

COVID-19

Role of Supreme Audit Institutions (SAIs) in Governments' Response to COVID-19: Emergency and Post Emergency Phases





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Summary

Coronavirus disease 2019 (COVID-19) is an unprecedented public health emergency, with associated significant economic impact, affecting all developing and developed countries. As it unfolds and countries respond, the role of Supreme Audit Institutions (SAIs) is being recognized as crucial to supporting the government response mechanisms through maintaining public financial management discipline and ensuring transparency and accountability. Past experience from SAIs' engagement in government responses to natural and human-made disasters, including health emergencies like Ebola, provides good lessons for SAIs confronted with the COVID-19 pandemic. This note seeks to propose ideas on how SAIs can respond to the crisis now and during the recovery phase.

During the emergency stage, the primary focus of governments is on safeguarding livelihoods and public health. Auditors are themselves constrained both by their physical

access limitations and the imperative to avoid impeding government's speedy responses to the pandemic. Under these circumstances, crucial oversight and key controls may suffer, especially as public financial management systems are adapted to be responsive and flexible.

Within the SAIs' own establishments, home-based working arrangements will replace face-to-face meetings. There will be limited access to information and explanations, and an inability to physically visit and verify activities. Audit plans and programs prepared prior to COVID-19 will need substantial revision. Responses to audit inquiries will be delayed and so will the issuance of audit reports. This emerging experience will present opportunities for SAIs to review and reinforce contingency plans for business continuity and staff connectivity.

Auditors are expected to be present and visible, assuring their readiness to respond with timely audit products to enhance accountability. At the same time, they should be engaged in assessing risks associated with government programs and responses and planning risk-responsive audit approaches. To the extent supported by mandate, they can engage in real-time and exceptional ex-ante audits of some of the critically important transactions, as may be deemed appropriate. SAIs also need to ensure their independence is preserved. Effective communication with all stakeholders is critical.

In the post-emergency phase, significant spending over relatively short time frames could create a heightened level of value-for-money risks. Experience with auditing during the post emergency phase of the Ebola response showed significant and widespread abuse of procedures to divert funding from intended purposes. Auditors will need to adjust their audit plans and approaches to focus on comprehensive reviews of government responses. Using professional judgment and adjusting materiality in context are important.

Beyond the crisis, SAIs could play a key role in reviewing and strengthening economic recovery efforts, financial management and governance systems, and government preparedness for future disasters. SAIs need to retain a comprehensive mandate covering all public funds and resources mobilized in response to the crisis. They should mobilize and prioritize available systems and GovTech tools to flexibly adapt audit approaches, value-added responsiveness, and drawing on lessons learned. For timely inputs to the legislature and the executive, several short and quick reports can be more useful than delayed comprehensive single reports.



Context

COVID-19 is putting unprecedented pressure on people and governments in all countries, both developing and developed. Regular public health management institutions are grappling with managing the scale of the emergency. Governments have announced border closures, lockdowns of domestic economic activities, and financial packages to provide emergency support to their citizens and businesses. Many decisions are being made without regard for established principles of economy, efficiency, and effectiveness.

SAIs need to transition through unique challenges to ensure continued transparency and accountability without becoming a bottleneck. The scale of this crisis is unprecedented, and there are no established standards or off-the-shelf solutions for responding to it. The ISSAI 5500 series, developed by the International Organization of Supreme Audit Institutions (INTOSAI), provides generic guidance on auditing disaster-related aid. ISSAIs 5510 and 5520 cover the audit of the pre-

and post-disaster stages, respectively. ISSAI 5530 considers the specific risks of fraud and corruption associated with disaster-related aid. ISSAI 5540 presents geospatial information as a tool for auditing the pre- and post-disaster stages.

For specific assistance, the INTOSAI Development Initiative provides practical guidance on what, when- and how to audit during COVID-19 and other relevant technical resources for member SAIs through its COVID-19 web page (<https://www.idi.no/en/covid-19/>). INTOSAI's Policy, Finance, and Administration Committee has recently launched a dedicated website (www.intosaicovid19.org). The World Bank's Governance Global Practice provides insights and solutions to key governance issues such as “getting government financial management systems COVID-19 ready”; “ensuring state continuity during the coronavirus pandemic”; and “ensuring integrity in governance and institutional response” (<https://blogs.worldbank.org/governance>).

