SAI STRATEGIC MANAGEMENT HANDBOOK

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INTOSAI Development Initiative

INTOSAI IDI DEVELOPMENT INITIATIVE

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Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs, Education and Research EAER
State Secretariat for Economic Affairs SECO

Contents

List of abbreviations

CREAM	Clear, Relevant, Economic, Adequate, Monitorable
CSOs	Civil Society Organisations
IDI	INTOSAI Development Initiative
IFMIS	integrated financial management information systems
INTOSAI	International Organisation of Supreme Audit Institutions
ISSAIs	International Standards of Supreme Audit Institutions
IT	Information Technology
MoF	Ministry of Finance
PA	Performance Audit
PAC	Public Accounts Committee
PFM	Public Financial Management
PI	Performance Information
QA	Quality Assurance
SAI	Supreme Audit Institution
SAI PMF	SAI Performance Measurement Framework
SDGs	Sustainable Development Goals
SECO	Swiss State Secretariat for Economic Affairs
SMART	Specific, Measurable, Achievable, Relevant, Time-Bound
SP team	Strategic planning team
SPMR	Strategic Management, Performance Measurement and Reporting
SSMF	SAI Strategic Management Framework
SWOT	Strengths, Weaknesses, Opportunities and Threats
ToR	Terms of Reference
UN	United Nations

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The IDI would like to thank the experts from the SAI community that provided invaluable contributions towards developing the SPMR approach on strategic management in various product development meetings in 2018. The approach lies at the heart of this handbook and was further piloted in the Pacific and Caribbean regions of the International Organisation of Supreme Audit Institutions (INTOSAI).

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About the SAI strategic management handbook

Background and rationale

It was exactly a decade ago, in 2009, that the INTOSAI Development Initiative (IDI) published its handbook on strategic planning. It details a simple, doable process for Supreme Audit Institutions (SAIs) to follow when crafting their strategies and provides detailed 'how to guidance' using formats and illustrations. The handbook accompanied an IDI programme on support to over 20 African, Asian and Arab SAIs in strategic planning. The handbook is still widely used in the International Organisation of Supreme Audit Institutions (INTOSAI) community as a blueprint for SAIs who wish to prepare a new strategic plan. Since then, several key developments have motivated an update of the original strategic planning handbook and broadening of the approach it contains.

INTOSAI adopted the International Standards of Supreme Audit Institutions (ISSAIs) in 2010. One of those standards, INTOSAI P-12 on the Value and Benefits of SAIs[1], underscores that SAIs should act as model institutions and set an example in the way they plan and also govern their operations. This also includes being objective and transparent in how SAIs report on their performance. Closely linked to INTOSAI P-12, the pilot SAI Performance Measurement Framework (SAI PMF) was developed in 2013 and endorsed in 2016 as a global evidence-based tool for measuring and reporting on SAI performance against ISSAIs and other good practices. In parallel, in 2014 the IDI launched a new strategic plan that contained a stronger focus on the provision of organisational and institutional support, next to professional capacity development, for holistically enhancing SAI performance. This also led to the creation of the SAI Strategic Management Framework (SSMF), a high-level results framework for SAIs that describes a hierarchical and holistic chain of performance elements that SAIs need to address in order to affect change. The SSMF emphasises the need to frame and measure SAI performance in relation to its contribution to a stronger public sector governance and ultimately to better lives of citizens. This external performance orientation becomes even more important in the context of the role of SAIs in the follow up and the review of the national implementation of the Sustainable Development Goals (SDGs), to which all United Nations (UN) Member States jointly committed in September 2015. Hence, strategic planning for SAIs became strongly enabled by the possibility to establish a solid and holistic baseline of performance through SAI PMF as a precondition for realistic and prioritised planning supported by the SSMF. In addition, the external orientation of the SSMF

[1] INTOSAI P-12 – The Value and Benefits of Supreme Audit Institutions – making a difference to the lives of citizens. Available at http://www.intosai.org/en/issai-executive-summaries/detail/issai-12-the-value-and-benefits-of-supreme-audit-institutions-making-a-difference-to-the-lives-o.html.

drove the need to continuously monitor, measure and report to stakeholders on SAI performance and the results that the SAIs achieves. While those aspects were captured at a high level in the IDI strategic planning handbook, they did no go in-depth into issues of annual planning, resourcing, decision-making and factors that affect implementation of strategic plans. The focus of the handbook needed to be broadened, from strategic planning to strategic management – the integration of strategy and implementation in an ongoing way to ensure sustainable SAI performance and the creation of value and benefits to citizens.

Progress and trends in SAI strategic management: the data

Global data on SAI performance also confirms the need for a shift in focus from strategic planning to strategic management. Since 2010, the IDI and INTOSAI have been taking stock of SAI performance and capacities by means of global surveys every 3-4 years[2.]. The results of these surveys feed into the Global SAI Stocktaking reports. Between 2010 and 2017, the share of SAIs with a strategic plan increased from 73% to 91%, and most of those also had an operational plan in place. However, up to a third of SAIs in some INTOSAI regions indicated that their annual operational plans were not linked to their strategic plan, which implies a disconnect between strategic priorities and annual activities. A separate analysis of SAI PMF scores published in the 2017 Global Stocktaking report[3] also confirms these findings. Only about a third of the 25-developing country SAIs in the sample had a high-quality strategic planning cycle, which links strategic plans to operational activities and resource allocation.

Moreover, when it comes to monitoring the implementation of their strategic plan, the 2017 INTOSAI Global Survey showed that 61% of the responding SAIs reported only monitoring the strategic plan at activity level and did not track SAI performance against multiannual strategic plan objectives. In some INTOSAI regions, up to a third of SAIs did not have any monitoring procedures in place related to the strategic plan.

Therefore, even though there is a positive trend in the INTOSAI community when it comes to developing strategic and even operational plans, these seem to be not yet fully geared towards supporting the improvement of SAI performance over time. Many SAIs are not there yet when it comes to having a high-quality strategic management process in the spirit and aspiration of INTOSAI P-12. As a result, there is clearly a strong potential for providing support to SAIs in linking strategic planning,

[2] The IDI Global SAI Stocktaking Reports 2010, 2014 and 2017, as well as related research, are available at http://www.idi.no/en/idi-library/global-sai-stocktaking-reports-and-research.

[3] Prepared as part of the IDI Global SAI Stocktaking Report 2017.

operational planning, performance measurement and reporting on performance. Especially the later elements are insufficiently detailed in the 2009 handbook.

Premise and content of the SAI strategic management handbook

To respond to growing needs and priorities from SAIs in the area of strategic management, IDI created the Strategic Management, Performance Measurement and Reporting (SPMR) initiative in 2016. SPMR aims to support SAIs throughout the entire strategic management cycle. SPMR's rationale is that SAIs should develop and maintain a strategic management process that enables them to achieve better performance and deliver value and benefits to the citizens.

This handbook is developed as a part of SPMR initiative. In order to distinguish this handbook from its 2009 predecessor, and to correctly reflect the changes in content, it is referred to as the SAI strategic management handbook. It presents an updated and extended version of the previous strategic planning handbook, by presenting a refreshed strategic planning approach and by incorporating a strong focus on strategic management beyond strategic planning – namely, operational planning, monitoring and reporting on SAI performance. The handbook also captures lessons learnt from an extensive preparation and piloting phase of SPMR in 2017 and 2018. The main changes from the 2009 strategic planning handbook are as follows:

- The strategic planning approach is now underpinned by the logic of the SAI Strategic Management Framework (SSMF). The main steps (assessing current performance, updating vision, mission and values, identifying strategic issues, crafting SAI strategy) remain the same, but the approach has been expanded and tailored to the SSMF results framework.
- The assessment of current performance strongly suggests using the SAI Performance Measurement Framework (SAI PMF) as a key methodology for identifying strengths and weaknesses, supported by an analysis of stakeholders' views and expectations.
- The handbook emphasizes the need for prudent resourcing at both strategic and operational planning and provides specific guidance to that end.
- The handbook makes a departure from suggesting an implementation matrix as a tool to supplement the SAI strategy. Rather, it focuses on operational planning as the critical tool to ensure strategic implementation.
- The handbook introduces cross-cutting topics such as decision-making and change management that are considered key ingredients of implementation.

The SAI strategic management handbook aims to fulfil the following objectives:

- Provide step by step, user-friendly guidance for strategic management, from performance assessment and strategic planning through operational planning, performance measurement and reporting that reflects recent developments and latest thinking.
- Encourage SAIs to keep their strategic focus on delivery of value and benefits to citizens by conducting high quality audits and other core services that make a difference.
- Promote and support the use of performance measures and transparent reporting on own performance by SAIs.
- Facilitate a shared understanding of strategic management of SAIs amongst SAIs, INTOSAI bodies, development partners and other stakeholders.

The handbook contains thirteen chapters, which take readers through the entire process of strategic management. Each chapter represents a specific aspect in the strategic management process, clustered in four parts- Fundaments and Principles (Part A); Strategic Planning (Part B); Implementation (Part C); and Planning Ahead (Part D). Each chapter from sections A, B and C is accompanied by an annex that contains additional guidance, templates, as well as an example of application based on the fictitious case study of SAI Norland.

Part A, on the **Fundaments and principles for strategic management**, starts with a detailed discussion of the concept, principles and process of strategic management for SAIs. Chapter 2 then presents the SAI Strategic Management Framework which underpins the entire strategic management approach.

Part B is dedicated to the **strategic planning process**. It starts with the topic of paring a plan on how to organise the process for developing the SAI strategy (Chapter 3). Chapter 4 discusses the assessment of the SAI's current performance and process for collecting stakeholders' views and expectations. Chapter 5 discusses the how to articulate the SAI vision, mission and values). Chapter 6 deals with identifying strategic issues that the SAI will need to address in its strategic plan. Chapter 7 describes the process and key steps in crafting the SAI strategy.

Part C covers the broad area of **implementation**, namely of what happens after the strategic plan is finalised. Chapter 8 provides guidance on developing strong operational plans linked to the strategic plan, to guide the SAI's annual work. Chapter 9 introduces the concepts of monitoring and performance measurement, while Chapter 10 deals with the various types of SAI performance reporting. The last two chapters are dedicated to the cross-cutting elements of the SAI strategic management process. Chapter 11 discusses strategic decision-making and risk management related to implementing the strategic plan. Chapter 12 casts an eye to change management and three of its key determinants – SAI leadership, organisational culture, and internal communication.

Part D aims to close the strategic management cycle by examining the phase of **strategy evaluation**. Chapter 13 emphasises the need to take stock of SAI performance, evaluate progress, identify lessons learnt from the implementation period, and devise new strategies going forward.

PART A. FUNDAMENTS AND PRINCIPLES OF STRATEGIC MANAGEMENT FOR SAIs

CHAPTER 1: SAI Performance and Strategic Management: Concepts, Process and Principles

This first chapter focuses on the concept, process and principles of SAI performance and strategic management. It provides definitions of what the terms performance and strategic management entail and relates those to the SAI context. It makes the case for SAIs to adopt and apply a sound strategic management approach and process, and to introduce a results orientation to the way they plan, steer and adjust their operations.

Starting from a discussion on what constitutes SAI performance in the first section, a main aim of the following section is to install a firm understanding on the difference between strategic planning and strategic management – two concepts that have often and been used interchangeably, but which denote two different things. The third section of this chapter casts an eye to the strategic management process, and once again illustrates how strategic planning is only one – even if a crucial - phase in it. In fact, the strategic management process can be seen as a cycle, or a loop, whereby each phase feeds into the next one, with SAI performance gradually improving over time. Finally, this chapter introduces five key principles that underpin the strategic management process, and that ensure that the process is sound and effective.

1.1 SAI performance

While one of the most popular topics of study, the concept of performance has many definitions, dimensions and meanings, even when applied strictly to the public sector domain[4]. It is therefore crucial to define how this handbook understands the term SAI performance, before venturing into concepts such as strategic management, which aim at improving such performance.

In their seminal work on Performance Measurement in the Public Sector, (Van Dooren, Bouckaert, & Halligan, 2015) distill the existing views in the academic discourse to come up with a four-dimensional

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[4] See for example OECD (1994) Performance Management in Government: Performance Measurement and Results-Oriented Management. Paris: OECD, Dubnick, M. (2005) Accountability and the promise of performance: In search of mechanisms. Public Performance and Management Review, 28, 376–417, Ingraham, P.W., Joyce, P.G. & Donahue, A.K. (2003) Government Performance: Why Management Matters. Baltimore, John Hopkins University Press, Hatry, H. P. (2002) Performance Measurement: Fashions and Fallacies. Public Performance & Management Review, 25(4), 352-358 Summermatter L. and Siegel J.P. (2008) Defining Performance in Public Management: Variations over time and space, Paper for IRSPM XXIII, Copenhagen, 6 – 8 April 2009.

classification of performance of public sector institutions. This classification considers the quality of two crucial elements – **actions and results**. Depending on whether or not those aspects are deemed relevant, four perspectives on what constitutes performance emerge.

Figure 1.1 Four dimensions of SAI performance

Quality of actions \ Quality of results	NO	YES
NO	Performance as production (1)	Performance as good results (3)
YES	Performance as competence/ capacity (2)	Performance as sustainable results (4)

Source: (Van Dooren, Bouckaert, & Halligan, 2015).

