS

### SAI Community

7. SAIs help promote good government, accountability, transparency, and the public trust. The work of SAIs in reducing waste and abuse of public resources can make more money available for programs to fight poverty. SAIs have a special position among government institutions, and their independence is paramount to discharging their responsibilities. They perform a vital role in the functioning of government as they inform parliament and other users through their independent audit reports. A strong SAI strengthens governance and accountability and promotes reliance on country systems to enable the Donor Community to carry out its mission.
8. INTOSAI is an autonomous, independent, and nonpolitical organization of 189 SAIs in countries that belong to the United Nations or its specialized agencies. INTOSAI focuses on the key issues facing SAIs and helps its members to develop innovative solutions to shared challenges. INTOSAI operates as an umbrella organization for the external governmental audit community. INTOSAI is the recognized voice of SAIs within the international community and promotes continuous improvement among diverse member SAIs. INTOSAI aims to promote good government by enabling SAIs to help their respective governments improve performance, enhance transparency, ensure accountability, maintain credibility, fight corruption, promote public trust, and foster the efficient and effective receipt and use of public resources for the benefit of their peoples. Seven regional working groups promote INTOSAI's goals regionally, thus providing members with opportunities to focus on issues characteristic of their regions. Regional working groups are a central element of INTOSAI and have significant autonomy.
9. INTOSAI's strategic goals are to
  - promote strong, independent, and multidisciplinary SAIs by (1) encouraging SAIs to lead by example and (2) contributing to the development and adoption of appropriate and effective professional standards;

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- build the capabilities and professional capacities of SAIs through training, technical assistance, and other development activities;
- encourage SAI cooperation, collaboration, and continuous improvement through knowledge sharing, including providing benchmarks, conducting best practice studies, and performing research of mutual interest and concern; and
- organize INTOSAI in ways that promote economical, efficient, and effective working practices.

### Donor Community

10. The Donor Community seeks to help further progress towards the UN MDGs<sup>2</sup> and the commitments made in the Paris Declaration<sup>3</sup> and Accra Agenda for Action (AAA).<sup>4</sup>
11. The UN MDGs stress that developing country governments should prepare and implement poverty reduction strategies through transparent and inclusive processes, working closely with civil society organizations, the domestic private sector, and international partners.
12. The Paris Declaration asks donors to harmonize their actions and reduce the fragmentation of aid at the global, country, and sector levels and to rely, to the maximum extent possible, on strengthened partner countries' financial management systems, including their audit systems. The AAA, endorsed at the High-Level Forum meeting in September 2008, committed developing countries and donors to strengthening capacity-building efforts and using country systems to the maximum extent possible. Working to help strengthen a country's SAI is consistent with this agenda.

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<sup>2</sup>At the 2000 UN Millennium Summit, 189 heads of state and government signed the Millennium Declaration committing themselves to a set of time-bound targets to end extreme poverty worldwide by 2015.

<sup>3</sup>In March, 2005, partner countries and donors attending the Paris High-Level Forum issued the *Paris Declaration on Aid Effectiveness*, in which they committed their countries and institutions to continuing and increasing efforts in harmonization, alignment, and managing for results.

<sup>4</sup>The Accra Agenda for Action (AAA), adopted in Accra in September 2008 by the representatives of partner countries and donors, reflects the international commitment to support the reforms needed to deepen implementation of the Paris Declaration.

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13. The Donor Community seeks to contribute in joint efforts to help achieve the UN MDGs and the targets envisioned in the Paris Declaration and AAA by enhancing the capacity of SAIs in developing countries where this will contribute to improvements in accountability.
14. The Donor Community supports, inter alia, strengthening of public financial management in partner countries, including the external governmental auditing function, with a view to ensuring that public resources are properly used and that funding reaches the intended end user.

### **III. UNDERLYING PRINCIPLES**

15. In order to achieve the objectives of this Memorandum of Understanding, the SAI Community, represented by INTOSAI, and the Donor Community recognize the following principles underlying donor support to the SAI Community:
  - The SAI Community will endeavor to develop individual country-led strategic plans and development action plans that are comprehensive, realistic, and prioritized.
  - INTOSAI will endeavor to achieve the strategic goals set out in the INTOSAI Strategic Plan.
  - The Donor Community declares its commitment to respecting SAI country leadership, independence, and autonomy in developing and implementing SAI strategic plans and development action plans.
  - The Donor Community will endeavor to mobilize additional resources, in accordance with its respective rules, laws, and procedures, to develop and implement SAI strategic plans and development action plans prepared by SAIs and deliver its support in a manner consistent with the principles of this Memorandum of Understanding.
  - The Donor Community declares its commitment, in accordance with its respective rules, laws, and procedures, to delivering any financial or other support for audit capacity-building programs on external governmental auditing in a harmonized and coordinated manner to avoid unintended duplicative capacity-building efforts.