This paper looks at relevant good practices in SAIs during past emergencies, ISSAIs, the Bank's COVID-19 response series, and other available information.

It synthesizes this information with the knowledge and insights of World Bank teams working on SAIs to consider issues that SAIs face during and after the pandemic. It provides guidance on practical measures during response and recovery to enable continuity of critical SAI operations for strengthened external oversight.

The effectiveness of SAIs largely depends on their ability to respond with the right interventions at each of the emergency and post-emergency stages of the COVID-19 pandemic. In this time of crisis, with prioritized safety considerations, each SAI needs to focus on the emerging risks and how to use its position in the public financial management system to support citizens, government and stakeholders. In the emergency stage, the focus of governments is to manage ongoing health crises, mitigate social impacts and ensure business continuity. The post-emergency stage starts when the COVID-19 incidence and death curves are substantially declining, and the country is initiating moves toward normalcy. SAIs have differing focuses in these stages.

COVID-19 Emergency Stage

In times of persistent uncertainty and growing government interventions, strong and capable SAIs will be of even greater importance and value. Experience with past crisis management shows the risk of significant and unscrupulous abuse of emergency procedures to divert funding from those in need, front-line responders and the poor. During emergencies, the risk of fraud and corruption tends to increase, particularly in countries where the maturity of institutions of governance is lower. SAI audits can play a role as a deterrent to those who will take advantage of the emergency to misuse public funds.

KEY PRINCIPLES DURING THE EMERGENCY STAGE



- Prioritize safety of people, front-liners, and audit and auditee staff
- Raise awareness among stakeholders on the risks of emergency activities based on insights from previous audit findings
- Take advantage of remote audit technology to continue audit operations or initiate real-time audits on COVID-19
- Secure audit trails on COVID-19 through monitoring, documenting and analyzing government responses
- Enhance capacity through sharing of knowledge and experiences on COVID-19 with peers
- Keep communicating with key stakeholders and ensure the establishment of adequate built-in oversight mechanisms in government emergency relief packages



SAIs should respond to operational challenges during the emergency stage. Audit operations will be at less than normal capacity due to the non-availability of staff in SAIs and in auditees. Work from home and video/audio conferencing will replace face-to-face meetings, prevent easy access to information and records, eliminate first-hand observations, and create more exposure to technology glitches. Difficulties will be greater for SAIs that do not have e-audit systems or connectivity to governments and/or staff cannot connect remotely, and in cases where auditees do not maintain electronic records. Audit plans and programs prepared prior to COVID-19 will need substantial adjustments. Auditees' responses to audit inquiries will be delayed, along with the

issuance of financial statements. Government emergency measures will include re-prioritization of budgets, creation of COVID-19 response funds, suspension of financial rules, and procurement changes toward single-source contracts.



Some SAIs may not be well prepared to engage in an audit of COVID-19 response due to a lack of relevant audit experiences, expert staff and enabling technology. SAIs should assess their resourcing plans to identify the needed expertise of health professionals, engineers, procurement specialists, sociologists, data analysts and economists to supplement the skills and tools required for specific parts of a COVID-19 emergency audit. For instance, the SAI of the Republic of Korea formed an advisory group consisting of external experts in epidemiology and virology to provide technical

advice for auditing the response to the Middle East Respiratory Syndrome (MERS) in 2015.

Many SAIs have been leveraging the efficiency of their audits through the use of information and communication technologies. Where they are in place, these processes can be used to continue audits seamlessly, including real-time rolling audits, without adversely impacting the emergency work of the executive. The audit teams available for home-based work could focus on these activities, facilitated through remote access to core government systems, including the financial management information system, e-procurement system, debt management system, and tax accounting system. Virtual meetings between audit teams and other subject matter experts will help to fine-tune auditing messages.

Maintain effective communication with key stakeholders. During the emergency phase, SAIs should communicate with auditees and other stakeholders, including donors to emphasize minimum safeguards. Where mandate permits, SAIs can take an advisory role for introducing agile budgeting, accounting and payment processes to respond to COVID19, without compromising the accountability framework. The SAI needs to engage with auditees to gain an understanding of actions taken to mitigate potential risks.

