

The Lima Declaration of Guidelines on Auditing Precepts

Foreword

When the Lima Declaration of Guidelines on Auditing Precepts was adopted by acclamation of the delegates more than two decades ago in October 1977 at the IX INCOSAI in Lima (Peru) there were great hopes, but no certainty, that it would achieve world-wide success.

The experiences made with the Lima Declaration since that time have exceeded even the highest expectations and proven how decisively they influence the development of government auditing in the given context of each individual country. The Lima Declaration is equally significant for all Supreme Audit Institutions grouped in INTOSAI, no matter to what region they belong, what development they have undergone, how they are integrated into the system of government or how they are organized.

The success of the declaration is above all due to the fact that it contains a comprehensive list of all goals and issues relating to government auditing, while simultaneously remaining remarkably significant and concise, making it easy to use, with its clear language ensuring that focus does not wander away from the main elements.

The chief aim of the Lima Declaration is to call for independent government auditing. A Supreme Audit Institution which cannot live up to this demand does not come up to standard. It is not surprising, therefore, that the issue of the independence of Supreme Audit Institutions continues to be a theme repeatedly discussed within the INTOSAI community. However, the demands of the Lima Declaration are not satisfied by a SAI just achieving independence; this independence is also required to be anchored in the legislation. For this, however, well-functioning institutions of legal security must exist, and these are only to be found in a democracy based on the rule of law.

Rule of law and democracy are, therefore, essential premises for really independent government auditing and are the pillars on which the Declaration of Lima is founded. The precepts contained in the Declaration are timeless and essential values which have maintained their topicality since the years they were first adopted. The fact that it has been decided to re-publish the Declaration more than 20 years later indeed witnesses the quality and farsighted spirit of their authors.

We extend our thanks to the International Journal of Government Auditing for their effort in publishing the new edition of the Lima Declaration, realizing the great importance of this fundamental paper which quite rightly is held to be the Magna Carta of government auditing. We now know that the Lima Declaration will continue to be disseminated in future. Living up to its high ideals remains an ongoing task for us all.

Vienna, in the fall of 1998

Dr Franz Fiedler

Secretary General of INTOSAI

The Lima Declaration of Guidelines on Auditing Precepts

Preamble

The IXth Congress of the International Organisation of Supreme Audit Institutions (INTOSAI), meeting in Lima:

- Whereas the orderly and efficient use of public funds constitutes one of the essential prerequisites for the proper handling of public finances and the effectiveness of the decisions of the responsible authorities;
- whereas, to achieve this objective, it is indispensable that each country have a Supreme Audit Institution whose independence is guaranteed by law;
- whereas such institutions become even more necessary because the state has expanded its activities into the social and economic sectors and thus operates beyond the limits of the traditional financial framework;
- whereas the specific objectives of auditing, namely, the proper and effective use of public funds; the development of sound financial management; the proper execution of administrative activities; and the communication of information to public authorities and the general public through the publication of objective reports, are necessary for the stability and the development of states in keeping with the goals of the United Nations;
- whereas at previous INTOSAI congresses, plenary assemblies adopted resolutions whose distribution was approved by all member countries;

RESOLVES:

- To publish and distribute the document entitled "The Lima Declaration of Guidelines on Auditing Precepts."

I. General

Section 1. Purpose of audit

The concept and establishment of audit is inherent in public financial administration as the management of public funds represents a trust. Audit is not an end in itself but an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough to make it possible to take corrective action in individual cases, to make those accountable accept responsibility, to obtain compensation, or to take steps to prevent--or at least render more difficult--such breaches.

Section 2. Pre-audit and post-audit

1. Pre-audit represents a before the fact type of review of administrative or financial activities; post-audit is audit after the fact.
2. Effective pre-audit is indispensable for the sound management of public funds entrusted to the state. It may be carried out by a Supreme Audit Institution or by other audit institutions.
3. Pre-audit by a Supreme Audit Institution has the advantage of being able to prevent damage before it occurs, but has the disadvantage of creating an excessive amount of work and of blurring responsibilities under public law. Post-audit by a Supreme Audit Institution highlights the responsibility of those accountable; it may lead to compensation for the damage caused and may prevent breaches from recurring.
4. The legal situation and the conditions and requirements of each country determine whether a Supreme Audit Institution carries out pre-audit. Post-audit is an indispensable task of every Supreme Audit Institution regardless of whether or not it also carries out pre-audits.