At a minimum, if neither quality of actions, nor of results is considered, then performance can be seen as carrying out tasks according to the specifications. In other words it equals **production**. For SAIs, this would imply that performance is about doing audits and other core services in line with the SAI mandate (1). However, more often, in the public sector discourse, performance is concerned with the quality of actions and tasks being carried out, which can be either high or low. In this case, SAI performance attains a value-based dimension, and becomes associated with the aspect of **professional competence or organisational capacity** to perform said tasks well (2). A third perspective on what constitutes performance is that it is the quality of the results or achievements by the SAI that matters most. The principal perspective adopted in this handbook is that such achievements are changes in the immediate public sector environment influenced by the SAI audits and other core services, such as jurisdictional controls. Therefore, under this perspective, performance is defined by the **quality of the SAI main products**, and by the extent and quality of change those affect, rather than the quality of the underlying skills, competences, systems and processes (3). Finally, performance can be understood as the combination of both capacity and high-quality achievements (4). This is when the SAI is in a position to produce **sustainable results**, namely deliver consistently high-quality audits and other core services, which contribute to positive change in the immediate SAI external environment. SAI performance in this handbook, refers to this last conceptualization.

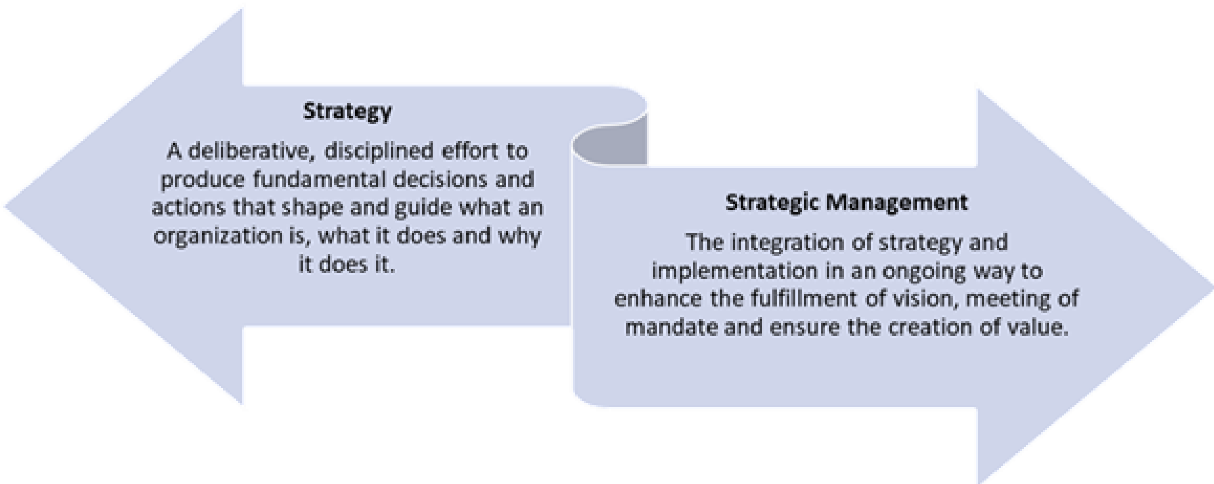
SAI Performance: *The combination of institutional, organisational and professional capacities and competences that results in the sustainable (continuous and consistent) delivery of high-quality audits and other results that affect positive changes in the SAI public sector environment and contribute to the better lives of citizens*

1.2 SAI strategic management

As explained in the Introduction, a part of the rationale for this handbook is the need to expand the concept of strategy and strategic planning to the broader, and more encompassing term of strategic management. Many definitions exist of both terms, and they are often brought together, or opposed to each other, to be able to establish a clear delineation between them.

Politt and Staub (1999) state that "*Strategic planning is a principal element, but not the essence of strategic management, which also involves resource management, implementation, control and evaluation*". They also emphasize that strategic management is not a linear process of sequential steps. Rather, it is often a combination overlapping activities, in which a strategic perspective is imposed on an ongoing basis "*to ensure that strategic plans are kept current and that they are effectively driving other management processes*". Therefore, on the one hand the objectives and direction of the strategy should drive implementation, but on the other hand it is also plausible to assume that during the implementation process, strategic learning and thinking may lead to changes in the strategy. This iterative view of strategic management is also evident when considering that while a strategy "*provides an opportunity to chart a strategic direction and actions to ensure the organisation's viability, efficiency, and ability to add public value*" (Poister T. , 2010), it is the implementation of that said strategy that ultimately defines its success. Finally, (Byrson, 2011) provides the most clear-cut distinction between strategy and strategic management in the context of public sector institutions, as presented in Figure 1.2:

Figure 1.2 Byrson's definition of strategy vs. strategic management



Source: (Byrson, 2011).

Strategic management for SAIs involves policies, strategies and techniques intended to direct SAI leadership and staff's attention and behaviour towards the continuous and holistic improvement of SAI performance in line with the desired changes selected in the strategic plan. This also implies that SAI strategic management shifts the traditional focus of managing inputs (budgets and staff) and managing processes (rules and structures) to "**managing for results**", whereby the SAI steers its inputs and processes towards clearly defined performance goals.

***SAI strategic management**: the integration of strategy and implementation in an ongoing way to enhance the fulfillment of the SAI vision, the meeting of the SAI mandate and ensure the delivery of value and benefits to citizens.*

1.3 SAI strategic management process

While the definitions presented in the previous sections make it clear that strategic management is not necessarily a linear process, but rather involves many iterations and adjustments, it is useful to distinguish the most common stages in a typical strategic management process. Broadly speaking, the strategic management process for a SAI comprises three main stages: Strategy formulation, strategy implementation and strategy evaluation (David, 2011). Each of those contains several critical aspects which also form the bulk of the remaining chapters of this handbook:

Figure 1.3 Three main stages of the SAI strategic management process

1. Ensuring **effectiveness** by "Doing the right things" through strategy formulation;
2. Achieve **efficiency** by "Doing things right" through strategy implementation;
3. Ensuring **accountability and learning** by "Being held responsible for what is done" through control and strategy evaluation.

In following, the key tasks under each of the three stages of the strategic management process are explained in brief.

<u>Strategy formulation</u>

1. **Assess its current situation.** This first step will enable the SAI to understand where it stands in terms of its current capacity and key products. The SAI PMF offers an evidence-based and holistic assessment framework of the SAI performance, including on the root causes of current performance. However, SAI PMF does not assess what is the image and the perception of the SAI and its work among its counterparts the public sector environment it functions in. A stakeholder analysis can add value to that process by providing the views of external and internal stakeholders so that the SAI can get a sense of where it stands in the opinion and expectations of its main stakeholders.
2. **Articulate its vision, mission and values**. The SAI needs to develop or revisit its vision, mission and values in the light of emerging issues or new trends at the domestic or international levels. In fact, there might be an existing vision, mission and values from the previous strategic plan, and part of the development of the new strategic plan may be to assess if those elements still translate the organisational thinking or if they need to be amended or updated.
3. **Craft the SAI Strategy**. Once the organisational vision, mission and values are set, the SAIs needs to identify the strategic issues and options it can address in its strategy. The findings from the SAI PMF and stakeholder analysis feed into a Strengths, Weaknesses, Opportunities and Threats (SWOT)-matrix. A SWOT matrix is a simple, yet powerful tool to identify and select strategic issues that the SAI needs to address in its strategy. Thus, the SAI strategy will present a response to those strategic issues, structured in a hierarchical results framework distinguishing between impact, outcomes, outputs and capacities. SAI should revisit the SSMF and first consider the desired long-term impact it wants to achieve, by casting an eye to the objectives of INTOSAI P-12.. It should then consider which changes in the broader public sector environment it has the strongest potential of contributing to and define related outcomes. The SAI should then consider the direct outputs (products) of its own work and identify which changes in e.g. the coverage and quality of its audit work are most likely to facilitate the desired outcomes. Capacity gaps and needs should be determined in relation to outputs. Realistic assumptions, as well as thorough risks mitigation strategies should underpin that process. There will always be more needs and issues to consider than is possible to cover for the duration of a strategic plan. The final selection and mix of strategic issues to be addressed in the strategy should be based on a proper feasibility analysis on which are the most critical priorities, are they realistic and implementable, and do they have the strongest potential to affect the desired long-term changes.

Strategy implementation

4. **Linking the operational plan to the strategy**. The biggest test of the strategic plan is in its implementation. In order to implement the strategic plan, it is recommended that the plan be broken up into annual operational plans. Each operational plan can be seen as a vehicle to translate the strategic intent into actionable measures, with specific responsibility assignments, and measurement of progress. A strong operational plan is not only linked to the strategy but is also holistic (including all SAI operations), includes the right level of detail, clear timeframes, and maintains a fine balance between flexibility and specificity.
5. **Allocating financial and human resources.** A plan without a budget is a wish list. This simple observation is all too often forgotten when drawing both strategic and operational plans. Often, plans and budgets are prepared independently, resulting in stagnating progress towards the strategy. A strong operational plan that considers the availability of both financial and human resources at any point of time is a prerequisite for good strategic management. In turn, when the operational plan is linked to the strategy, any decisions on resource (re)allocation can be made in light of strategic priorities.
6. **Measuring and reporting on performance.** What gets measured gets done! For a SAI to monitor and evaluate its strategic plan it is necessary to have in place a performance measurement system. The performance measurement system sets out the SAI's performance baselines and targets, performance indicators used to track the achievement of the targets, as well as details on how often and on the basis of what data the indicators will be assessed. In publishing its strategic plan, the SAI is communicating its intent and course of action to its stakeholders. As an accountability measure the SAI should report on the performance and progress of the strategic plan.
7. **Managing performance and risk.** No strategy or plan is set in stone. They are living documents, that should respond to a changing environment, by possibly adjusting performance expectations and priorities. Making decisions related to performance is a fundamental part of strategic management. Decisions will always entail a normative, value-based element, but they should as much as possible be objective, transparent and clearly communicated. Risk management is a process that affects a SAI's achievement of its strategic goals and objectives. Managers control risks when they modify the way they do things to make their chances of success as great as possible, while making their chances of failure, as small as possible.

Strategy evaluation

8. **Taking stock:** During the implementation process, the progress to date and lessons learnt need to be carefully monitored so that timely corrective action can be taken timely. The strategic plan and

its implementation also should be evaluated at regular intervals to determine if the assumptions made during the development of the plan still hold good. The longer the duration of the strategic plan, the more important it becomes to periodically assess performance. Suitable modifications can be incorporated in the annual operational plan.

9. **Planning ahead**: It is important that the strategic planning process is not a one-off exercise in the SAI. The process should be taken up on periodic basis, so that when one strategic plan period is about to come to an end, the next plan is in place. Institutionalisation of the process and development of SAI's own capacity to carry out the process are important for sustained development.

1.4 SAI strategic management principles

Figure 1.4 SAI strategic management principles

Five key principles have emerged from the practice of supporting SAIs in strategic management as fundamental to uphold throughout the SAI strategic management process (Figure 1.4). Those are aimed at ensuring not only that the SAI can devise and implement an effective strategic management process, but also that at any of its stages, the SAI stays true to its mandate and mission, and can lead by example. The Annex contains an elaboration on how these principles apply in practice to the various phases and aspects of the strategic management.

A. Keep it manageable

The SAI needs to be able to manage and exercise control over the whole strategic management process to ensure the achievement of its intended results. This implies first that it needs to maintain an overview of the process by establishing a baseline of where it is at the start with regard to its performance and subsequently monitor changes from this baseline. Managerial decisions should strongly consider such factual information, so that the SAI remains on track. At the same time, keeping it manageable also means that a performance measurement system should be kept simple, with the right aspects of performance monitored at the right time.

The SAI should not also overchallenge itself and should ensure that commitments in the strategic plan are realistic and can be implemented, even if it requires a stretch. The SAI should prioritise and focus on the most critical and relevant issues for itself and for its key stakeholders. It should avoid trying to embrace too many issues that might hinder its ability to deliver on intended results. This does not mean that the SAI should not be ambitious – rather it should strike a balance between stretching itself and ensuring that it can reach its objectives.

Finally, the SAI should also consider its internal and domestic context to adapt or tailor the process to the country context and develop local solutions. While SAIs can benefit from a wealth of experiences and good practices on strategic management in the INTOSAI Community and beyond, the extent to which those can be directly applied in a given country context will inevitably vary. Therefore, as part of keeping the strategic management process manageable, the SAI should also ensure that it adapts and installs a suitable process given its own specific needs, abilities and circumstances.

B. Be inclusive

Inclusiveness must be at the core of the strategic management process. At the minimum, it implies that the right people should be involved at the right time throughout the strategic management process. More broadly, inclusiveness aims to ensure that SAI staff feel empowered and have ownership towards the achievement of stated performance goals. Inclusiveness also upholds the principles of non-discrimination, gender equality and leaving no one behind, including by ensuring the needs of all relevant stakeholders are taken into consideration. It refers to the need to consider the main SAI internal and external stakeholders in the strategic management process and conveys the notion that people should not only be allowed to thrive but should have a voice and effective opportunities to shape the SAI's course of action. Inclusiveness is a key determinant of the quality of the strategic management process.

Internal stakeholders, namely SAI staff at all levels, are critical actors the strategic management process and need to be fully involved where relevant. This does not mean that everyone should be involved in everything, as the process has to be manageable, but that the SAI should be mindful that decisions about strategic direction and implementation are not taken unilaterally at the top. External stakeholders, namely the users and beneficiaries of SAI 's work, should be able to express their needs, concerns and expectations, and the SAI will have to take those into account to fully reflect the inclusiveness of the process.

Strategic management is also about being mindful of emerging or important issues, such as genderenvironmental sustainability or SDG goals and targets and being able to integrate them in the management process. Therefore, inclusiveness in strategic management will require innovation in strategy design and implementation.

