



To enhance oversight of public spending, Latin American countries strengthened their Supreme Audit Institutions (SAIs), in particular by involving citizens in their monitoring efforts. As a result, SAIs have recovered large sums of money and thousands of citizens now participate actively in the auditing process.

# THE LATIN AMERICAN APPROACH TO IMPROVING PUBLIC SPENDING OVERSIGHT

## SUMMARY

In the last few decades, Latin American (LA) countries have increased oversight of public spending by strengthening Supreme Audit Institutions (SAIs), including by implementing social control mechanisms to increasingly involve citizens in monitoring efforts. These reforms help ensure public funds are spent according to the law, on the policies for which they were designated, and in a way that makes a concrete impact. This policy brief analyses the implementation of these reforms in the region, focusing on their design, outcomes, and lessons learned for South Asian and African contexts.



## OVERSIGHT OF PUBLIC SPENDING IS WEAK IN MOST OF THE WORLD

Care should be taken in properly designated public funding, but equal attention must be paid to making sure that spending is carried out as intended and that it has the desired effect. The most common way countries monitor spending is by setting up an SAI.

However, SAIs are relatively weak in most countries; the [Open Budget Survey 2010](#) found that only 24 of the 94 countries surveyed worldwide had strong audit agencies, with almost all African and South Asian countries having moderate to weak SAIs, except for high scores in India and South Africa. Weaknesses included limited independence from the Executive, insufficient resources to carry out audits, and poor compliance with publishing audit reports. In light of this, LA countries implemented important reforms to strengthen their SAIs.

### What is a Supreme Audit Institution (SAI)?

An SAI is the government body that monitors the spending of other government bodies. Typically an external agency with some autonomy from the rest of the government, it carries out yearly audits of some portion of spending, reports on its findings, and in some cases inflicts sanctions.

## KEY LESSONS LEARNED

Effective reforms focused on SAIs' autonomy, technical and financial capacity, and enforcement mandate.

Expanding the scope for monitoring spending from merely complying with designation to actually achieving impact is both possible and effective.

LA SAIs used creative mechanisms to assure citizen participation, thereby improving the quality of oversight, but certain conditions seem key to success.



## STRENGTHENING SAIs: MANDATES AND CAPACITIES

Countries have strengthened SAIs by improving their autonomy, technical skills and scope for action. These are some of the key reforms undertaken:

**Political independence:** Traditionally, control mechanisms in the region were either weak or non-existent, such as when oversight was an exclusive prerogative of the Executive branch. Reforms were implemented to award SAIs greater political independence, including by allowing them to oversee spending by all public agencies, from the Executive and Judiciary branches to local governments. With these changes, SAIs emerged either as completely autonomous agencies, or as independent agencies linked to the Legislative in the sense of being charged with providing it with relevant information to hold public institutions accountable.

**Strengthening enforcement mandate:** Countries such as Argentina, Brazil, Costa Rica, El Salvador, Nicaragua, and Guatemala gave SAIs enforcement powers to inflict criminal or administrative sanctions on noncomplying public agencies. In Bolivia, Cuba, Colombia, Paraguay, Peru, and Uruguay, where SAIs cannot sanction, the coordination mechanisms between SAIs and other institutions were strengthened, such as having SAIs directly report to the judiciary or executive branch any criminal or administrative offenses found during audits.

### Measuring Impact and Effectiveness of Mexico's Social Spending

In an audit of social spending - constituting 60% of the country's annual budget - Mexico's SAI found that poverty actually grew between 2006 and 2008 because of social programmes' failure to meet their goals and anomalies in spending execution. As the Mexican SAI is dependent on the Legislative branch, the audit outcomes and recommendations were widely shared with congressmen and the public. Up to now, 41% of the SAI recommendations made to the Ministry of Social Development from 2004 to 2008 have been addressed.

Sources: [Ministry of Social Development Activities Report 2010](#); Supreme Audit Institution reports social programs' poor performance. *El Informador*, 07 April 2010.

### Strengthening technical capacities to improve audit quality:

Chile and Colombia adopted the international audit standards. Bolivia, Colombia, Costa Rica, Ecuador, Mexico, Paraguay, and Uruguay professionalized their staff, providing them specialised training and professional development opportunities.