Section 3. Internal audit and external audit

1. Internal audit services are established within government departments and institutions, whereas external audit services are not part of the organisational structure of the institutions to be audited. Supreme Audit Institutions are external audit services.
2. Internal audit services necessarily are subordinate to the head of the department within which they have been established. Nevertheless, they shall be functionally and organisationally independent as far as possible within their respective constitutional framework.
3. As the external auditor, the Supreme Audit Institution has the task of examining the effectiveness of internal audit. If internal audit is judged to be effective, efforts shall be made, without prejudice to the right of the Supreme Audit Institution to carry out an overall audit, to achieve the most appropriate division or assignment of tasks and cooperation between the Supreme Audit Institution and internal audit.

Section 4. Legality audit, regularity audit and performance audit

1. The traditional task of Supreme Audit Institutions is to audit the legality and regularity of financial management and of accounting.
2. In addition to this type of audit, which retains its significance, there is another equally important type of audit--performance audit--which is oriented towards examining the performance, economy, efficiency and effectiveness of public administration. Performance audit covers not only specific financial operations, but the full range of government activity including both organisational and administrative systems.
3. The Supreme Audit Institution's audit objectives--legality, regularity, economy, efficiency and effectiveness of financial management--basically are of equal importance. However, it is for each Supreme Audit Institution to determine its priorities on a case-by-case basis.

II. Independence

Section 5. Independence of Supreme Audit Institutions

1. Supreme Audit Institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence.
2. Although state institutions cannot be absolutely independent because they are part of the state as a whole, Supreme Audit Institutions shall have the functional and organisational independence required to accomplish their tasks.
3. The establishment of Supreme Audit Institutions and the necessary degree of their independence shall be laid down in the Constitution; details may be set out in legislation. In particular, adequate legal protection by a supreme court against any interference with a Supreme Audit Institution's independence and audit mandate shall be guaranteed.

Section 6. Independence of the members and officials of Supreme Audit Institutions

1. The independence of Supreme Audit Institutions is inseparably linked to the independence of its members. Members are defined as those persons who have to make the decisions for the Supreme Audit Institution and are answerable for these decisions to third parties, that is, the members of a decision-making collegiate body or the head of a monocratically organised Supreme Audit Institution.
2. The independence of the members, shall be guaranteed by the Constitution. In particular, the procedures for removal from office also shall be embodied in the Constitution and may not impair the independence of the members. The method of appointment and removal of members

depends on the constitutional structure of each country.

3. In their professional careers, audit staff of Supreme Audit Institutions must not be influenced by the audited organisations and must not be dependent on such organisations.

Section 7. Financial independence of Supreme Audit Institutions

1. Supreme Audit Institutions shall be provided with the financial means to enable them to accomplish their tasks.

2. If required, Supreme Audit Institutions shall be entitled to apply directly for the necessary financial means to the public body deciding on the national budget.

3. Supreme Audit Institutions shall be entitled to use the funds allotted to them under a separate budget heading as they see fit.

III. Relationship to Parliament, government and the administration

Section 8. Relationship to Parliament

The independence of Supreme Audit Institutions provided under the Constitution and law also guarantees a very high degree of initiative and autonomy, even when they act as an agent of Parliament and perform audits on its instructions. The relationship between the Supreme Audit Institution and Parliament shall be laid down in the Constitution according to the conditions and requirements of each country.

Section 9. Relationship to government and the administration

Supreme Audit Institutions audit the activities of the government, its administrative authorities and other subordinate institutions. This does not mean, however, that the government is subordinate to the Supreme Audit Institution. In particular, the government is fully and solely responsible for its acts and omissions and cannot absolve itself by referring to the audit findings--unless such findings were delivered as legally valid and enforceable judgments--and on expert opinions of the Supreme Audit Institution.