C. Focus on outcomes

The SAI does not work for itself. Its ultimate goal and thus intended impact is to deliver value and benefits and contribute to making a difference in the lives of citizens. It does so best by influencing concrete changes at what this handbook refers to as the outcome level. Namely, it should focus on inducing positive change in its immediate public sector environment, with the aim of supporting concrete improvements in the accountability, transparency and integrity of government and public sector entities.

A key principle in the SAI strategic management process is that the SAI should develop its strategy starting the identification of relevant outcomes . In other words, before considering what it needs to change internally in terms of its core business, practices and operations, the SAI should consider what changes in its direct public sector environment (outcomes) it should seek to affect.

In all stages of the process- from planning, through implementation, to measurement and reporting, the extent to which the SAI facilitates strategic outcomes will be a key consideration for decision-making and a key determinant of performance. The outcomes identified in the SAI strategy will be broken down into outputs related to SAI's core business, which form the main focus for the operational implementation on an annual basis. A results framework, detailing interlinked performance measures at the outcome and output level, guides SAI monitoring and reporting. Decision-making is always made in the context of alignment at all levels and ensuring that SAI stays on track in facilitating the realization of strategic outcomes.

D. Lead by example

SAIs credibility depends on being seen as independent, competent and publicly accountable for their operations. In order to make this possible SAIs need to lead by example. The strategic management process must be underpinned by the willingness to be seen as a model organisation.

The SAI therefore needs to demonstrate high level of accountability and should be held to the same standards it holds other public sector entities when it comes to reporting on its own activities. It needs to be held to account and be able to answer the question «who audits the auditor» and must demonstrate adherence to ethical values and foster internal transparency.

The SAI should also demonstrate willingness to learn and improve as an organisation. This implies readiness to assess performance, to analyse, accept and address root causes thereof, and to be transparent and open about challenges and how it has responded to those.

Acting professionally is a key dimension of leading by example. INTOSAI defines professionalization as the ongoing process of gaining authoritative expert and ethical qualities and demonstrating a high level of competence or skills. It means increasingly being, and being seen to be, professional, doing the right work at the right time as effectively and efficiently as possible. SAIs should have at heart to demonstrate their professionalism in their strategic management process.

Even though leading by example is an organisational value that should transpire at all levels of the organisation, this value should first be embodied by the leadership who should set the tone at the top. Without a strong commitment from SAI leadership, it will be impossible to expect any sustained changes in SAI performance.

E. Manage change

Strategic management is about visualising and navigating change from a current to a desired future state. On the other hand, change management is concerned with how to manage that change systematically, smoothly and effectively at all levels, from the organisation to the individual. In that regard, strategic and change management are two sides of the same coin. This final key principle thus serves as a reminder that even with a great strategy and all prerequisites for its implementation, change rarely occurs without being actively guided, nurtured and sustained. A SAI is very much a people-driven organisation; its staff are its key asset. They are the main implementer of change and at the same time they are also a recipient, or beneficiary of the change.

Strategic management is therefore also about managing change - recognising and explicitly considering the three main aspects of change: Cultural change, which pertains to a change in the mindset and behaviours of groups and organisations; people change which is about changing individual attitudes of employees, and process change which denotes changes at the level of organisational systems and practices. To enact and manage such changes in organisations, essential preconditions need to be in place. Those include SAI leadership as a critical enabler of that change, a positive organisational culture that supports buy-in for change from the people it, as well as regular and clear communication. The role of change management is so crucial that this handbook dedicates an entire chapter (Chapter 12) to this topic.

Chapter 2: SAI Strategic Management Framework

The SAI Strategic Management Framework (SSMF) describes the value chain through which a SAI delivers value and benefits to citizens, and the SAI environment that influences this value chain. A sound understanding of this framework is a prerequisite for the strategic management of a SAI.

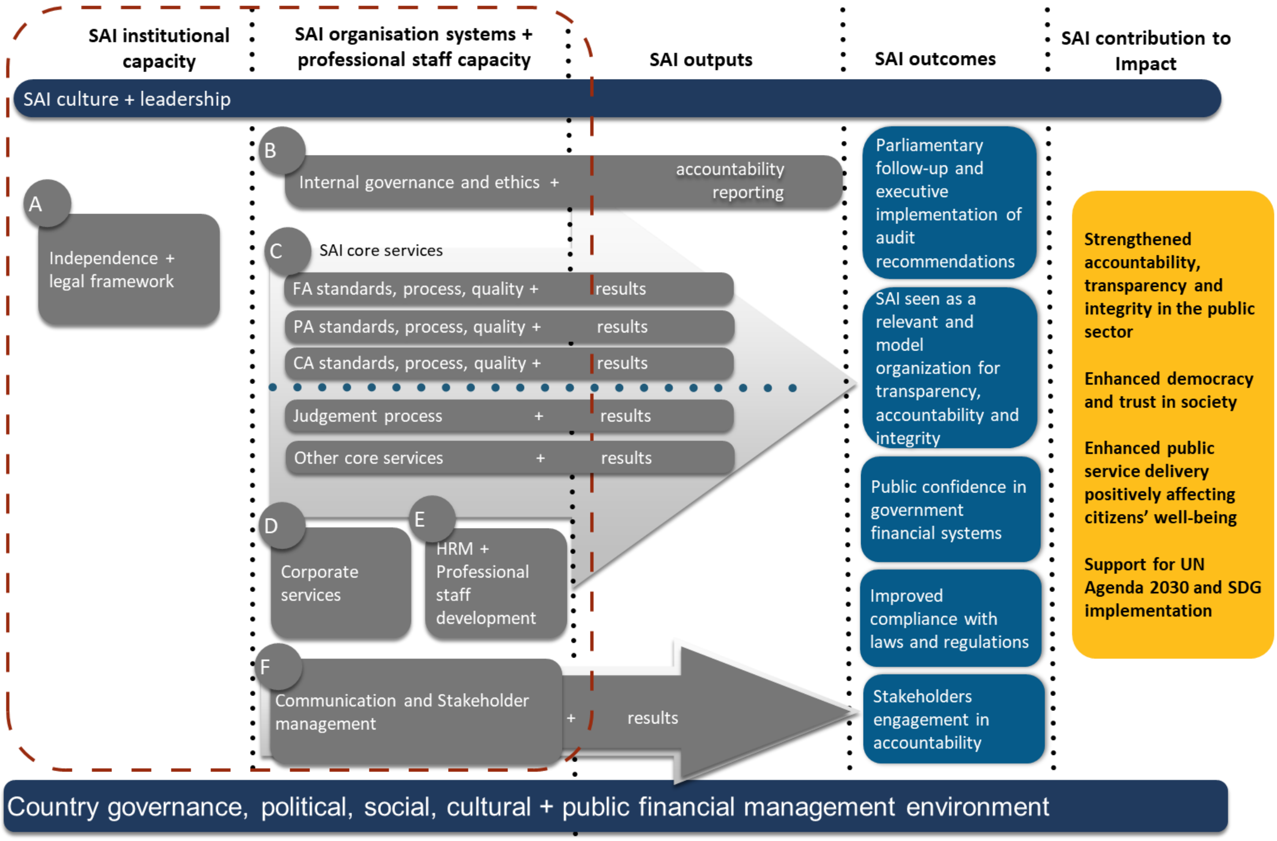
The SSMF lies at the heart of establishing a strong strategic management process in a SAI. It functions as a high-level results framework that SAIs can apply and adapt to their own context. It places the development of the SAI's internal capacities and key products, such as audit reports, in the perspective of what such efforts may mean for the SAI's key stakeholders and for the citizens they collectively serve. Consequently, the SSMF adopts the definition presented in Section 1.1 and defines SAI performance in terms of the contribution of the SAI's work to changes in public sector environment. As such the SSMF provides SAIs with a structured approach to lay down their ambitions for the role and contribution they would like to play for society, and to carve out and implement suitable strategies for stronger performance towards such long-term goals.

The SSMF is closely aligned to SAI Performance Measurement Framework (SAI PMF). SAI PMF examines current SAI performance and its root causes, and concludes on the extent, to which the SAI contributes to changes in the public sector (outcomes) and in the lives of citizens (impact). Conversely, the SSMF asks the SAI to first determine the desired impact and changes it desires to contribute to, and then to identify how it should structure and prioritise its own operations and strengthen its capacities to be in the best position to facilitate such changes. Reconciling the results of the SAI PMF assessment in terms of current performance with the desired performance as captured by the SSMF will give a SAI the best chance of identifying strategic priorities, capacity gaps, and strategies how to address those.

The first section in this chapter provides an overall explanation of how the different elements of the SSMF framework relate to each other (the logic of the framework). The subsequent sections then go on to explain each element of the framework in more detail.

2.1 SAI Strategic Management Framework logic

Figure 2.1 SAI Strategic Management Framework



As mentioned above, the SSMF describes the value chain that a SAI needs to follow to transform itself towards an institution delivering stronger performance in line with the objectives of INTOSAI P-12, On the Value and Benefits to Citizens (Figure 2.1). The main premise of the SSMF is that a SAI should identify and plan its operations in such a way as to promote and enhance the potential effects of its core audit work on the quality of the public sector environment. Typically, a SAI is primarily concerned with fulfilling its mandate and delivering high-quality audits. The SSMF goes a step beyond this ambition and encourages SAIs to be explicit about how they can make a difference through their work, and to employ dedicated strategies to affect such changes. In this sense, the SSMF ultimately sees SAI performance as a contribution to positive changes in the public sector environment, and through those, to positive changes in the lives of citizens.

Accordingly, the logic of the SSMF starts with the critical question of what the ultimate reason for the SAI's existence is, or how it can contribute to making an **impact**, to a long-term lasting change to the lives of the citizens it serves. The core objectives set in INTOSAI P-12 in terms of SAIs contributing to stronger transparency, accountability and integrity, as well as the SAI contribution to the implementation of UN 2030 Agenda and Sustainable Development Goals (SDGs) provide the key reference points as to what such contribution to impact by SAIs may constitute. The SAI's impact can also be seen as a contribution to democracy and social cohesion, as well as to stronger public service delivery and citizens' well-being. Importantly, a SAI can only indirectly influence changes at this level, due to the multitude of other stakeholders and factors that also play a role.

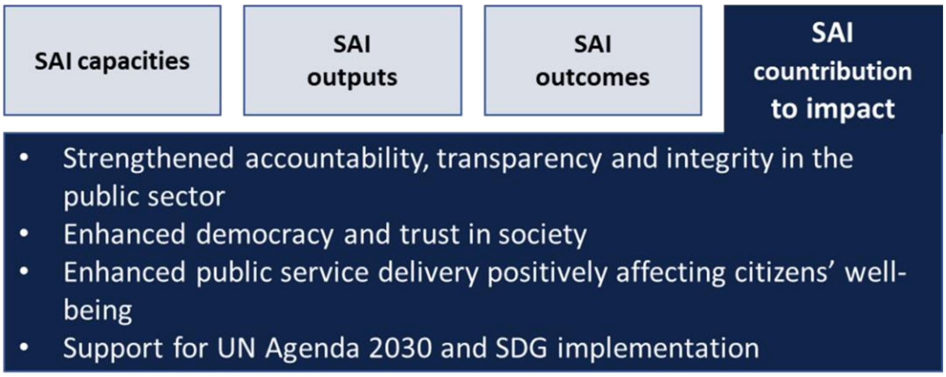
For a SAI to achieve its ambition of contributing to impact, it needs to identify and facilitate **SAI outcomes**. SAI outcomes are those medium- to long term changes in society that the SAI can substantially contribute to, but which are still not within the full control of the SAI. For example, a SAI can contribute to improved compliance of public sector officials with rules and regulations by conducting and reporting on high quality compliance audits, with strong recommendations. However, if public sector officials do not read the audit reports or are not held accountable for their actions, enhanced compliance may not happen, despite high-quality audit reports. Such changes are therefore not within the SAI's direct sphere of control, but the SAI can nevertheless have a significant degree of influence over the process. The column on 'SAI Outcomes' in the SSMF provides an illustrative, not exhaustive, list of possible outcomes that a SAI can aim at significantly contributing to.

Going further down the value chain, we come to **SAI outputs**. SAI outputs are those results that are within the control of a SAI, direct products of SAI processes and which the SAI is mostly responsible for. It is through those products that the SAI has the highest probability of being able to influence broader changes in the public sector environment as envisaged by the SAI outcomes. SAI outputs are typically the result of its core business process, which is the audit process. The SSMF includes three sets of SAI outputs: Next to the coverage and quality of audit work, outputs also may include the results from accountability reporting, from stakeholder engagement and communication.

A SAI's ability to produce outputs, in turn, depends on its capacity and environment. The SSMF defines three dimensions of **SAI capacity,** institutional, organisational and professional. A SAI's ability to produce results is an interplay of its capacity across these three dimensions. For example, if the SAI wants to produce quality performance audit reports, it needs a legal mandate to conduct performance audits (institutional capacity), audit methodology based on applicable standards, an effective audit planning and implementation process that ensures quality audit reports (organisational capacity) and a competent and motivated performance audit team (professional capacity). The SSMF breaks down capacity into several domains. Institutional capacity pertains to the SAI independence and legal framework. Organisational capacity captures issues related to internal governance, audit methodologies and practices, as well as financial management and corporate services and external communications. Professional capacity is about human resources and professional development.