### Broadening oversight scope:

In the past, LA's SAIs only assessed that spending occurred as designated, without focusing on the impact of that spending on citizens and communities. In the last two decades, Argentina, Chile, Colombia, and Mexico, among others, started to carry out impact audits to monitor spending effectiveness.



Sources: OLACEFS. 2010. [SAIs and the Fight Against Corruption](#); Santiso, C. 2007. [Eyes Wide Shut? The Politics of Autonomous Audit Agencies in Emerging Economies](#). Working Paper. CIPPEC, Buenos Aires.; OLACEFS. 2008. [Intellectual Capital in SAIs](#). XVII General Ordinary Assembly.



## IMPACT OF STRENGTHENING SAIS

SAIs are using their new enforcement mandates to highlight, recommend or inflict sanctions. In Colombia, the percentage of spending processes for which fiscal offenses were found increased from 35% to 78% in 2006-2010. In 2009, Ecuador's SAI uncovered 3060 civil, criminal, and administrative offenses.<sup>1</sup>

Audit quality increased as SAIs monitor more financially and socially relevant cases. Mexico's SAI audited the largest national cash transfer program (CCT), *Oportunidades*, and *Petróleos de México*, the state-owned company managing oil, the country's largest income source. The Colombian SAI audited cases like decontamination of the Bogota River and education provision.

Both the number of audits and the percentage of public funds overseen increased. Paraguay's SAI audited 50% of the total budget in 2008, while Peru audited 59% of its budget in 2009.<sup>2</sup>

SAIs performed well in the amount of assets recovered, meaning public funds that were used improperly and, thus, returned to the state. The Colombian and Mexican SAIs recovered three times their annual budget.

## INCREASING CITIZEN PARTICIPATION IN MONITORING

As part of the reform process, LA SAIs created mechanisms for involving citizens in the oversight process. As SAIs cannot audit all public spending, citizen oversight has been seen as an effective means to improve the quality of the control process, while at the same time increasing citizens' trust in public institutions and ensuring their right to participate in public decisions. The Initiative for Transparency, Citizen Participation and Accountability in LA SAIs ([TPA Initiative](#)) has identified the following social control mechanisms:<sup>3</sup>

First, many LA SAIs created communication channels, such as phone lines, offices, email, and mailboxes, to receive citizen complaints about public spending or agencies' performance. SAIs can then decide to undertake audits of institutions or programs based on this information.

Second, realizing that citizens and civil society organisations (CSOs) have more direct access to information about programmes and policies, SAIs began holding meetings and hearings to formally consult civil society about the audits they should undertake. Argentina, Colombia, and Honduras have all used these consultation processes for planning their audits.

The third, and most advanced, LA social control mechanism is directly involving citizens and CSOs in the auditing process.

This has been done in two ways. First, Argentina, Colombia, and Honduras established coordinated audits (*auditorías articuladas*), in which SAIs request citizen input about the quality of a given agency's services. This input helps to identify critical issues in service provision that should be assessed during the audit process, thereby enhancing the audit's quality and comprehensiveness. Second, Bolivia, Colombia, Paraguay, and Peru implemented citizen oversight committees (*veedurías ciudadanas*), in which the SAI or CSOs train citizens to directly participate in the auditing process, overseeing spending and highlighting anomalies and irregularities.

### Citizen Participation to Strengthen Oversight: The Case of Colombia

The Comptroller General of the Republic of Colombia (CGRC) is the leading regional SAI in promoting citizen participation in the control process, taking an integral and multi-faceted approach. First, it has worked to develop a civil and fiscal culture among citizens. From 2006 to 2010, it carried out 2,232 outreach activities, benefiting 281,861 citizens. Second, it established accessible channels for receiving citizens' input and incorporating it in the audit process. Finally, from 2006-2010, the CGRC implemented 120 coordinated audits and created 763 citizen oversight committees. To ensure these mechanisms' success, it carried out 4,964 training activities, enabling 177,196 citizens to actively participate in the oversight process.

## IMPACT OF SAIS' SOCIAL CONTROL MECHANISMS

Citizens are making use of the new input channels, providing SAIs an interesting source of audit information. In 2009 alone, the SAI in Chile received 245 complaints, in Paraguay 110, in Ecuador 255, and in Costa Rica 362.<sup>4</sup>

Citizens are getting involved in the oversight process and in high numbers. For example, Paraguay trained 256 citizens in 2009.

