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Investing in rural people

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

Note to Executive Board representatives

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Executive Board — 115th Session
Rome, 15–16 September 2015

For: Approval

Recommendation for approval

The Executive Board is invited to approve the Fund's accession to the memorandum of understanding provided in appendix II between the International Organization of Supreme Audit Institutions (INTOSAI) and the Donor Community, signed on 20 October 2009, and to authorize the President to finalize the accession to this memorandum of understanding for an initial period of five years.

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

I. Introduction and background

1. IFAD is a signatory to international declarations on aid effectiveness, including the Paris Declaration on Aid Effectiveness (2005), the Accra Agenda for Action (2008) and the Busan Partnership for Effective Development Cooperation (2011). These agreements commit signatories to a set of shared principles for achieving common goals. Signatories to the Busan Partnership agreed to a series of concrete actions to accelerate implementation of these commitments, including by using country public financial management systems as the default option for development financing, and supporting the strengthening of these systems where necessary.
2. In line with its partnership strategy,¹ IFAD has identified the International Organization of Supreme Audit Institutions (INTOSAI)² as a key organization with which to engage to provide inputs to the policy dialogue on governance and accountability in the public sector. Recognizing the importance of well-functioning and independent supreme audit institutions (SAIs) in strengthening domestic accountability, governance and state-society relations, INTOSAI and representatives of 15 donor agencies³ (including major multilateral development banks) signed a memorandum of understanding (MoU) on 20 October 2009 (appendix II). The MoU focuses on augmenting and strengthening support to SAIs to enhance governance and accountability, thereby contributing to economic growth and poverty reduction. By acceding to this MoU, IFAD will be able to engage with peers for knowledge-sharing on the evolving capacities of SAIs and relevant international standards, support the improvement of accountability arrangements for IFAD projects and programmes, and contribute to enhancing the aid effectiveness agenda.
3. Pursuant to the best practices identified in the Report on IFAD's institutional partnership agreements,⁴ IFAD will enter into partnership with INTOSAI for an initial five-year period. At the end of this period, IFAD will assess the contribution of the partnership to the Fund's objectives and determine whether to extend or terminate its cooperation with INTOSAI.

II. Purpose

4. IFAD's financial management guidelines support and encourage the use of SAIs where appropriate. With the aim of continuing to support the aid effectiveness agenda, the Audit Committee⁵ has encouraged IFAD it to expand the use of national

¹ EB 2012/106/R.4.

² www.intosai.org.

³ An additional seven agencies have acceded as of July 2015.

⁴ EB 2013/109/R.32.

⁵ At the 125th meeting of the Audit Committee held on 19 November 2012, Committee members sought clarification on the kinds of audits conducted by SAIs and private firms, who the SAIs were, whether management anticipated specific targeted action at the country level and whether systematic capacity-building was envisaged. Committee members were advised that Management was initiating capacity-building for SAIs to assist them in understanding IFAD requirements, including at the targeted country level.

SAIs for the audit of IFAD-financed projects. The weak institutional capacity of SAIs and their lack of independence generally restrict their wider use.

5. IFAD's accession to the MoU will provide the following main benefits:
- (i) Membership of the Steering Committee of INTOSAI-Donor Cooperation will give IFAD a "seat at the table" in an international forum on accountability and governance in countries in which IFAD operates, and an opportunity to engage strategically with peers among the donor partners and the SAI leadership on a subset of the aid effectiveness agenda to which IFAD is institutionally committed;
 - (ii) SAIs have major influence on governance and accountability over public expenditure, especially in the agriculture and rural development sector, which is the focus of IFAD's core mandate and which generally accounts for a large part of the development expenditures of client countries. Participation in this MoU will help IFAD gain greater insight into the complex landscape in which SAIs operate and the strategic issues that affect their development in client countries;
 - (iii) IFAD will be able to access and contribute to international knowledge products in the area of public-sector auditing and governance, based on its institutional knowledge and experience in rural and agricultural development;
 - (iv) Being able to monitor progress in the development of capacity at individual SAIs will allow IFAD to engage with SAIs in implementing its portfolio, when appropriate and consistent with IFAD's financial management guidelines. Currently, SAIs are appointed as auditors for about 30 per cent of IFAD's global portfolio. Overall, the experience has been mixed. In some instances, the need for further capacity-building has been noted, in others valuable assurance has been received regarding the IFAD projects audited by SAIs. IFAD's participation in this MoU will provide timely information on the evolving capacity of SAIs and insights into enhancing IFAD's reliance on SAIs for fiduciary assurance on IFAD financing, thereby also supporting the international aid effectiveness agenda.