SSMF also contains two other key elements, **SAI leadership and SAI culture**. These are cross-cutting elements that affect everything across the framework. SAI leadership sets the tone at top and guides the organisation towards affecting change. The organisational culture will affect the extent, to which staff is receptive and open towards change. It has wide-raging implications for the SAI's capacity, its ability to produce outputs, to facilitate outcomes and contribute to impact. Importantly, albeit results from communication and stakeholder engagement activities can be core products of SAI's work, they also serve a cross-cutting purpose. Communication is necessary for a SAI in advocating for greater SAI independence, in achieving audit impact by engaging with stakeholders throughout the audit process and is also key in the strategic management of a SAI. The SAI is also affected by its **social, economic and political environment**. Understanding the local context of the SAI and its interconnection with the SAI is critical in strategic management of any SAI.

2.2 SAI Contribution to impact



The SSMF starts from the premise that a SAI can only sustainably improve its performance if it defines this same performance in terms of the long-term, lasting societal changes it aims to influence. This level of intended impact of the SAI's work and operations is the starting point for any formulation of a strategic plan, as it forces the SAI to critically consider the potential effects of the results of its work in terms of improvements in the lives of the citizens of its country. In other words, the SAI needs to broaden its focus beyond the primary objective of fulfilling its mandate and preparing its audit reports. It should consider what can and should happen, finally, as a result of, among others, high-quality and credible audit reports. Thinking about impact is about asking the question "*What is it that the SAI is ultimately aiming to achieve as an institution*?". Anything that a SAI does should be put through the lens of the question of whether it allows the SAI to better contribute to impact.

Importantly, a SAI cannot fully and single-handedly influence such changes. Many other stakeholders and factors play a role as to whether or not long-term lasting improvements materialize, and so the SAI's contribution is only an indirect one. A SAI should not be held accountable for circumstances it cannot control. By explicitly considering the further elements in the SSMF however, and by placing them at the heart of its strategic management approach, a SAI has the opportunity to strengthen its influence and contribution to impact and to making a difference to the lives of citizens.

The question "*Why do SAIs exist*?" is often answered through INTOSAI P-12, On the Value and Benefits of SAIs, which states that public sector auditing as championed by SAIs plays an important role in making a difference to the lives of citizens. Consequently, the SAI's contribution to impact is firstly framed in the context of INTOSAI P-12, and in the particular through the first broad objective[5] that SAIs should pursue in order to contribute to making a long-term, lasting change the lives of citizens (Figure 2.2, see also Annex to Chapter 2 on the principles behind INTOSAI P-12).

Figure 2.2 INTOSAI P-12, SAIs making a difference to the lives of citizens

The first INTOSAI P-12 objective refers to the SAI's contribution to strengthening accountability, transparency and integrity in the public sector. This is a key contribution of SAIs to impact at the broad societal level. To ensure that elected officials act in the best interests of the citizens they represent, governments and public sector entities need to be accountable for their stewardship over, and use of, public resources. SAIs strengthen accountability, transparency and integrity by independently auditing public sector operations and reporting on their findings. This enables those charged with public sector governance to discharge their responsibilities, in responding to audit findings and recommendations and taking appropriate corrective action, and thus complete the cycle of accountability. To ensure that SAIs are best placed to contribute to stronger accountability, transparency and integrity in the public sector, they need to safeguard their independence; carry out necessary audits and report publicly on their results; and enable appropriate follow-up and oversight.

[5] The other two ISSAI-12 objectives (SAI demonstrating ongoing relevance to citizens, Parliament and other stakeholders and Being a model organisation through leading by example) are captured at the outcome level in the SSMF.

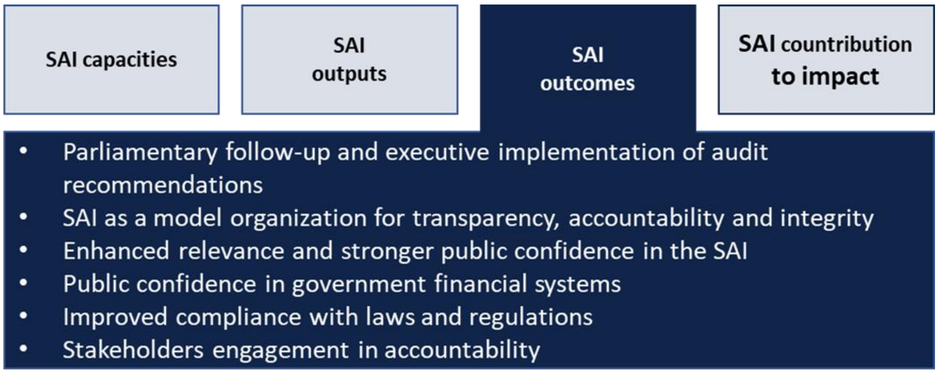
As independent oversight institutions, SAIs also play a vital role for promoting and maintaining the principle of democracy and fostering a spirit of trust and social cohesion in society. Their work is the fundament for securing the accountability of public service officials and institutions. By supporting stronger integrity of public sector officials, the SAI can ultimately contribute to a stronger trust of citizens in their governance system and practices, and thereby support stronger social cohesion.

SAIs can also play an important role for strengthening public service delivery as a whole, and through that for improving the well-being of the citizens that benefit from such services. Many SAIs carry out performance audits, where they make findings and recommendations on how the effectiveness, efficiency and equity of key government services and programmes can be strengthened. Strong performance audits can reduce expenditure and waste, or can improve domestic resource mobilisation, thereby increasing the fiscal space for the implementation of key national goals. Strong compliance audits and audit of internal control procedures may help deter corruption and support prudent and responsible public financial management. Compliance and financial audits contribute to strengthen public service delivery by pointing out to weaknesses in the public financial management practices and systems that underpin the state's provision of goods and services.

Finally, SAIs can contribute to the UN Agenda for Sustainable Development, and the 17 Sustainable Development Goals (SDGs) that aim to end all forms of poverty, fight inequalities and tackle climate change, while ensuring that no one is left behind. Each country has signed up for these goals which are integrated, universal and indivisible. Taken together, the SDG goals practically cover the entire audit universe of a SAI and as such it has various ways of contributing their implementation in their respective national context. SAIs can, through their audits and consistent with their mandates and priorities, make valuable contributions to national efforts to track progress, monitor implementation and identify improvement opportunities across the full set of the SDGs. The role of SAIs for the UN Agenda 2030 is recognised centrally in the INTOSAI strategic plan 2017 – 2022[6], which includes SDGs as one of the cross-cutting priorities. The Abu Dhabi Declaration[7] agreed at XXII INCOSAI in December 2016 calls on SAIs to make a meaningful independent audit contribution to the 2030 Agenda for Sustainable Development.

[6] Available at: http://www.intosai.org/fileadmin/downloads/downloads/1_about_us/strategic_plan/EN_INTOSAI_Strategic_Plan_2017_22.pdf
[7] Available at: http://www.intosai.org/fileadmin/downloads/downloads/0_news/2016/141216_EN_AbuDhabiDeclaration.pdf.pdf

2.3 SAI Outcomes



For a SAI to be able to most effectively contribute to impact, it needs to identify and facilitate SAI outcomes. SAI outcomes are the medium- to long term strategic changes in the SAI's immediate external environment and stakeholders. The SAI can substantially contribute to such changes, but it cannot fully steer and control their achievement, as they involve the behaviour of other stakeholders, such as the Executive, the Parliament, the media or society.

For example, a SAI can contribute to improved compliance of public sector officials with rules and regulations by conducting and reporting on high quality compliance audits, with strong recommendations. However, the audits and recommendations alone cannot ensure improved compliance. Recommendations need to be followed up and implemented, and this involves the decisions, actions and behaviour of government officials, who are not directly accountable to the SAI and under its control. Similarly, the SAI can, through providing clean audit opinions based on high-quality ISSAI-based financial audit in its reports and through publishing these reports, contribute to stronger public confidence in the country's financial management systems. However, the degree of confidence will also depend on whether and how other stakeholders, such as media, portray the subject, and whether the public has the interest and financial literacy to understand the subjects at hand.

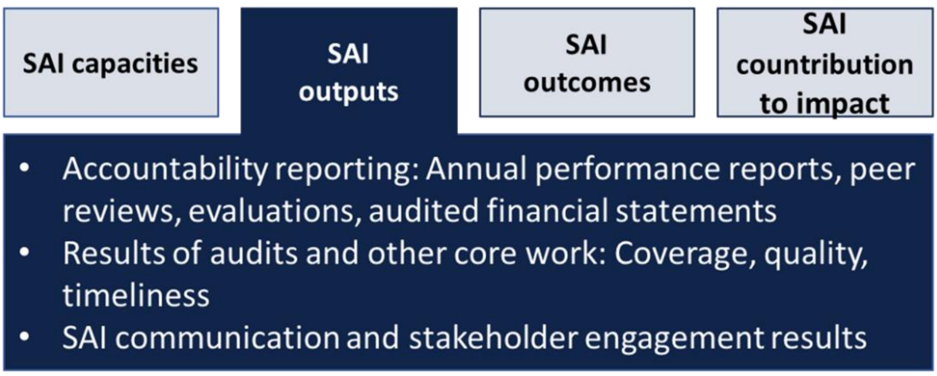
It is important to note from the onset that while the outcome level is at the core of the SSMF, when applying the framework to their own strategic planning process, SAIs should remember that the definition of what are the envisaged changes at that level will be **country- and SAI-specific**. The SSMF contains a non-exhaustive, exemplary list of commonly occurring SAI outcomes that describe such changes that the SAI, through its core audit and other work, can significantly, albeit not fully, influence. Depending on the current capacities, challenges and priorities of the SAI and country in question, SAI outcomes can range from influencing stronger legislative follow-up of audit recommendations, to improving the confidence of the public in the SAI, the financial management systems, or both. In the examples above, improved compliance with laws and regulations and stronger public confidence in the country's financial management systems both illustrate possible SAI outcomes, or changes that the SAI may wish to concentrate its efforts on influencing. Therefore, SAI outcomes can be assigned on one of three broad, mutually reinforcing categories.

SAI credibility refers to the public confidence that the SAI acts as an independent oversight body that helps the citizens in ensuring accountability, transparency and ethical behaviour of those charged with governance. Needless to say, SAI credibility also depends on the SAI leading by example in holding itself to account, being transparent and demonstrating ethical behaviour in all situations.

The area of audit outcomes covers the implementation of audit recommendations stemming from the SAI's core business of doing audits. If auditees implement constructive and relevant audit recommendations provided in the SAI's audit reports, this would lead to specific improvement in governance systems and ultimately contribute to better service delivery to citizens (impact level). As in the example above at the impact level, performance audits can support more effective and efficient policy-making and contribute to resource mobilisation. Audit outcomes also cover the public confidence in financial statements, which is enhanced if the SAI can provide unqualified financial audit opinion on the financial statements of government and its entities. Finally, audit outcomes can also entail improved compliance to rules and regulations, which is strengthened when governments act on SAI observations and recommendations in their compliance audit work.

Effective SAI engagement with stakeholders may also lead to greater interest and engagement of stakeholders e.g. parliament, civil society, media, citizens, professional organisations, international organisations in the accountability process at the national level. Such engagement can also help in bringing together different actors in the accountability domain to ensure greater coordination, more demand and cooperation towards enhancing accountability.

2.4 SAI Outputs



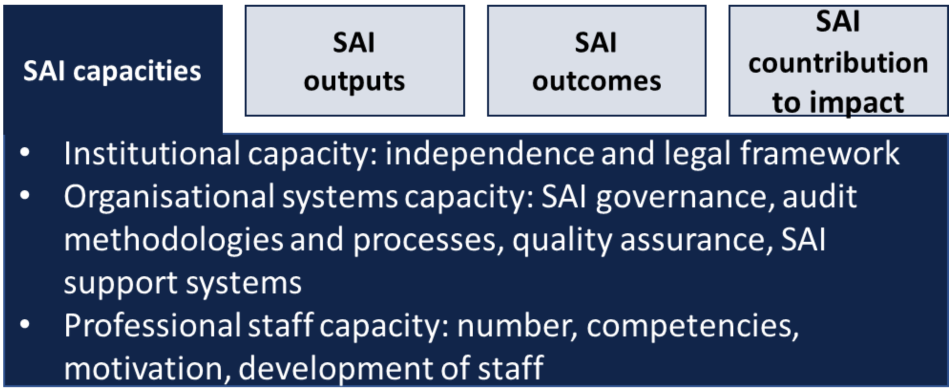
SAI outputs are those results that are within the control of a SAI, direct products of SAI processes, which the SAI is mostly responsible for. The achievement of those outputs is a prerequisite for a significant contribution to the SAI outcomes, as they represent the best way in which the SAI can exert influence and facilitate the achievement of the outcomes which are not entirely under the SAI's control. Typically, the SAI will concentrate most of its efforts on achieving its desired outputs The SSMF includes three sets of SAI outputs, Accountability reporting, Audit results and Results from stakeholder engagement and communication. Among those, each SAI may choose a slightly different set of desired outputs, depending on their priorities, needs and most importantly, aspirations for affecting change at the outcome and output level.

Accountability reporting refers to the SAI being transparent and accountable about its own actions and performance. Many SAIs publish annual reports. However, often these reports mainly contain descriptions of SAI activities. They fall short of the expectations of an Annual Performance and Accountability report on SAI performance against performance targets for the year. If a SAI aims at true accountability reporting through its annual report, it would be necessary for the SAI to report on performance (strengths and weaknesses and explanatory factors thereof) and not just activities. Publication of peer review reports, evaluations such as SAI PMF and others, publication of auditor's opinion of SAI's financial statements are some of the other ways in which a SAI could do accountability reporting.