The quality and impact of audits has improved as citizens highlight problems and irregularities of which the SAI would not otherwise be aware. In 2009, Colombia's SAI held a public hearing to receive citizens' complaints regarding the Massive Transport Integrated System Megabus. As a result, the SAI decided to audit the system.<sup>5</sup>

Surveys show increasing citizen trust in SAIs, partly because of SAIs' increased engagement with citizens. In Colombia, 93% of citizens reported an excellent or good perception of the SAI,<sup>6</sup> and the percentage of citizens with a positive perception of Costa Rica's SAI doubled from 40% to 82% between 2003 and 2009.<sup>7</sup>

<sup>1</sup>Ecuador's SAI [Annual Summary 2009](#); Colombia's SAI's [Report 2006-2010](#).<sup>2</sup> Paraguay SAI [Report 2009](#); ["Interview to the General Comptroller of the Republic of Peru: we will audit 90% of the budget"](#), 29 June 2010. *América Economía*.<sup>3</sup> [Supreme Audit Institutions in Latin America: Diagnosis on Transparency, Citizen Participation and Accountability of SAIs](#). TPA Initiative—Civil Association for Equality and Justice (ACIJ), Buenos Aires.<sup>4</sup> Taken from each SAIs published annual performance report.<sup>5</sup> Colombia's SAI [Report 2006-2010](#).<sup>6</sup> Colombia's SAI [Report 2006-2010](#).<sup>7</sup> Marín, Aguirre, J. M. 2009. [Latin American Budget Transparency Index](#). Fundar. Mexico.

## CONTEXTUAL FACTORS

## ENABLING REFORMS OF PUBLIC SPENDING OVERSIGHT



LA's democratisation processes underpinned the push for greater accountability and oversight of spending, and an increasing preference for citizen participation is reflected in the types of reforms SAIs adopted.

Political will of public officials and SAIs, including their commitment to be transparent and incorporate citizens' input in the oversight process, were key, especially in increasing citizens' trust.

Citizens and CSOs were willing and interested in being trained and engaging in the oversight process. The fact that SAIs allocated financial and human resources and collaborated with CSOs to train citizens and community groups to effectively participate was crucial.

International and regional organizations were key in pushing for, and supporting, reforms. Organisations like the [Supreme Audit Institutions Organisation for Latin American and the](#)

[Caribbean](#) (OLACEFS) or the [Supreme Audit Institutions Organisation for Central America and the Caribbean](#) (OCCEFS) established minimum guidelines that SAIs in the region should meet. Regional benchmarking exercises, like Central America's Accountability Index, gave SAIs an incentive to improve their performance. Finally, international organizations provided needed financial and technical support to LA's SAIs.

A greater and global push for fighting corruption forced governments and SAIs to adopt reforms to comply with the [United Nations Convention against Corruption](#) and the [Inter-American Convention against Corruption](#).

Finally, laws guaranteeing transparency and access to information (TAI), accountability, and citizen participation provided an institutional framework for the SAI reforms. For example, many TAI laws require SAIs to publish their performance reports and audit results.

### LESSONS LEARNED

- 1 LA's experience shows the effectiveness of legal and institutional reforms that grant SAIs greater autonomy, technical and management capacity, and the means to enforce their resolutions and sanctions.
- 2 Assessing the impact and effectiveness of spending, and not only the legality and efficiency of it, enriches the audit process.
- 3 SAIs seem most effective when the broader general accountability scheme of the country is coherent and integral, promotes collaboration and communication among control entities, and allows the punishment of mismanagement practices but also promotes preventive mechanisms.
- 4 International and regional organisations, through their advocacy, benchmarking, and financial and technical assistance, provide an important facilitation role in SAI reform.
- 5 Involving citizens and CSOs in monitoring efforts does seem to increase the quality of audits. However, to be effective, SAIs must:
  - Create and promote effective participation mechanisms
  - Allocate human and financial resources to implement them, including citizen capacity building
  - Actually incorporate citizens' input
  - Be trustworthy, transparent and accountable

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