Protect SAI independence and financial resources. When a country is facing a crisis of this magnitude, the risks to SAI independence can be higher. The most particular risk is the significant reduction of budget allocations for SAI. SAI needs to be aware of the risks and have an appropriate mitigation strategy, which may include (i) building a narrative based on a constitutional and legal framework; (ii) making peer connections to be aware of regional trends; and (iii) communicating with INTOSAI, regional bodies, and other credible international organizations that support SAI independence. SAIs should also clearly articulate the value addition of their involvement during the emergency in terms of savings in government resources. SAIs should also demonstrate how they are being prudent in the use of public resources given government's fiscal situation. SAIs need to ensure that lack of financial resources do not adversely affect their ability to do additional audits consequent to the COVID-19 crisis.

Conduct real-time audits to provide timely feedback to the executive. Real-time audits are typically post audits, but performed in a more immediate time frame to provide inputs for course correction of emergency activities. SAIs can use available systems and practices to undertake rolling compliance audits that can add value as



the crisis unfolds. Under the remote auditing environment, real-time audits can be particularly helpful, for instance, by looking into payment controls, procurement payrolls, and management of medical stores. This will provide quick feedback on how emergency policies and procedures are working, and close loopholes for malpractice.

The SAI can also consider real-time audits of compliance with new protection measures or the effectiveness of national crisis management. Typical examples are the Australian SAI providing parliament with transparency and assurance on response management through monthly assurance reviews of COVID-19 expenditure, and the real-time audit during the Ebola epidemic in Sierra Leone. The U.K. National Audit Office is carrying out a substantial program of accountability work looking at government preparedness for the pandemic, spending on the direct health response, and spending on measures to protect businesses and individuals from the economic impact. The U.S. Government Accountability Office is supporting the U.S. Congress by preparing briefings, sharing best practices, reviewing draft legislation, and strategically planning for future audit work related to COVID-19. It is closely monitoring legislative and policy responses to the COVID-19 pandemic and responds to legislative mandates and congressional requests in accordance with protocols.

Cautiously use pre-auditing (where enabled by mandate) as an exceptional tool to mitigate the inherent risks of emergency operations. Some SAIs have a mandate to perform a pre-audit or ex-ante audit of the legality of contracts or regulations before being enforced. As a response to COVID-19 emergency procurement, some SAIs expedited the pre-audit process to the emergency needs and contributed to preventing uneconomic spending on personal protective equipment (PPE) and other key medical equipment. Rapid pre-audit for COVID-19 expenditure covered in typical examples: (i) prioritized reviews directly related to COVID-19; (ii) review of related contracts; and (iii) use of e-communication in receiving and forwarding contract data and documents from and to the entities subject to audit.

Monitoring of government's budget execution decisions and actions is essential. SAIs need to keep track of government decisions that create fiscal space for responding to the crisis. It can come from loans, assistance from development partners, and donations from the public, among other sources. The role of SAIs in each source of funding for emergency response needs to be reviewed from a constitutional and legal perspective. Wherever new funds are being created under government leadership, but kept outside the SAI mandate, the decisions need to be critically reviewed on whether they are consistent with the letter and spirit of the legal framework. While keeping outside the SAI mandate should be discouraged, in some jurisdictions, governments are able to create funds audited by private auditors (and hence outside SAI mandate) since there is no "public" funding through tax resources.

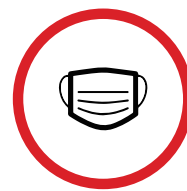
SAIs need to revisit risk universe and risk assessment. In many cases, the government's COVID-19 emergency stage decisions will affect the performance goals of economy, efficiency and effectiveness. Typically, single sourcing decisions coupled with practices of price rigging create vulnerabilities. Financial controls can be diluted, records can be lost, quantitative financial limits removed, and financial decision-making authority can move very close to where service delivery takes place, without appropriate checks and balances. Previous audits of recovery projects by some SAIs show irregularities of up to 40 percent in emergency-related expenditures. SAIs need to take stock of and identify all changes and assess their impact on the risk assessment. An agile process to modify the audit plans based on the updated risk assessment can be put in place. It is critical for SAIs to identify the activities where the traditional audit trail goes missing and identify alternative approaches to review transactions.

COVID-19 Post-Emergency Stage

When governments open up public activities, SAIs are able to resume regular audit programs and initiate post audits of COVID-19 emergency operations. Special attention should be given to audits of the government's annual financial statements and to the conduct of high-priority performance audits. As the country returns to normalcy, public resources are provided to assist with recovery. SAIs will have the responsibility to ensure transparency and accountability.