Audit and other core services' results are at the centre of SAI outputs. Depending on the audit practice of the SAI these results could be financial audit opinions, performance audit reports, compliance audit reports, , jurisdictional controls and decisions. Some SAIs publish one annual audit report that contains all their audit work, while other may use different reports or publish each individual audit report. In looking at audit results, both the quantity (reflecting adequate coverage) and quality (as per applicable standards, timeliness) needs to be taken into consideration.. SAIs that have other core processes (for instance judicial function) would produce SAI results from those processes, which would also be looked at from quality and quantity perspective.

Communication and SAI stakeholder engagement results can entail a broad range of SAI-driven products aimed at strengthening the related outcome of effective SAI stakeholder engagement. Results in this area can range from briefings and support for the legislative body charged with financial oversight, press releases, social media and other publicity engagements and press conferences, initiating a cross-institutional dialogue on financial management subjects, engagement with civil society organisations, awareness raising campaigns on accountability for various groups in society, for example for youth or at the regional level, for youth, involvement of citizens in audit process and others.

2.5 SAI Capacity



The extent, to which a SAI can produce strong outputs, depends largely on its capacity. SAI's capacity means the frameworks, skills, knowledge, structures, and ways of working that make the SAI effective.. There are three different dimensions of capacity– institutional, organisational and professional. Those denote the degree of ability of the SAI to effectively mobilize its professional and financial resources, processes, systems and operations, towards the achievement of its intended outputs. SAI capacity also determines the to manoeuvre in the environment it operates in and utilise the opportunities that arise from it. In the SSMF, the SAI needs to identify and potentially strengthen specific capacities in relation to the desired outputs it aims to produce.

Institutional Capacity of a SAI relates to the SAI's Independence and legal framework that define its roles and obligations as a public sector institution. In turn, those also determine the SAI's ability to form associations and coalitions with other public sector institutions, and the capacity to act by its own initiative and autonomy, both internally and externally (Box 2.1). The existence of a robust institutional and legal framework is a prerequisite for the effective functioning of any SAI as it ensures the SAI's credibility and objectivity. According to the 2017 Global SAI Stocktaking report, most SAIs in the INTOSAI community find themselves missing one or another aspect of SAI Independence. The question in strategic management is to determine the impact of any institutional capacity gaps on the ability of the SAI to function effectively. When a SAI decides to pursue greater independence, it would also need to look at both the readiness of its institutional environment and at its own readiness and ability to lobby for such reforms.

Box 2.1 INTOSAI P-11: The eight pillars of SAI independence

The Mexico Declaration (INTOSAI P-11) defines eight principles, or pillars, of SAI Independence: • Legal status: The existence of an appropriate and effective constitutional/statutory/legal framework; • The independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in the normal discharge of their duties; • A sufficiently broad mandate and full discretion, in the discharge of SAI functions; • Unrestricted access to information; • Right and obligation to report on their work; • The freedom to decide the content and timing of audit reports and to publish and disseminate them; • The existence of effective follow-up mechanisms on SAI recommendations; • Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources.

Organisational systems capacity refers to existence of robust structures, processes and practices related to overall governance of the SAI and governance of each functional area in the SAI. The functional areas include good SAI governance practice in terms of strategic, operational and audit planning, performance measurement and management of performance at overall SAI level, implementation of code of ethics, SAI leadership and internal communication.

The audit function is the core business of a SAI. In terms of organisational capacity, the SAI needs to have in place an audit methodology that is aligned to ISSAIs or its own standards (which are aligned to ISSAIs); a system for conducting and managing audits such that the methodology is adhered to in practice; and quality management that provides regular assurance that the audits are, indeed, being carried out as per standards and SAIs audit methodology. If any one of these components of the audit system is missing, the SAI would not be in a position to claim that it conducts high quality audits in accordance with the ISSAIs.

Setting up such systems in house or setting up separate units for quality assurance or methodology may not be feasible for small SAIs or SAIs that lack resources. Such SAIs could consider strategies like using regional resources, setting up a peer review mechanism for quality assurance instead of setting up a unit etc. It may not always be feasible for a SAI to have all these systems in place at one go. Even as a SAI takes a gradual approach, it needs to draw the connections between different building blocks to ensure that over a period of time they will have a well-functioning system in place. Lack of a 'whole of SAI' approach may lead to waste of resources and inability of the SAI in meeting its performance objectives. For example, a SAI may focus on professional development system and train many of its auditors in performance audit, however if the SAI does not have its audit methodology in place and if the supervision of audit is weak, such training will not yield tangible results in terms of improved audit quality.

Besides governance and audit systems, corporate support systems like human resource management, corporate support, budgeting and resource management, professional staff development, communications systems, also play a key role in a well-functioning SAI. Without these functions the core audit function of a SAI cannot be developed. As such, while strategizing on building organisational systems capacity, the SAI needs to consider development needed in each functional area.

Professional staff capacity is the third component of SAI capacity. Professional staff capacity refers to having in place adequate number of competent and motivated people at managerial and staff level to effectively carry out the mandate of the SAI. In the audit profession, people are the most valuable assets of an organisation. As SAIs move towards enhanced professionalism they would need a critical mass of not just audit professionals in the different types of audit, but professionals in a variety of disciplines like management, leadership, human resources, communication, strategic planning, stakeholder engagement etc. In developing professional staff capacity, the first step for a SAI would be to determine what competencies the SAI needs and determine how to acquire those competencies e.g. in building a performance audit team the SAI may decide to recruit people with different competencies or retrain its compliance auditors or engage experts etc.

The SAI would also think about staff retention and how to maintain the competencies and provide for career progression and continuous professional education of its people so that they are up to date with the changes in their environments. For example, big data and social media have made huge inroads into every aspect of our lives. A SAI would need to think about the competencies that its people need to engage with these new areas.

2.6 Country governance, public financial management and socio-economic environment

A SAI operates within the overall country context. Any result or change that the SAI aims to achieve, both those that are well within its control (outputs), and those it may only be able to influence or contribute to (outcomes and impact) will be affected by factors from its external environment. A deep understanding of the local context and its effect on the functioning of the SAI is essential for being able to strategically plan and manage SAI's operations. The SSMF identifies three broad sets of external factors that may affect the SAI's performance, in terms of its ability to produce sustainable results: the overall governance arrangements and political climate in the country, the quality of the Public Financial Management (PFM) systems and processes, and the social and cultural environment.

Country governance arrangements refer to the broad institutional context in which the main stakeholders operate, including: political system, government structure (federal or unitary state, levels of government etc.), relationships and power balances between the Executive, Legislative and Judiciary and the nature and role of political parties and political competition; the role, capability and freedom of the media and civil society organisations; and formal and informal systems of state accountability to citizens.

Key aspects of the PFM process are of particular relevance to the functioning of the SAI, as it is a part of a broader system. The strength, timeliness and transparency of parliamentary oversight is a first critical such factor. Others include the accounting and reporting framework and practices, the existence of integrated financial management information systems (IFMIS), but also the type of budgeting approach used (line-item or results-oriented budgeting, annual or multi-annual expenditure frameworks), and the internal control and procurement regulations and systems. Some countries also maintain complex whole-of-government systems for measuring and reporting on government performance. The SAI is reliant on inputs from the PFM process, and on its outputs (i.e. audit results) being used by the key stakeholders in the PFM process.

A SAI is very much a part of the social and cultural fabric of the country. Such fabric is woven with many threads of informal systems and networks, patronage systems, organisation of labour in the country, culture of accountability and transparency, family connections, community affiliations, ethical practices, social norms etc. The broad socio-economic and developmental characteristics of the country, including population, income level, poverty and education levels, gender disparities, growth rate, inflation, main economic sectors, are all aspects that may affect what the SAI should focus its audits on, or determine SAI's ability to conduct its audits. Strategic management of a SAI requires very good understanding of such social and cultural issues, as well as deep deliberation on which of these aspects could enable or hamper the development envisaged, and how. For example, in some countries giving and receiving gifts or helping family members may be the social norm. A SAI would then have to reflect on how this norm affects its efforts to implement its code of ethics and what are the change management measures required, if any. For many countries gender inequality is underpinned by unfair and discriminatory workplace practices and attitudes, and women are underrepresented in the public sector. A SAI would need to determine how it could lead by example through providing and demonstrating a positive and workplace environment for women. Some countries may also have strong systems of family connections or links based on ethnicity, community, caste, religion etc. These would also affect the informal networks and systems within the SAI. A SAI would need to assess the extent to which such informal networks and links enable or limit the professional functioning of the SAI and its change management strategy to address the issue.

While any of those issues may influence a SAI to a different degree and in different direction, it is useful to consider the key areas of the SAI's operations and performance that may be affected. Table 2.1 provides a non-exhaustive list. The table is based mainly on the findings of SAI PMF reports, and the influence the SAI PMF analysis attributed to various external factors.

Table 2.1 Possible external factors of SAI performance and their potential influence

Factors	Potential influence over aspects of SAI performance
Country governance arrangements	
Structure of public sector	Audit coverage and focus, types of audit, ability to deliver on SAI mandate
Political system and relationships with Executive and Legislature	SAI independence, SAI credibility, audit results and follow-up
Strength of media and civil society	Degree of engagement and demand for accountability
Political climate/ degree of commitment to democracy, transparency and accountability	Audit follow-up, SAI impact
Public financial management system and practices	
GDP, income level, tax collection efficiency, inflation	SAI budget size and stability
Budgetary details	SAI budget, audit coverage and risk assessment
Accounting practices, financial management information systems, financial reporting standards and reporting	Quality and timeliness of audit reports
Public procurement	Financial and compliance audit coverage and results
Internal audit	Audit quality
PFM reforms	SAI capacity and relevance
Socio-economic and cultural environment	
Main economic sectors, dependence on natural resources	Audit coverage, SAI budget
Poverty, inequality	SAI professional and organisational capacity, focus of audits
Reliance on development assistance	SAI budget, SAI support, audits of development assistance projects
Educational system and access, migration trends	SAI staff capacity
Existence of country conflicts	Audit follow-up, SAI ability to conduct audits

PART B. STRATEGIC PLANNING

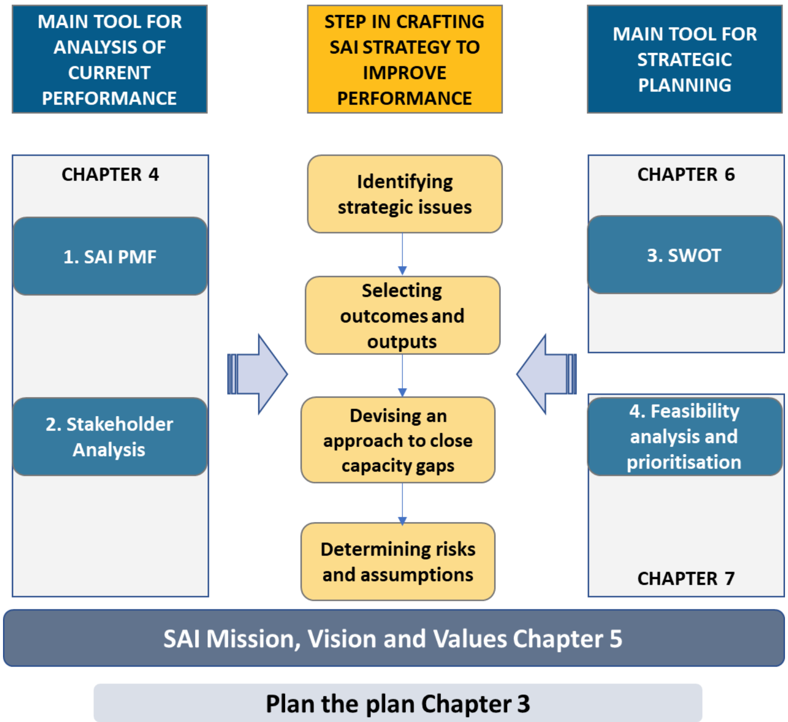
Introduction to Part B

Crafting the SAI strategy is a fundamental part of the strategic management process. It represents a concentrated effort to produce a realistic, and at the same time ambitious plan to guide the SAI's development efforts.

Coming up with a strong strategy on how to fulfil the mission and get closer to achieving the SAI vision requires a firm plan to guide the effort (Chapter 3). This plan should establish and lay down clear steps, roles, responsibilities and timeframes for the development of strategic plan document. It represent a clear agreement between SAI management and team tasked with preparing the SAI strategy on the process, the expected content and the work and inputs required.

The suggested approach for crafting the SAI strategy is described in Chapters 4 to 7. An underlying premise in this approach is that the structure and logic of the strategy should follow closely the value chain of the SAI Strategic Management Framework.

Figure B.1 Main steps in crafting the SAI strategy and corresponding tools for analysis



In line with the SSMF, the SAI strategy should be structured around a logical framework, distinguishing between desired results and changes in performance at the impact, outcomes, outputs and capacities levels. In order to define and select such changes, the strategic planning team in the SAI should draw on information from several analytical tools and frameworks (Figure B.1).

First, the SAI needs to have an in-depth understanding of its current performance. To that end, it should first apply two analytical tools, namely a SAI PMF and a stakeholder assessment (Chapter 4). The SAI strategy should be guided by the pursuit of its mission and vision and framed by the values the SAI has employed as core principles (Chapter 5). The need to revise or possibly even formulate from scratch the SAI vision, mission and values will emanate from the analysis of current performance.

The SAI's vision and mission will dictate the broad direction of the strategy and will also influence the identification of the key strategic issues that it wants to address in the coming strategic period. Chapter 6 deals with the topic of how to use a use a SWOT analysis to agree on such key strategic issues. d (Chapter 5).