IV. Powers of Supreme Audit Institutions

Section 10. Powers of Investigation

1. Supreme Audit Institutions shall have access to all records and documents relating to financial management and shall be empowered to request, orally or in writing, any information deemed necessary by the SAI.

2. For each audit, the Supreme Audit Institution shall decide whether it is more expedient to carry out the audit at the institution to be audited, or at the Supreme Audit Institution itself.

3. Either the law or the Supreme Audit Institution (for individual cases) shall set time limits for furnishing information or submitting documents and other records including the financial statements to the Supreme Audit Institution.

Section 11. Enforcement of Supreme Audit Institution findings

1. The audited organisations shall comment on the findings of the Supreme Audit Institution within a period of time established generally by law, or specifically by the Supreme Audit Institution, and shall indicate the measures taken as a result of the audit findings.

2. To the extent the findings of the Supreme Audit Institution's findings are not delivered as legally valid and enforceable judgments, the Supreme Audit Institution shall be empowered to approach the authority which is responsible for taking the necessary measures and require the accountable party to accept responsibility.

Section 12. Expert opinions and rights of consultation

1. When necessary, Supreme Audit Institutions may provide Parliament and the administration with their professional knowledge in the form of expert opinions, including comments on draft laws and other financial regulations. The administrative authorities shall bear the sole responsibility for accepting or rejecting such expert opinions; moreover, this additional task must not anticipate the future audit findings of the Supreme Audit Institution and must not interfere with the effectiveness of its audit.

2. Regulations for appropriate and as uniform as possible accounting procedures shall be adopted only after agreement with the Supreme Audit Institution.

V. Audit methods, audit staff, international exchange of experiences

Section 13. Audit methods and procedures

1. Supreme Audit Institutions shall audit in accordance with a self-determined programme. The rights of certain public bodies to request a specific audit shall remain unaffected.

2. Since an audit can rarely be all-inclusive, Supreme Audit Institutions as a rule will find it necessary to use a sampling approach. The samples, however, shall be selected on the basis of a given model and shall be sufficiently numerous to make it possible to judge the quality and regularity of financial management.

3. Audit methods shall always be adapted to the progress of the sciences and techniques relating to financial management.

4. It is appropriate for the Supreme Audit Institution to prepare audit manuals as an aid for its auditors.

Section 14. Audit staff

1. The members and the audit staff of Supreme Audit Institutions shall have the qualifications and moral integrity required to completely carry out their tasks.

2. In recruiting staff for Supreme Audit Institutions, appropriate recognition shall be given to above-average knowledge and skills and adequate professional experience.

3. Special attention shall be given to improving the theoretical and practical professional development of all members and audit staff of SAIs, through internal, university and international programmes. Such development shall be encouraged by all possible financial and organisational means. Professional development shall go beyond the traditional framework of legal, economic and accounting knowledge, and include other business management techniques, such as electronic data processing.

4. To ensure auditing staff of excellent quality, salaries shall be commensurate with the special requirements of such employment.

5. If special skills are not available among the audit staff, the Supreme Audit Institution may call on external experts as necessary.

Section 15. International exchange of experiences

1. The international exchange of ideas and experiences within the International Organisation of Supreme Audit Institutions is an effective means of helping Supreme Audit Institutions accomplish their tasks.

2. This purpose has so far been served by congresses, training seminars jointly organised with the United Nations and other institutions, by regional working groups and by the publication of a professional journal.

3. It is desirable to expand and intensify these efforts and activities. The development of a uniform terminology of government audit based on comparative law is of prime importance.

VI. Reporting

Section 16. Reporting to Parliament and to the general public

1. The Supreme Audit Institution shall be empowered and required by the Constitution to report its findings annually and independently to Parliament or any other responsible public body; this report shall be published. This will ensure extensive distribution and discussion, and enhance opportunities for enforcing the findings of the Supreme Audit Institution.
2. The Supreme Audit Institution shall also be empowered to report on particularly important and significant findings during the year.
3. Generally, the annual report shall cover all activities of the Supreme Audit Institution; only when interests worthy of protection or protected by law are involved shall the Supreme Audit Institution carefully weigh such interests against the benefits of disclosure.