III. Strategic context

6. The MoU signed by INTOSAI and representatives of 15 donor agencies on 20 October 2009 (paragraph 2) brings together SAIs and the donor community in a common strategic approach. The aim is to strengthen SAIs' capacity in developing countries through a variety of mechanisms to facilitate donor funding and support in line with donor mandates and priorities and the self-assessed needs and strategic priorities of SAIs. To date, 22 development partners have signed the MoU.⁶ Under this umbrella MoU, capacity-building activities for SAIs in developing countries are being coordinated by the INTOSAI Development Initiative (IDI), which is a non-governmental organization (NGO) based in Norway. IDI comprises a steering committee and the INTOSAI-Donor Secretariat, and is currently hosted by the SAI of Norway. IDI is managed by an eight-member board, which is currently chaired jointly by the World Bank and the Department for International Development of the United Kingdom (DFID).

⁶ The African Development Bank, the Asian Development Bank, Australia, Austria, Belgium, Canada, the European Commission, France, Gavi (the Vaccine Alliance), the Global Fund, the Inter-American Development Bank, the International Monetary Fund, Ireland, the Islamic Development Bank, the Netherlands, Norway, the Organisation for Economic Co-operation and Development (OECD), Switzerland, Sweden, the United Kingdom, the United States of America and the World Bank.

7. Substantial achievements have been made under INTOSAI-Donor Cooperation since 2009. The following are examples of completed and ongoing activities:
- (i) Development of strategic plans for the INTOSAI regional subgroups in the Caribbean (Caribbean Organization of Supreme Audit Institutions [CAROSAI]) and in French-speaking Africa (Conseil Régional de Formation des Institutions Supérieures de Contrôle des Finances Publiques d'Afrique Francophone Subsaharienne [CREFIAF]) with the support of the Inter-American Development Bank and Switzerland (State Secretariat for Economic Affairs [SECO]);
 - (ii) Two strategic planning programmes, together covering 14 SAIs within CREFIAF, financed by Sweden (Swedish International Development Cooperation Agency [SIDA]) and implemented through IDI;
 - (iii) Global implementation of the International Standards of Supreme Audit Institutions (ISSAIs), supported by the World Bank;
 - (iv) Global roll out of INTOSAI capacity-building guides, supported by the United Kingdom (DFID);
 - (v) A management development programme for SAIs in INTOSAI's subgroup for English-speaking Africa (African Organization of English-speaking Supreme Audit Institutions [AFROSAI-E]), financed by SIDA;
 - (vi) Launch of a multi-donor trust fund with US\$5.6 million provided by Switzerland (SECO) for scaling up support, improving allocation efficiency and reducing transaction costs for SAIs and donors;
 - (vii) An SAI capacity development database⁷ launched in 2012 to improve coordination of support to SAIs;
 - (viii) Development of a performance measurement framework for SAIs; and
 - (ix) Training for development agency staff on working with SAIs.
8. IFAD is currently not a signatory to this MoU, but was invited to participate as an observer in the annual Steering Committee meetings held in October 2013 in China and September 2014 in Paris.⁸ A round table was held in November 2014 at IFAD, at which the Chair and Director General of IDI were invited to present international perspectives on and experiences of SAI capacity development and donor engagement. IDI also currently manages a small grant funded by IFAD to help build the capacity of selected SAIs in the West and Central Africa region.
9. The MoU recognizes that the donor community seeks assurance on the proper use of funds, and enables donors to place greater reliance on country financial management systems as a result of stronger and more effective SAIs. For this purpose, the MoU brings the SAIs and the donor community together in a common approach. The MoU is not legally binding and does not itself represent a commitment that obligates funds. It essentially reiterates the donor community's commitment to coordinating efforts to strengthen the capacity of SAIs, to enhance accountability and transparency for public funds and to provide assurances on the use of donor funds through more reliant country systems.

⁷ www.saidevelopment.org.

⁸ At the 2014 Steering Committee meeting, a discussion paper was presented on "Working in partnership: INTOSAI's contribution to achieving the post-2015 Sustainable Development Goals".