Once performance has been assessed and the strategic planning team has agreed on the SAI vision, mission, values and key strategic issues, work should go into the prospective planning phase (Chapter 7). In this phase, the SAI will need to determine the intended results at the outcome level that the SAI will seek to contribute to in its strategy, linked to the strategic issues it has selected. For each outcome, it will then go on to consider which of its core products, or outputs, such as the timeliness, coverage of quality of its various audits, are best suited to facilitate the achievement of the selected outcome. For each output, the strategy will then specify the current and the desired level of capacities and competencies needed. To address gaps in current capacities, the strategy will have to define the broad course of action during the strategic management period.

The selection of outcomes and outputs, as well as the specification of the approach for closing capacity gaps will be driven by a feasibility analysis and a prioritisation exercise. Both the SWOT and the feasibility analysis will feed into the analysis of risks and assumptions, which will underpin the final design of the SAI strategy.

Although all steps in crafting the SAI strategy are presented sequentially, there will be a significant degree of iteration in the process. Such iteration is an essential and needed element aimed at continuously refining the final version of the strategy through critical analysis and discussion.

Chapter 3: Plan the Plan

Developing a strategic plan is a complex exercise involving different actors and several steps. To ensure the strategic plan's high quality and efficiency in the process of developing the strategic plan it is highly recommended to start the process by developing a plan for developing a strategic plan. A SAI that develops a strategic plan without planning it properly, runs risk of delivering a low-quality product with limited ownership. It would also increase the risk of getting lost in the process and never finishing the work. Planning the plan translates the keep-it-manageable principle into action and forces those writing the plan to systematically take into consideration their resources and capacities. As planning the plan includes defining roles and responsibilities as well as an initial stakeholder analysis, it is also a way to make sure the be-inclusive principle is respected.

It is strongly recommended that the SAI commences with the process for developing the new strategic plan will in advance. Typically, this would be at the beginning of the last year of the duration of the outgoing strategic plan. This is because some of the necessary inputs for the new strategy – most notably the assessment of current performance – take considerable time.

This chapter will treat the process of developing a strategic plan as a **project** and refer to the initial plan as the **project plan** for strategy development. It will first introduce the main elements of that project plan (Figure 3.1) and then explain them in more detail.

Figure 3.1: Key elements of a project plan for developing the SAI strategy

1. Purpose and context	2. Strategic planning period	3. Activities, roles and responsibilities	4. Key stakeholders
• Rationale • Current strategic plan • Recent changes	• At least three, but preferably five years	• Main steps in the process • Who does what • Timeframes • Mechanisms to ensure quality	• Internal (SAI staff) • External staff

3.1 Purpose and context

As the project is about developing a strategic plan for a SAI, the main purpose of the project is to make sure that there is a good organisational planning process in place that will enable the production of a high-quality SAI strategic plan. Hence, this starting point is also a good place to think about the SAI's expectations towards the strategic planning process and what it hopes to achieve with it.

The stated purpose of the project should elaborate a bit on the qualities the strategic plan ought to possess. These would, at best, reflect the strategic management principles laid out in the previous chapter. The strategic plan should be manageable and thus prioritise the most pressing issues. It should be inclusive and consider stakeholders' expectations. It should focus on sustainable outcomes that strengthen the core business of the SAI. It should aim to transform the SAI into an organisation that leads by example through professionalism, accountability and transparency. Finally, it should give due consideration to managing the change process necessary to achieve all its objectives.

This section should also briefly describe the strategic management process in place at the SAI in question. Is the current strategic plan coming to end? If so, what lessons can be learned from its implementation and what is then the basis for the next strategic plan? If this is the first strategic plan the SAI is developing, what led to the decision? Any changes in the SAI or its institutional environment that require strategic shifts in the SAI's work should be reflected here.

3.2 Strategic planning period

This section could dwell on the different options that the SAI has regarding the duration of its strategic plan and considerations for deciding on the duration. While there are no set standards, the majority of SAI strategic plans have a duration of three to ten years. Since strategic planning involves long-term strategic thinking, it is recommended that a SAI strategic plan covers a period of around five years. Three-year strategic plans are not uncommon, but such more limited duration may also put a limitation to the level of ambition and the possibility of seeing through a true change in performance. On the other hand, strategic plans with a duration of seven or even ten years contain a higher degree of risk and uncertainty, since it is very difficult to predict even somewhat accurately that far ahead in the future.

There may be other factors influencing the ideal periodicity of strategic plans. Sometimes aligning the strategic planning period to the office term of the Head of SAI or with national development plans may be an option. As the strategic plan will require resources to be implemented, in certain cases alignment to the funding cycle of the government or a key donor may be helpful. Also, the perceived likelihood of fundamental change within the foreseeable future, for example the enactment of a new legal framework for the SAI, or broad-scale public financial management reforms may explain the need for a new strategic plan much earlier than anticipated, and may provide the grounds for changing the duration of the strategic planning period. Finally, in some cases the SAI may chose or may be required to follow standard public administration procedures and regulations and may have less freedom to set its own parameters on the duration of the strategic plan.

3.3 Roles and responsibilities for strategy development

In this section the different roles and responsibilities of all actors involved in the strategic planning process should be clearly defined and assigned. As strategic planning is a key leadership responsibility it is best if the Head of SAI leads or at least regularly interacts with the team appointed to carry out the work (strategic planning) team. The Head of SAI should be the owner of the strategic planning process and could appoint a team coordinator at a more operational level to support her/him in coordinating all activities related to the development of the strategic plan. The SAI staff carrying the main responsibility for developing the strategic plan can be called the SAI strategic planning team (SP team).

It is also recommended to include members of SAI leadership team leading functional areas and representatives from different levels of all functional areas in the SAI. In case of small SAIs this could be a small team of three or four persons, in case of very large SAIs this could potentially be a very large team. In case the team size seems too unwieldy, the SAI may consider having a smaller core team and a larger team to ensure ownership and involvement of all key stakeholders. The SAI may also decide to bring in an external expert to advise the strategic planning team. In involving an external expert, it is important to ensure that the ownership and decision making for the strategy development stays with the SAI.

The SAI may even want to involve external stakeholders as members of their SP team. This decision would depend on the role that the SAI wants the external stakeholder to play in the implementation of the plan, the importance of the stakeholder and SAIs need for involving the stakeholder in the SP team. In case the SAI decides to involve an external stakeholder, it is important that it is the SAI that drives the process and takes ownership for the strategy.

The strategy development process can be broken down into four key parts, and roles and responsibilities will have to be defined for each of those.

- Assessing the current situation – Assessing the current situation is the first step in the development of a strategic plan. While the SP team should have overall responsibility for this milestone, the actual work could be delegated to a more functional level team, with oversight responsibilities within the SP team. In case a SAI decides to use the SAI PMF tool to assess the current situation, SAI PMF document provides guidance on how to design the approach and the process. The SP team may also decide to obtain further proficiency in the methodology through attending a training course. Such steps should be outlined in the section on roles and responsibilities. A SAI may also decide to outsource (part of) this work to external service providers. For example, a media or public relations agency may be a suitable option to carry out an assessment of the external stakeholders' views and expectations of the SAI. Regardless of whether elements of the assessment of the current situation are outsourced or not, this section of the plan should contain the intentions and provisions for disseminating the findings of such work, both internally and externally.

- Crafting the SAI strategy- On the basis of the analysis of the current situation, the SP team will need to agree on a detailed process for crafting the SAI strategy. The SP team is responsible for ensuring that inputs gathered from different sources during the development process and all strategic discussions are appropriately reflected in the final draft. This will usually involve the analysis and agreement on key strategic issues and several iterations of the draft results framework (impact-outcomes-outputs-capacities) based on internal consultations with SAI staff and feedback and approval from SAI leadership. Additional elements such as performance measurement of the results framework also will need to be agreed upon. Only then can the actual document be drafted. This requires both writing and communication skills. The write-up of the document itself should be best one person's responsibility, to ensure a coherent and stylistically consistent document. This person could be a SP team member, somebody else from within the SAI or an external person. The Head of SAI is generally responsible for approving the strategic plan of the SAI. In case any other approvals are required as per the mandate of the SAI, the SP team should determine the timing and process to be followed for getting all required approvals. This should be reflected as a milestone in the project plan.
- Mechanisms to ensure quality - Only an SP process and SP documents of high quality will enjoy credibility among stakeholders, be implemented coherently and endowed with the necessary ownership. That is why having a mechanism to ensure quality are of crucial importance. Some of the quality control mechanisms could include putting in place an SP team that has the required competencies to drive the process; reviewing best practice requirements for strategy development and building them into the SAI strategy development process The SP team could also use checklists to review their own work or review each other's work. The SAI may also consider quality assurance mechanisms like getting a peer or independent reviewer or an advisory group to review the strategy, to provide assurance on the quality of the SP process and documents. Such external and independent feedback may also be sought after key milestones in the strategy development process, e.g. quality assurance of SAI PMF under the 'Assess current situation' milestone.
- Communication – The strategic plan document of a SAI is a very important communication tool of the strategic intent of the SAI. The SP team is responsible for determining how the plan

will be marketed and communicated to internal and key external stakeholders. The SP team may choose to delegate this responsibility to more specialised teams or people in the SAI. The SP team should however continue to coordinate this process to ensure that key messages are appropriately communicated. Many SAIs also choose to use different types of media, including social media for marketing and communicating the plan.

3.4 Key stakeholders

To ensure that the strategic plan is both relevant and implementable, it is strongly recommended that the SAI follows a broad-based consultative process for its development, as part of assessing its current situation. The project plan for the SAI strategic plan development should include a high-level overview of those key external and internal stakeholders, which the SP team deems crucial to be consulted and kept informed about the process.

3.5 Drafting the project plan

The project plan would detail each milestone in the strategic planning process, the resources required, the process to be followed, timelines and the outputs expected at each milestone. An example of how such planning can look like for some of the key milestones discussed is illustrated below.

Table 3.1 Project plan overview

What?	Result?	How?	Who?	When?
Analysis of the current situation	Independently reviewed, holistic and evidence-based SAI PMF report on the SAI's current performance	Conducting SAI PMF as a self-, peer or external assessment, or a combination of those Independent review on adherence to SAI PMF methodology	SAI PMF assessment team, independent reviewer	6 to 9 months
Stakeholder Analysis	Documented understanding of key internal and external stakeholders, their current perceptions and expectations of the SAI and and their role in strategy development	Stakeholder analysis following the four-step approach	SP team, SAI staff responsible for communication	Two weeks
Crafting SAI strategy	A strategic plan identifying a clear results framework and strategies to improve performance	SWOT analysis to identify strategic issues Definition of results framework: Impact, outcomes, outputs	SP team	One month

		Identification of capacity gaps and strategies to address them Consult draft results framework with rest of SAI Obtain approval from SAI Leadership		
Communicate SAI strategy	Awareness-raising and advocacy on the new strategic plan	Internal staff meetings Media releases and engagement with key external stakeholders	SAI leadership, SAI staff responsible for communication	Two weeks

The SP team may decide to set milestones at a more detailed level, if they find that more convenient to plan and monitor the strategy development process. The SP team may also decide to run some of the processes in parallel. Experience from SAIs show that the overall process from start to producing the final strategic plan document in its final form takes 12 months.

After developing a project plan for strategy development, the SP team can consider using a checklist to review the project plan.

Box 3.1 Checklist for project plan evaluation

- √ **Is it realistic?** Will it be possible for the SP team to reach the stated objectives within the stated timeframe and with the stated resources? Moreover, is it realistic to expect the stated resources to be made available to the SP team?
- √ **Is it comprehensive?** Does it detail all the milestones and tasks required in the process?
- √ **Are the tasks sequenced logically?** Especially if one step depends on the output from the earlier step.
- √ **Are the stated techniques appropriate for the envisaged output?** Are the estimated resources sufficient for the successful completion of the milestone?
- √ **Are the timeframes, responsibilities and expected output of each stage clearly defined?**
- √ Will the plan as a whole help the SAI achieve the final product i.e. a **strategic plan document**?
- √ Does it provide for **broad- based stakeholder involvement**?
- √ Does it clearly define **quality control and quality assurance mechanisms**?

Chapter 4: Assess the SAI’s Current Situation

Having an in-depth understanding of its current performance is a prerequisite for a strong strategic plan. It allows the SAI to identify the key strengths and weaknesses and understand the key factors that influence positive and negative performance. The assessment of the SAI’s current situation also provides a solid baseline against which progress can be tracked and reported on.

In order to assess the SAI’s current situation, two key perspectives need to be taken into account. First, an evidence-based, objective analysis of current performance and capacity, which also reflects the local environment and culture in which the SAI operates (Section 4.1). This ensures realism for the strategic plan. Second, assessing the current situation includes an analysis of the views and expectations of the SAI’s stakeholders – internal and external (Section 4.2). This considers their importance, expectations, interest and attitudes. Such stakeholder analysis will enable the SAI to develop a strategy where the SAI stays relevant to its stakeholders and is crafted considering their likely support – or resistance - to the change process.

The Annex to this Chapter contains an example of the integrated assessment of SAI performance of a fictitious SAI, SAI Norland. Detailed advice on carrying out the various stages of the stakeholder assessment is also provided.

Note that this chapter makes an important departure from the commonly used terminology of ‘Needs Assessment’. It focuses solely on assessing the SAI’s current situation. A SAI’s needs can only be determined once the SAI has worked out where it wants to get to in terms of desired performance and made strategic choices regarding how to get there.