Section 17. Method of reporting

1. The reports shall present the facts and their assessment in an objective, clear manner and be limited to essentials. The wording of the reports shall be precise and easy to understand.
2. The Supreme Audit Institution shall give due consideration to the points of view of the audited organisations on its findings.

VII. Audit powers of Supreme Audit Institutions

Section 18. Constitutional basis of audit powers; audit of public financial management

1. The basic audit powers of Supreme Audit Institutions shall be embodied in the Constitution; details may be laid down in legislation.
2. The actual terms of the Supreme Audit Institution's audit powers will depend on the conditions and requirements of each country.
3. All public financial operations, regardless of whether and how they are reflected in the national budget, shall be subject to audit by Supreme Audit Institutions. Excluding parts of financial management from the national budget shall not result in these parts being exempted from audit by the Supreme Audit Institution.
4. Supreme Audit Institutions should promote through their audits a clearly defined budget classification and accounting systems which are as simple and clear as possible.

Section 19. Audit of public authorities and other institutions abroad

As a general principle, public authorities and other institutions established abroad shall also be audited by the Supreme Audit Institution. When auditing these institutions, due consideration shall be given to the constraints laid down by international law; where justified these limitations shall be overcome as international law develops.

Section 20. Tax audits

1. Supreme Audit Institutions shall be empowered to audit the collection of taxes as extensively as possible and, in doing so, to examine individual tax files.

2. Tax audits are primarily legality and regularity audits; however, when auditing the application of tax laws, Supreme Audit Institutions shall also examine the system and efficiency of tax collection, the achievement of revenue targets and, if appropriate, shall propose improvements to the legislative body.

Section 21. Public contracts and public works

1. The considerable funds expended by public authorities on contracts and public works justify a particularly exhaustive audit of the funds used.

2. Public tendering is the most suitable procedure for obtaining the most favourable offer in terms of price and quality. Whenever public tenders are not invited, the Supreme Audit Institution shall determine the reasons.

3. When auditing public works, the Supreme Audit Institution shall promote the development of suitable standards for regulating the administration of such works.

4. Audits of public works shall cover not only the regularity of payments, but also the efficiency of construction management and the quality of construction work.

Section 22. Audit of electronic data processing facilities

The considerable funds spent on electronic data processing facilities also calls for appropriate auditing. Such audits shall be systems-based and cover aspects such as planning for requirements; economical use of data processing equipment; use of staff with appropriate expertise, preferably from within the administration of the audited organisation; prevention of misuse; and the usefulness of the information produced.

Section 23. Commercial enterprises with public participation

1. The expansion of the economic activities of government frequently results in the

establishment of enterprises under private law. These enterprises shall also be subject to audit by the Supreme Audit Institution if the government has a substantial participation in them-- particularly where this is majority participation--or exercises a dominating influence.

2. It is appropriate for such audits to be carried out as post-audits; they shall address issues of economy, efficiency and effectiveness.

3. Reports to Parliament and the general public on such enterprises shall observe the restrictions required for the protection of industrial and trade secrets.

Section 24. Audit of subsidised institutions

1. Supreme Audit Institutions shall be empowered to audit the use of subsidies granted from public funds.

2. When the subsidy is particularly high, either by itself or in relation to the revenues and capital of the subsidised organisation, the audit can, if required, be extended to include the entire financial management of the subsidised institution.

3. Misuse of subsidies shall lead to a requirement for repayment.

Section 25. Audit of international and supranational organisations

1. International and supranational organisations whose expenditures are covered by contributions from member countries shall be subject to external, independent audit like individual countries.

2. Although such audits shall take account of the level of resources used and the tasks of these organisations, they shall follow principles similar to those governing the audits carried out by Supreme Audit Institutions in member countries.

3. To ensure the independence of such audits, the members of the external audit body shall be appointed mainly from Supreme Audit Institutions.