KEY PRINCIPLES DURING THE POST-EMERGENCY PHASE

- Plan compliance, financial and performance audits of the government's COVID-19 response
- Provide advance information to the auditee teams so they are adequately prepared
- Use the government's own assessments of COVID19 response and build on them
- Use professional judgment to contextualize conclusions to the COVID-19 emergency situation
- Develop approaches for expenditure from blended funding sources
- Leverage technology
- Ensure timely audit output; assess if several short and quick reports are more useful than delayed comprehensive single reports



Begin the plan for the recovery audit during the emergency phase. Planning the audit of the government's response to COVID-19 should commence during the emergency phase and continue until audit work begins during the post-emergency phase. The key considerations should include:

- Government high-priority programs in terms of materiality and risk, such as stimulus packages and distribution of food and medical supplies
- Determination of which audits are possible to execute given data availability

- Missing audit trails, limited access to data, and onsite physical verification, and which alternate procedures can be considered
- Leveraging of pre-audit and internal audit work, where possible
- Available and required skills of SAI audit staff and actions to be taken to map the skill gap

Another source of key considerations for SAIs is available in the World Bank’s “Disaster Response: A Public Financial Management Toolkit¹” which, among others, advises the review of the following:

- Verification mechanisms (i.e., to confirm the eligibility and legality of disaster-related expenditures, availability of budget, provision of goods and services, and submission of supporting documents for expenses incurred)
- Commitment control for post-disaster spending
- Disbursement monitoring arrangements (from authorizing payments to disbursement of funds from different sources, including special funds and other off-budget accounts)

SAIs should have audit responsibility in cases of expenditure from blended sources.

In times of crisis, heads of governments sometimes create special funds to mobilize donations for emergency response, to which corporate entities and private individuals can contribute. In some countries, since these donations and contributions do not constitute government revenues, legislative budget oversight and government financial management controls and processes may be bypassed for these special funds. There is concern over accountability when a SAI’s mandate does not explicitly require an audit of this category of funds. Appointing the SAI to be the auditor of the emergency fund, where possible, would significantly enhance the credibility of the oversight. Where the audit needs to be conducted by a credible private audit firm, the SAI may be involved by providing oversight, including over the selection, work and report of the private auditors. In some cases, expenditure may be incurred on a set of activities financed by both sources (the government budget and emergency funds), i.e., funds are blended. This can cause ambiguity. In these cases, even if the SAI is not responsible for the audit of the emergency relief fund, the SAI audit teams should review the expenditure from the blended sources when they conduct their regular performance audit of COVID-19 expenditures.

¹ <https://www.pefa.org/sites/default/files/news/files/Disaster%20Response%20Toolkit.pdf>.

Ensure auditee and client preparedness for auditing. While conducting COVID-19 audits, the primary auditees are health ministries, disaster management agencies, ministries of finance, and other government entities responsible for funding and managing the crises. SAIs should communicate closely with these entities as well as with the legislature on when, how and what to audit so that SAIs' audit can be conducted smoothly and the results be properly reported. Close communication is also helpful to ensure the cooperation from audited agencies on relevant record maintenance and provision for audit purpose. Proactive communications will help with audit objectives and mutual expectations. A high-level forum established in the government should help to ensure that audit issues are addressed properly and promptly.

The public has the right to raise their voices on COVID-19 preparedness and response. When the citizenry participates in the audit process, they will become more active eyes and ears for SAIs and oversee the implementation of audit recommendations. An example is a case where one SAI conducted an issue analysis during MERS audit planning to identify the specific concerns of people, the legislature and an expert group on the MERS response.

Use professional judgment and appropriately apply nuisance conclusions to context. The professional judgment of auditors gains higher levels of significance during performance audits of the COVID-19 response. Audit teams need to understand the overall context of the situation and the constraints faced by government agencies while executing their responsibilities. Materiality may undergo changes in threshold amounts. Auditors need to ensure that their findings are based on circumstances prevalent in the crisis phase and are nuanced constructively to enhance accountability and strengthen resilience for future events.

Timeliness of audit reports is key. One of the key limitations perceived in many SAIs is that emergency-related audit reports, despite being good quality, are often delayed. The best opportunity for government and the legislature to strengthen systems is when the issues relating to crisis are fresh in the minds of people. It would be advisable to explore the possibility of quick and brief products with several themes, each output issued as a standalone product when ready, instead of one comprehensive report, which often can be substantially delayed. A brief high-level synthesis with overall results could be produced after several standalone reports are issued in quick succession.