#### IV. MEMORANDUM OF UNDERSTANDING GUIDELINES

16. It is essential that this Memorandum of Understanding between the INTOSAI and donors coordinate closely with ongoing governance initiatives. SAIs play an important role in strengthening accountability and governance in a country. SAIs help their respective governments to improve performance, enhance transparency, ensure accountability, fight corruption, promote public trust, and foster the efficient and effective receipt and use of public resources for the benefit of their peoples. SAIs can efficiently discharge this responsibility if they themselves have the necessary skills and capacity. Public Expenditure and Financial Accountability (PEFA)<sup>5</sup> assessments and other diagnostics have consistently revealed the need for strengthening SAIs in many countries.
  
17. The donor support to SAIs and INTOSAI will be provided through a hierarchy of activities, principally at the country level and then at the regional and global levels. Most support will be concentrated at the country level, where SAIs will receive substantial support to help design and implement laws and regulations to augment their independence, to build their capacity to perform audits, and to increase their impact on public financial management and accountability. Due attention will be given to supporting SAIs in fragile states,<sup>6</sup> although the nature of support will need to be predicated on the existence of functioning institutions as well as staff capacity. Further support will be provided to INTOSAI's regional working groups to strengthen peer learning and capacity-building functions when they can be delivered more cost effectively at the regional level as compared to the country level. Some support will be provided to INTOSAI at the global level—to such committees as the Professional Standards Committee, the Capacity Building Committee, and the Knowledge Sharing Committee, as well as the INTOSAI Development Initiative (IDI)—for specific projects. Attachment 1 illustrates the types of activities that could be supported at the country, regional, and global levels.
  
18. There are multiple modalities for funding, and whatever array of funding mechanism(s) are ultimately determined in conjunction with this Memorandum of Understanding, the objective will be to strengthen capacity for the SAIs in developing countries in a strategic manner. Some donor organizations will provide direct bilateral support to SAIs through funding and technical assistance. Some donor organizations may additionally or alternatively contribute to other funding mechanisms, such as a trust fund or a pooled funding arrangement, sector or general budget support. Whatever the funding arrangement, the donors will recognize the specific position of the SAIs and will value

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<sup>5</sup>PEFA is a partnership between several major donors and multilateral institutions established with a view to support integrated and harmonized approaches to assessment and reform in the field of public expenditure, procurement, and financial accountability.

<sup>6</sup>The World Bank's current definition of fragile states (previously known as low-income countries under stress) covers low-income countries scoring 3.2 and below on the Country Policy and Institutional Assessment (CPIA), which is the primary tool used to assess the quality of country policies.

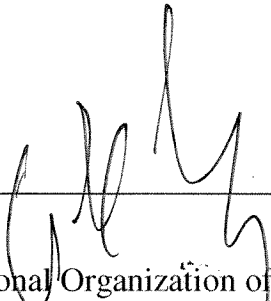
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roles and responsibilities of the partners in this context. In cases where the Donor Community provides general budget support, where possible, the Donor Community will underline the importance of adequate SAI funding in the dialogue with the partner country. The funding and support mechanisms proposed in this document are, therefore, supportive of the specific role of the SAIs. The proposed arrangements will support INTOSAI to provide leadership as a membership organization. The proposals will help the Donor Community play its supportive role in recognition of the independence of the SAIs.

19. SAIs commit to exercising effective leadership by developing and implementing comprehensive, realistic, and prioritized strategic plans and development action plans. These plans should be consistent with broader ongoing public financial management reforms and best practices (for example, guidance developed by INTOSAI) and be developed by SAIs through an inclusive process, ensuring that the needs of key stakeholders—including donors and parliaments—are met. It is also essential that the Memorandum of Understanding be carried out in a way that facilitates SAIs supporting and contributing to the capacity-building efforts of other SAIs.
20. In support of the objectives of this Memorandum of Understanding, a Steering Committee will be established to provide strategic guidance and counseling in its implementations, coordinate activities, and monitor the progress of such implementation. The Steering Committee will consist of representatives of INTOSAI and the Donor Community.
  - a. The Steering Committee will comprise one representative from each of the members of the Donor Community signing this Memorandum of Understanding and proportional representation from INTOSAI in order to strike an appropriate balance between donor and INTOSAI communities represented. At a minimum, a representative from INTOSAI's Finance and Administration Committee will be a permanent member of the Steering Committee.
  - b. The remaining INTOSAI representation on the Steering Committee will reflect INTOSAI's interests, be influenced by regional criteria, and rotate at reasonable intervals to be determined.
21. The Steering Committee, once established, will undertake to establish a Secretariat for the purpose of providing administrative support to the Steering Committee. Monitoring and evaluation of grants will be the sole responsibility of the Donor Community.
22. INTOSAI representatives will provide technical views, suggestions, and other views, but will refrain from involvement in any decisions related to funding in order to avoid any conflict of interest and preserve auditor independence.