4.1 Evidence-based assessment of performance and capacity

A. Characteristic and choice of a performance assessment methodology

A performance assessment is an assessment of an organisation, system or program against a set of performance standards, at a given point in time. To form a sound basis for strategic management, a SAI performance assessment should have the following features:

- Measure performance against an agreed set of standards or benchmarks, which remain consistent over time;
- Be based on the collection of reliable and relevant evidence, including review of audit work;
- Provide a measure of performance at one point in time;

- Measure what the SAI does in practice, not just what it is supposed to do according to laws, standards and manuals, or what it intends to do in future;
- Combine quantitative measures that can be monitored over time with qualitative information that captures important elements that are not easy to express in figures. The combination enables an overall understanding of performance.

Various tools and frameworks exist to help SAIs conduct performance assessments. The SAI's experiences, background, confidence and available support in using any of these tools and techniques should inform its decision. The tool suggested in this handbook is the SAI Performance Measurement Framework[8] (SAI PMF). SAI PMF was endorsed by INTOSAI in 2016, as the preferred tool for holistic SAI performance assessment. Since then, SAI PMF has firmly established itself as the assessment methodology of choice for SAIs of all kinds, from both developed and developing countries. Other frameworks may be used, so long as they meet the key requirements of being an evidence-based and holistic assessment of performance and capacity. The remainder of this section will refer to SAI PMF in explaining the details of conducting a performance assessment, but the information is largely transferrable to other methodologies.

B. The SAI Performance Measurement Framework

Figure 4.1 The SAI Performance Measurement Framework

[8] For more information about SAI PMF and specific guidance on how to conduct a SAI PMF assessment, please check the site for SAI PMF on the IDI webpage http://www.idi.no/en/idi-cpd/sai-pmf.

SAI PMF examines the SAI's current capacities (professional, organisational and institutional) and its key products, such as audits, against international standards (principally, the ISSAIs) and other relevant good practices. It is a holistic performance measurement framework that analyses SAI performance in six key areas – Institutional and Legal Framework (A), Internal Governance and Ethics (B), Audit Standards, Process and Results (C), Financial Management, Assets and Support Services(D), Human Resources and Professional Development (E), and Stakeholder Management (F) (Figure 5.1). Each domain contains a number of performance indicators, further broken down into dimensions that capture in detail a specific element of the SAI's work. For example, one indicator in Domain A (Independence and Legal Framework) looks into the SAI's mandate (SA)-2). To capture all aspects related to the SAI's mandate, the indicator includes three dimensions – (i) Sufficiently broad mandate; (ii) Access to information, and (iii) Right and obligation to report.

There are several advantages of carrying out a SAI PMF assessment as compared to other assessment tools. First, the findings are based on a strict methodology that requires evidence, thus making the reliability and objectivity of results particularly strong. An independent review of the report administered by the IDI provides an additional layer of robustness to the findings.

Second, SAI PMF is based on an objective measurement approach, whereby objective scores are assigned to up to 25 indicators of aspects of SAI performance, additionally broken down in almost 80 dimension scores. This allows for easy monitoring and comparison of progress and changes in performance between assessments.

Third, SAI PMF delivers not only rich and detailed analysis of SAI capacities in each of its six domains, but also contains a qualitative assessment of performance that greatly supports strategic planning. One part of this assessment is an integrated analysis of strengths and weaknesses of the SAI. It captures SAI performance in terms of the coverage, timeliness and quality of the different audits done by the SAI and examines the root causes thereof and the extent, to which those are within the SAI's control or influence. These findings are a key input for strategy formulation and can be easily related to the results levels in the SSMF (Table 4.1).

Finally, SAI PMF has its rationale in INTOSAI P-12, SAIs delivering value and benefits to citizens. Therefore, another part of the qualitative assessment concludes on the actual contribution of the SAI to the INTOSAI P-12 objectives of transparency and accountability and good governance in the public sector. Although captured at a high level and mostly based on examples, this analysis also has some useful inputs for strategic planning. It provides an indication of current performance of the SAI at the level of outcomes – those desired changes in the SAI's external environment that it aims to influence through its audits.

Table 4.1 Mapping of SSMF areas against SAI PMF

SSMF area	Corresponding SAI PMF domain, indicator and dimension (as per 2016 endorsement version)
Capacities	
Institutional capacity	Domain A: Independence and legal framework SAI-1, SAI-2
Organisational capacity	Domain B: Internal governance and ethics (SAI-3, SAI-4, SAI-5, SAI-6, SAI-7) Domain C: Audit quality and reporting (SAI-9 (i), SAI-12 (i), SAI-15 (i), SAI-18 (i) Domain D: Financial management, assets and support services (SAI-21)
Professional capacity	Domain C: Audit quality and reporting, SAI 9 (ii), SAI-12 (ii), SAI-15 (ii), SAI 18 (ii) Domain E: Human resources and professional development (SAI-22, SAI-23)
Outputs	
Audit results and jurisdictional control results (Coverage, timeliness, quality, SAI follow-up)	Domain C: Audit quality and reporting SAI-8 (coverage) SAI-10 (iii), SAI-13 (iii), SAI-16 (iii), SAI-19 (iii) (Evaluating evidence and reporting on audit findings) SAI 11, 14, 17, 20 (Timeliness and publication)
Accountability reporting	Domain B: Internal governance and ethics, SAI-3 (iv)
SAI engagement with stakeholders	Domain F: Communication and stakeholder management (SAI-24, SAI-25)

C. SAI PMF assessment process

Carrying out a SAI PMF assessment is a process structured around four key phases (Figure 4.2). Those are briefly described in this section, but the official document describing SAI PMF framework and supporting guidance prepared by the IDI cover these steps in an exhaustive manner (INTOSAI Working Group on Value and Benefits (WGVBS), 2016).

Figure 4.2 Key phases in SAI PMF assessment process

- **Decision to undertake a SAI PMF assessment:** There should be a high-level decision to conduct a SAI PMF assessment, made by the Head of SAI. This builds on the principles that SAI PMF is a voluntary assessment tool, and that the end product, the SAI Performance Report, is the property of the SAI. It is important that the key decision on whether to initiate an assessment is accompanied by considerations of the purpose and timing of the assessment, the assessment approach to be used, and how the results will be shared. Most SAI PMF assessments are undertaken with an explicit aim of informing strategic or capacity development planning in the SAI, but results can also be used for monitoring and tracking of progress. Generally, it is recommended to do a SAI PMF assessment every five years[9] and time the process in the last year of the strategic planning period, so that results can come in time to inform the drafting of a new strategic plan. A SAI PMF assessment can be carried out as a self- peer- or external assessment, or as a combination of those approaches. The decision depends on the SAI's needs and capacities. In the spirit and expectations of INTOSAI P-12 and SAIs leading by example in being transparent and accountable, it is recommended at the SAI publishes at least a summary of the assessment results.

- **Planning the Assessment:** Key decisions on the assessment's purpose, approach, team composition and timeline should be documented in the Terms of Reference (ToR) for the assessment. The ToR should be prepared by the assessment team and agreed with the Head of the SAI. The ToR should also create a mutual understanding between the SAI and the assessment team of what the SAI can expect and how it needs to contribute to facilitate the assessment. The SAI PMF assessment team, headed by a team leader in charge of the qualitative analysis and quality control, at best consists of team members who have good knowledge of the different audit streams the SAI is performing and support functions like Human Resources (HR), Information Technology (IT) and organisational processes. It is important that there is enough knowledge about the SAI PMF framework and methodology amongst the team members. The assessment process requires a fair amount of analytical skills and ability to synthesize. It also requires communication skills and ability to write. This may be kept in mind while appointing members to the performance assessment team.

- **Implementing the assessment:** Carrying out a SAI PMF assessment generally consists of a preparatory, field, drafting and concluding phases. In the preparatory phase, the team should carry out a document review and schedule interviews with SAI management and staff. The fieldwork is the most intensive stage of the SAI PMF assessments and consists of the gathering and analysis of

[9] Whenever a strategic plan covers a longer period of more than five years, the SAI may consider carrying out a SAI PMF assessment as part of the mid-term review of the strategic plan.

evidence that supports whether the various criteria of the SAI PMF framework related to performance have been met. This work will normally cover a dedicated 2-3 weeks period, where the assessment team examines the detailed data collected, focusing especially on the analysis of a sample of audit files that fairly represents the SAI's work. For the assessment to give accurate results it is necessary for the team to ensure that the data collected is valid and robust. The scoring of the 25 indicators forms the basis for the qualitative assessment in the performance report and should be finalized before writing this section. The next step is for the team is to write a report to communicate its findings and conclusions to the relevant parties. The report consists of three main parts: One part that describes the SAI background and methodology; the Indicator report that details all scores for each of the six domains; and the qualitative assessment concludes on the performance of the SAI as regards the main products of its work and the root causes of this performance.

- **Quality management to ensure a high-quality report:** Ensuring the quality and objectivity of assessments is fundamental to producing a SAI PMF report which correctly describes the SAIs and its activities and which adds value to the development efforts of the SAI. The quality control arrangements should cover review of working papers, work of the team, supervision and monitoring of progress. The assessment team leader is responsible for the first level of quality control, while the second level of quality control of the draft report is conducted by someone in the SAI, who has not been part of the assessment team, but who can verify that all facts stated in the report are correct, and that observations and findings are consistent throughout the report. It is strongly recommended that all SAI PMF reports are subject to an Independent Review of the report's adherence to SAI PMF methodology by a certified external and independent reviewer[10].

4.2 Stakeholder analysis

For a SAI to be able to perform not only effectively, but also meaningfully, it needs to be able to stay relevant to its stakeholders. Although the SAI PMF assessment examines the SAI's communication and stakeholder engagement practices, it usually does so only from the perspective of the SAI. In order to analyse what the SAI's key stakeholders consider its role to be, what specific expectations they have

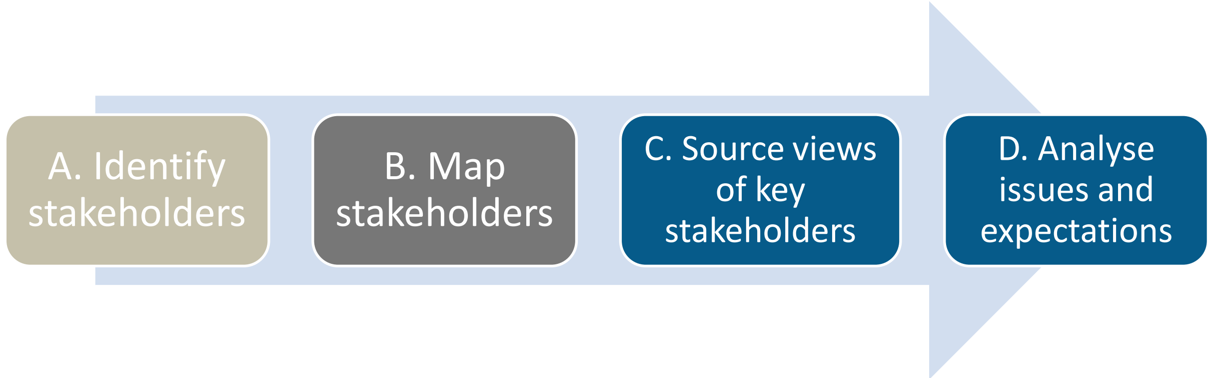
[10] Key objectives of the Independent Review are to ensure that the indicators and scores are applied correctly, based on sufficient and appropriate evidence, and that these elements support an analysis leading to valid conclusions. The IDI is the coordinator of the Independent Review function globally and can provide support in identifying a certified reviewer from a pool of SAI PMF experts.

about its work, and the extent, to which the SAI fulfils those expectations currently, a different type of analysis is needed to supplement the SAI PMF findings and support strategic planning.

Gathering and analysing the views, attitudes and expectations from the main stakeholders to the SAI is an integral part of the strategic planning process and is often referred to as stakeholder analysis. Such insights are important for SAIs if they are to advance challenging agendas to become more responsive, credible and visible to citizens. It can support more effective and feasible strategies, as well as inform more realistic expectations of what can be achieved, and the risks involved. It provides the opportunity to develop more honest and productive relationships with audited entities, government and development partners. Through that process, a SAI can increase its standing as an organisation that champions accountability it its own work as well as regarding others.

This section introduces a four-step approach in conducting a stakeholder analysis (Figure 4.3)[11]. The analysis is best done by the SP team, however some additional support may be required especially when it comes to the crucial step of collecting stakeholders' views and expectations. SAI leadership should be kept closely in the loop during the process and should advise and possibly take on a leading role when it comes to (parts of) the analysis. This is because approaching the SAI's external stakeholders can be a delicate and sensitive issue. On the other hand, SP teams and SAIs in general should see this analysis as an opportunity to raise awareness on their role and on their efforts to become more responsive, relevant and accountable.

Figure 4.3 Main steps in the analysis of SAI stakeholders



A. Identify stakeholders

The first step in stakeholder analysis is the identification of stakeholders. Loosely defined, a stakeholder is a person or group of people who can affect or be affected by a given project or proposed

[11] This section and approach it contains have been strongly informed by the experiences of IDI's initiative on SAIs Engaging with Stakeholders, which ran between 2017 and 2020.

change, in this case, SAI reform. Stakeholders can be individuals working on a project, groups of people or organisations, or even segments of a population. A stakeholder may be actively involved in a SAI's work, affected by the SAI's outcomes, or in a position to affect the SAI's success.

Stakeholders could be both internal and external. Internal stakeholders can relate to both individuals and groups within the SAI. How such groups will be defined depends on the specific SAI context. For example, internal stakeholders could be split into leadership, senior and mid-management; or into audit and non-audit staff. Other distinctions, for example by audit profession, gender or physical location (e.g. regional offices) are also possible.