Profile: International Organization of Supreme Audit Institutions

1. The International Organization of Supreme Audit Institutions (INTOSAI) is an autonomous, independent and non-political organization of the supreme audit institutions (SAIs) of its member countries. It is an NGO with special consultative status within the Economic and Social Council (ECOSOC) of the United Nations. It was founded in 1953 with more than 190 members.¹ It operates as an umbrella organization for the external public-sector audit community. As there is generally only one SAI in each country, an international network of peers is particularly valuable in coordinating capacity development and technical research.
2. INTOSAI's strategic goals include promoting the independence of SAIs, helping to build the capacities of its member institutions, and supporting the development and adoption of professional standards. One of INTOSAI's most significant achievements to date has been developing and issuing a full set of auditing standards for SAIs – the ISSAIs² – which help to standardize the work of SAIs.
3. The role of SAIs in contributing to accountability and transparency is recognized in a United Nations General Assembly resolution,³ which notes with appreciation the work of INTOSAI and calls on United Nations member countries and organizations to continue and intensify their cooperation with INTOSAI, including in capacity-building, to promote good governance by ensuring efficiency, accountability, effectiveness and transparency through strengthened SAIs.
4. SAIs serve an important function in holding governments accountable for public spending and promoting transparency in the use of public funds and in government performance. International experience suggests that when the local SAI is professional and strong, is perceived as credible and has the capacity to audit a large proportion of public finance, public officials know that their actions may be scrutinized by the SAI. This provides an incentive for complying with rules and regulations.⁴ There are also examples where an SAI has made a difference in matters that are important to the citizens of its country, when the SAI has scrutinized the use of public funds and brought the findings to the attention of the legislature and the wider public. In some cases, an SAI audit report uncovers possible corruption, which may lead to further investigation by the police.

¹ INTOSAI includes several subgroups to cater for regional SAIs, such as CAROSAI in the Caribbean; the Pacific Association of Supreme Audit Institutions (PASAI); AFROSAI-E in English-speaking Africa; CREFIA in French-speaking Africa; the Arab Organization of Supreme Audit Institutions (ARABOSAI), the Asian Organization of Supreme Audit Institutions (ASOSAI); the European Organization of Supreme Audit Institutions (EUROSAI); and the Organization of Latin American and Caribbean Supreme Audit Institutions (OLACEFS).

² www.issai.org.

³ Resolution A/RES/66/209 on "Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions", adopted in December 2011.

⁴ Extracted from "Role and Impact of Supreme Audit Institutions", a paper prepared by INTOSAI-Donor Cooperation, April 2014.

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 Community¹ 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

¹For 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.

Memorandum of Understanding Between INTOSAI and the Donor Community

- 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 MDGs² and the commitments made in the Paris Declaration³ and Accra Agenda for Action (AAA).⁴
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.

²At 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.

³In 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.

⁴The 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.

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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)⁵ 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,⁶ 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

⁵PEFA 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.

⁶The 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.

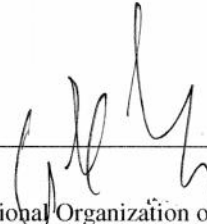
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roles and responsibilities of the partners in this context. In cases where the Donor Community provides general budget support, where possible, the Donor Community will underline the importance of adequate SAI funding in the dialogue with the partner 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.

Memorandum of Understanding Between INTOSAI and the Donor Community

Signed at Brussels October 20, 2009


International Organization of Supreme Audit Institutions (INTOSAI)

Donor Representatives:


African Development Bank

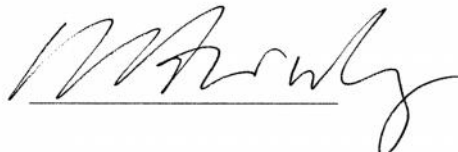
African Development Bank


Austrian Development Agency

Austrian Development Agency


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


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


Canada

Canada


European Commission

European Commission


Inter-American Development Bank

Inter-American Development Bank

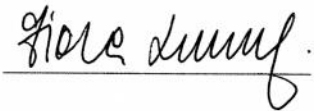
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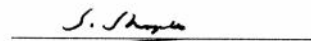
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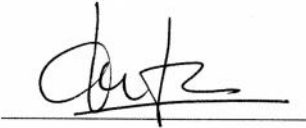
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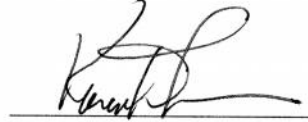
Ireland



United Kingdom



Netherlands Ministry of Foreign Affairs



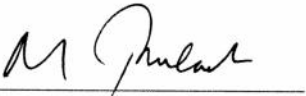
United States of America



Norwegian Agency for Development Cooperation (NORAD)



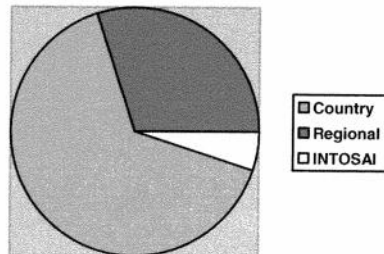
The World Bank



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