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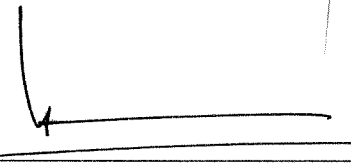
Signed at Brussels October 20, 2009



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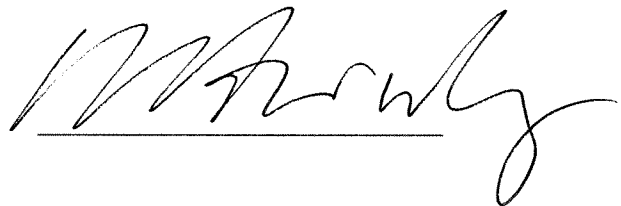
International Organization of Supreme Audit Institutions (INTOSAI)

Donor Representatives:



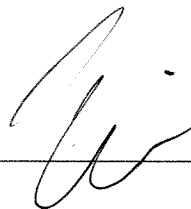
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African Development Bank



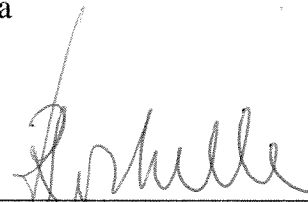
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Canada



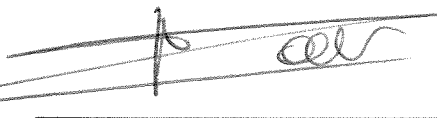
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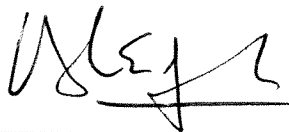
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European Commission



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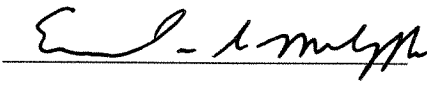
Belgian Ministry of Foreign Affairs,  
Foreign Trade, and Development  
Cooperation



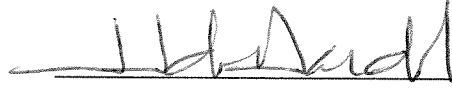
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Inter-American Development Bank

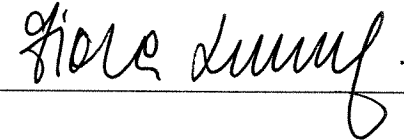
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International Monetary Fund (IMF)



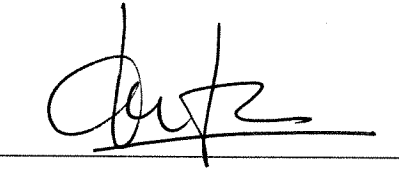
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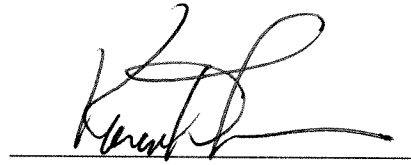
Ireland



United Kingdom



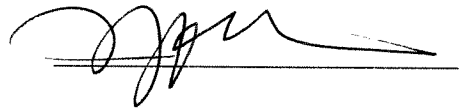
Netherlands Ministry of Foreign Affairs



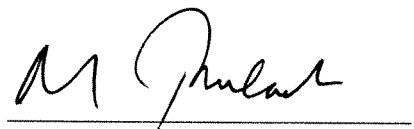
United States of America



Norwegian Agency for Development  
Cooperation (NORAD)



The World Bank

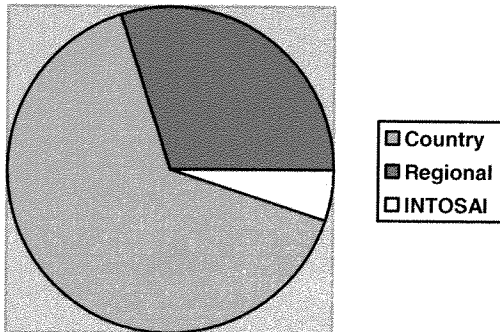


Sweden



## Attachment 1: Illustrative Example: Country, Regional, and Global SAI Support

(Note: The indicative graph below illustrates an approximation of proposed donor support to SAIs under this Memorandum of Understanding, wherein the majority of the funding would be directed to developing country SAIs and the next largest portion would go towards Capacity Building for SAIs through INTOSAI's regional structure. The relative funding support at each level is subject to determination and cannot be predicted herein).



### Country-level Funding

- Long-term capacity building, such as twinning
- Preparation of strategic plans
- Secondments and fellowship programs
- Peer review and quality assurance mechanisms

### Regional-level Funding

- Master classes for senior SAI officials on relevant topics, such as change management and effective human resource management
- Capacity building to conduct audits
- IDI delivery of capacity-building support and enhanced regional cooperation

### Global/INTOSAI Funding

- Development of standards and guidance in languages and formats to promote accessibility and application to developing country SAIs