Use the government's own evaluation as a base and review it further. SAIs can minimize the technical aspect of COVID-19 responses by focusing on the appropriateness of the government's evaluation process. For instance, when following up

on the implications of a communicable disease, namely the H1N1 influenza pandemic in a particular country, the SAI assessed the government's strategies for managing a subsequent communicable disease emergency and recommended establishing an incident management system. SAIs need to communicate closely with government about how to reflect the issues raised by citizens, health experts and legislators as well as review the evaluation process and provide their inputs in advance on the evaluation plan.

Categorize COVID-19 expenditures for auditing procedures. It is important to use the auditing procedures most appropriate to each particular set of transactions and issues. For instance, ISSAI 5520 presents as many as 17 inherent risk factors associated with key disaster-related aid activities. Most of them are also relevant for COVID-19 expenditures: delays; unintended recipients; undistributed funds, materials, and aid; lack of fiduciary controls; fraud and corruption; poor economy; inflation; inefficiency and ineffectiveness; financial statement risk; unrecorded aid; assets ownership; double funding; and limited information flows. The COVID-19 expenditures can be grouped into three different categories: (i) health care support; (ii) social protection and humanitarian aid; and (iii) economic support. Each spending category represents different recipients, objectives, and inherent risk factors. As a result, auditability, audit timing, and audit questions can be different, which implies different types of audit for different expenditure categories.

SAI auditing of procurements must align with actions taken during the COVID-19 emergency. Procurements play a key role in public expenditure during an emergency response, and the SAI focus needs to be appropriately aligned. COVID-19 procurement auditing is a critical issue with enormous interest. SAIs need to consider the special context of procuring related PPE, test kits, ventilators and other medical equipment. SAIs need to be aware of the higher risks of fraud and corruption and disclose overall facts (e.g., costs, shortages, delays, and unused PPE) as a basis for improving preparedness.

Specific focus may be given to cases relating to direct contracting or streamlined competitive procedures, including under national procedures. SAIs may use risk-based categorization for review of procurements and focus on those awards which are not publicly disclosed immediately after the award.

Coordinate work with accountability agencies. SAIs need to coordinate their activities with other accountability work embarked upon by agencies such as internal audit, procurement authority and the anti-corruption agency. A broader coalition of

accountability agencies will provide a more effective basis for strengthening systems and ensuring transparency and accountability.

Take advantage of cooperative audits. There exist many practical benefits from cooperative audits on COVID-19 preparedness. One of the unique features is that no country is immune from this global pandemic. ISSAI 5510 points out that international cooperation between SAIs in auditing disaster risk reduction matters a lot since disasters can strike several countries at the same time. Distinctive benefits of conducting cooperative audits are: (i) enhancing confidence in SAIs' work; (ii) contributing toward creating public awareness and improving activities and programs; (iii) strengthening political interest in accountability; (iv) upholding common criteria; and (v) sharing knowledge both domestically and worldwide. As for COVID-19, there is additional practical value in providing a good opportunity to strengthen and verify preparedness for early detection. For instance, SAIs in the same region may conduct joint or parallel audits on the implementation of international health regulations, more specifically an assessment of eight core capacities at points of entry.

GovTech Leverage in Auditing

COVID-19 is likely to accelerate digital payments in the government, with special priority for welfare payments through mobile money targeted to poor households most affected by the pandemic. Audits should enhance readiness, with appropriate skills and tools, to identify control risks in these environments. In some settings, these arrangements are fraught with fraud and corruption, which would need the special attention of SAIs.

In more advanced settings, the use of disruptive technologies in auditing, such as artificial intelligence (AI), should be initiated through proof of concepts. AI tools, such as natural language processing, could be deployed to read documents, including voluminous contracts and millions of vouchers, and match pre-identified text to prepare samples of high-risk areas needing special attention. AI can also be used to produce a risk score for a number of data points, mostly General Ledger entries, using data science, data analytics and compliance and assurance parameters. The auditors can extract and load the accounting and finance data from IFMIS, or underlying ERP system into the AI tool, which finds anomalies, errors, using built-in algorithms against user defined parameters (eg: materiality levels, all urgent payments, unbalanced debits and credits, rare flows, all payments that went through multiple revisions or approval queries, acquisition of assets beyond certain threshold, etc).

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