External are those groups of people or institutions outside the SAI that the SAI considers relevant for its work. Typically, external stakeholders can be broken down into the following groups:

- The Legislature
- The Executive and audited entities
- The Judiciary
- The media
- Citizens and Civil Society Organisations (CSOs)
- Development partners, academics and professional bodies.

The SAI's relationship to the first three stakeholder groups typically follows institutional rules and arrangements whereas the latter three have non-institutionalised relationships with the SAI[12].

It is important to consider whether a stakeholder group is a homogenous group, or whether it should be further divided into different groups. For example, Parliament can be spilt according to ruling and opposition parties having different interest and power in relation to SAI reform. Some legislative committees, such as a budget or a public accounts committee, may be especially important for the SAI. Similarly, SAI staff could be split into those with professional qualifications who may benefit from a SAI reform such as professionalization of the SAI, and those without qualifications. It is advisable to also consider the role of informal groups and power structures, for example belonging to a trade union, or to a certain tribe, if those are relevant.

SP teams doing the stakeholder assessment are encouraged to prepare an exhaustive list that takes into account all relevant groups and sub-groups, but still considers the principle of keeping thing manageable. For example, it may not be advisable to consider every auditee separately, but grouping

[12] The Annex to this chapter contains further specifications on the issue of institutional and non-institutional stakeholders.

auditees into, for example, central government, local government, state-owned enterprises etc., may be a useful division.

A product of identifying stakeholders should be a stakeholder register. This is where the SAI reform team captures the names, contact information, titles, organisations, and other pertinent information of all stakeholders. The list of identified stakeholders could, for example contain the following:

Table 4.1 Example of the results of a SAI stakeholder identification analysis

Stakeholders	Stakeholders	Stakeholders	Stakeholders
Parliament – ruling party including Government Ministers	Community Leaders	SAIs external technical advisors	Judiciary and investigating agencies
Parliament – opposition parties	Media – radio, TV and newspaper and print journalists	Business community	Internal audit units in Ministries, Departments and Agencies
Public Accounts Committee (PAC)	Senior management of Ministries, Departments and Agencies	Public Service Commission	SAI staff not professionally qualified
Ministry of Finance (MoF)	Anti-corruption commission	Trade unions	SAI Senior Management
Government accountants preparing financial statements	Civil Society Organisations	Tertiary and professional education sector	SAI staff – professionally qualified

B. Stakeholder Mapping

Often the process of identifying stakeholders will result in a long list of individuals and groups. Once you have identified your stakeholders, the next step is to map out the position of stakeholders and then prioritise them in the order of importance. A common approach is to position each stakeholder group in one of four quadrants of a grid based on an assessment of their power and interest vis-à-vis the SAI (Figure 4.4). Such power-interest grid can be helpful in determining which stakeholders to approach and actively seek feedback from.

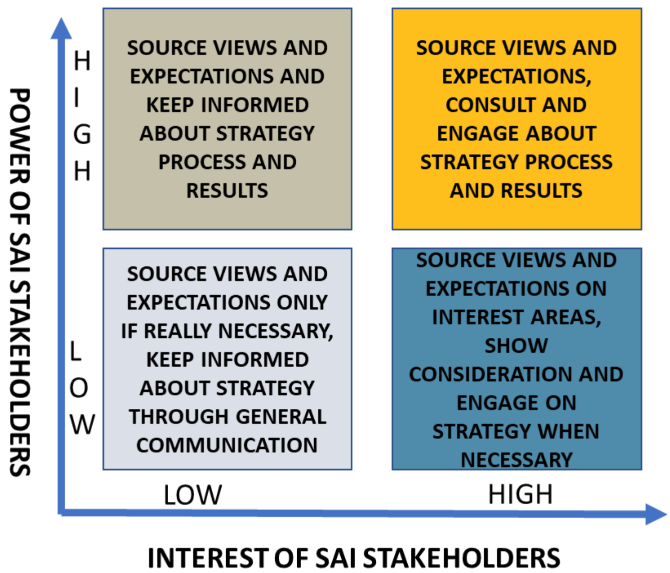
There are two basic dimensions that are important to know when **initially** considering key stakeholders. These are:

1. Their **power** or ability to influence the SAI. Some SAI stakeholders may be in a particularly strong position to influence the SAI, for instance through exercising control over its resources. Identifying such powerful stakeholders is critical as they can shape the SAI's reform agenda. The power of stakeholders can often be reflected in their degree of influence over audit topic selection, over human or financial resources or other aspects of independence. However, stakeholders can also exercise power by limiting the SAI's access to information. Another manifestation of power can be when individual stakeholders raise support or impede the SAI agenda.

Power: *The ability of a stakeholder (both internal and external) to influence what the SAI does and how it does it.*
Interest: *The extent, to which a stakeholder takes an active role in engaging with the SAI*

2. Their **interest** in SAI matters: Some stakeholders may be powerful, but not necessarily interested in engaging with the SAI. On the other hand, others might have particular interest in the work of the SAI and the SAI should take advantage of such interest to influence certain actions. Stakeholders may have, or show (or refuse to show) interest to collaborate on general or specific topics, to use audit reports, Interest to support or champion the SAI's reform agenda, or to report on the SAI's work.

Figure 4.4 SAI stakeholders' power-interest mapping grid



The result of the power-interest grid (Figure 5.4, see also Annex to this chapter for detailed guidance on designing the grid) is a refined list of highly relevant stakeholders to be asked to contribute their expectations. As a rule, the more powerful and the more interested a stakeholder is perceived to be, the more relevant it is to collect their expectations from the SAI. What stakeholders to involve must ultimately be the SAI's decision, though. Another advantage of the grid is that it provides for a guide on how to keep key SAI stakeholders informed and possibly engaged throughout the SAI strategy development process.

As a result of the mapping exercise, four distinct categories of stakeholders emerge: (1) high power – high interest; (2) high power – low interest; (3) low power – high interest; (4) low power – low interest). Based on the placement of stakeholders in the four categories, a decision needs to be made on a cut-off point indicating which stakeholders will be approached in Step 3 with the purpose of obtaining their views and expectations. In addition to the stakeholders with high interest and high power, the SAI may select a few of the other stakeholders among the ones with high power – low interest and/or low power – high interest. The decision of where to set the cut-off should preferably take into account:

- Available time to undertake the collection of views and expectations;
- Available resources to invest in the process;
- Whether additional stakeholders are likely to add critical value and information that is easily missed by not sourcing their feedback.

In order to assess whether additional stakeholders would add such critical value, one may carefully consider the knowledge and information within the SAI of these stakeholders, and also, the risk of bias if only collecting views and expectations from the high interest – high power group as these are likely to be more "like-minded" than stakeholders in the other groups.

C. Source key stakeholders' views and expectations

Collecting key stakeholder's views and expectations can be conducted through various methods – from round tables, focus groups or consultations, to discussions with individual people or groups. Another way of is through surveys and questionnaires, or media analysis. The choice of suitable instrument(s) will depend on the relationship of the SAI with a stakeholder, on the number of possible interviewees within a certain stakeholder group, and on the SAI's own capacity and confidence to reach out and ask for feedback on its work. Again, the strategic management principle of keeping it simple, should be observed. For example, the SP team may consider already scheduled events where both the SAI and a stakeholder would be present and try to organise a back-to-back meeting. Also, the SP team should seek to involve SAI leadership, as well as the press or communications office of the SAI in the process. Audit team leaders may also be a suitable gateway to establish a contact with auditees. Usually, the SP team will have to employ a mix of tools (Table 4.2).

Table 4.2 Principle methods for collecting stakeholder views and expectations

Method	Advantages	Disadvantages	Potentially suitable for
Bilateral meetings (interviews)	• Possibility to go in-depth into issues, can yield rich findings • Provides an opportunity for awareness-raising and mobilization of support for the SAI's reform agenda	• Depends on availability and readiness of stakeholder • Not everyone in the SAI may be authorised to engage on the SAI's behalf	• Those stakeholders that are closest to the SAI • Members of Parliament and Parliamentary Committees • Development Partners • Certain members of the Executive (e.g. Ministry of Finance, Presidential Administration • SAI senior management
Focus groups, round tables, workshop-setting discussions	• May allow for instant validation of findings if several stakeholders share the same view • Allow for exploration of various topics and issues	• Risk of bias and convergence of opinions in the group • Requires careful selection of participants that should be at the same level	• SAI middle management • Auditees • Internal auditors • Civil Society Organisations
Electronic questionnaires and surveys	• Allow for gathering of information in a standardized way • May enable more honest responses if they guarantee anonymity	• May be resource-intensive and difficult to follow-up if response rate is low • May be difficult to ensure the right people are filling out the responses	• SAI staff • Auditees • Citizens • Members of Parliament • Media

The choice of detailed questions will in part be dictated by the specific audience, and in part by the specific method chosen to gather their views and expectations. In general, it is advisable to keep the discussion around a set of seven key questions, which can be then appended and modified depending on the profile of the interviewees:

Box 4.1 General questions to seek feedback on

1. What do you think is the SAI's main contribution to the public sector?
2. What do you think is the SAI's main contribution to the work of your institution/ organisation?
3. Do you think the SAI is fulfilling these roles now? If yes, how? If no, why?
4. Do you read/ use the SAI's audit reports? Can you name some?
5. If so, do you find them relevant and user-friendly?
6. Are there topics or issues where you think the SAI should engage more in?
7. Would you like to highlight some positive or negative aspects related to the SAI's work?

D. Analyse issues and expectations

Once the collection phase has finished, the SP team needs to analyse the obtained information. A first useful step towards this analysis is to populate a small grid, with succinct summaries or bullet points capturing the essence of what has been communicated. On that basis, the SP team could assess each stakeholder on a scale of 1 to 5 regarding their possible support for SAI reform. Table 4.3 provides an example of a fictitious SAI on how such a table could look like if filled out for some stakeholders.

Table 4.3 Example of a populated summary table for analysis of collected SAI stakeholders' views and expectations

Stakeholder	Power / Interest	Stakeholder's Expectation	Stakeholder's current view	Tag
Ministry of Finance	• Strong power, strong interest	• The SAI should contribute to better financial reporting and support the anti-corruption agenda • The SAI should audit reports and judgments that are objective, transparent and without any political agenda or biased	• The SAI is not very active and could do more to engage on topics of general interest • The financial audit reports are of good quality, but arrive very late	• 3 – indifferent to SAI reform
Budget and Finance Committee in Parliament	• Strong power, strong interest	• The SAI's main role is to support Parliament in exercising its oversight function • The SAI should consider our requests for audits of specific topics • The SAI should provide us with timely advice when requested • The audit reports should be more user-friendly	• The SAI does not provide us with timely advice, but when they do it is very useful • Audit reports are very long and difficult to read	• 5- very supportive of SAI reform
President's administration	• Strong power, low interest	• The SAI should enhance trust in government by demonstrating the accounts are in order • The SAI should support the President's anti-corruption agenda	• The SAI is not causing any positive or negative headlines in the press, and this is good	• 2 – not supportive, prefers things stay as they are

Based on the summary table, the SAI could also do an overall analysis of findings and emerging trends (Figure 4.5). To do this, the strategic planning team should consider firstly if there are any general findings in terms of similar views and expectations, which should be reflected in the SAI strategy. It should also see to what extent it is already meeting the expectations of its stakeholders and determine the outstanding gap between those. Third, the analysis should seek to identify if the SAI's current understanding of the views and expectations of its stakeholders corresponds to its own. For example, the SAI may think that Parliament is interested in receiving more performance audit reports, however the stakeholder analysis may reveal that legislators are in fact much for focused on the financial audits.

Figure 4.5 Topics for cross-cutting analysis of stakeholders' views and expectations

Views

- What views emerge on the quality and relevance of the audits we currently ?
- How are recommendations perceived?
- How trustworthy/ reliable/ influential is the SAI perceived as an institution?

Expectations

- What role is the SAI expected to play in the PFM system?
- What services is the SAI expected to provide?
- How is the SAI expected to manage itself?
- What audits are expected?

Chapter 5: Articulate Vision, Mission and Values

To undertake a strategic planning process, it is necessary to establish -or reaffirm- a shared understanding of why a SAI exists and its aspirations for the future. The most pertinent expression of this shared understanding is reflected in the SAI´ s mission, vision and values. Those fundamental descriptions of the SAI's long-term hopes and ambitions, purpose and guiding principles frame and shape the content of a strategic plan.

Most SAIs have already defined vision, mission and values. However, at based on the results of the analysis of current performance, it is useful for SAI leadership to cast a critical look at those and determine whether they are still relevant, or whether they need some adaptation. The Annex to this chapter contains guidance developed by the Pacific Association of SAIs (PASAI) with detailed checklists for vision and mission statements.

5.1 Vision, mission and values: concepts

A vision statement defines the SAI's purpose and focuses on what it would like to achieve in the mid- or long-term future. It is timeless: even if the SAI changes its strategy, the vision will often stay the same.

A vision statement is an expression of the future that the SAI seeks to create. It is built upon reasonable assumptions about the future and influenced by the SAI's judgement about what is possible and worthwhile. A vision statement for the SAI answers the questions 'How does the SAI improve people's lives?' and 'What value does the SAI bring to its stakeholders?'. In that. It is closely related to the impact the SAI is aiming to achieve.

Box 5.1 Examples of SAI vision statements

'Promote good governance 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'. – Vision statement of INTOSAI

'To be a leading audit institution that is responsive, effective and efficient in promoting public transparency and accountability'. – Vision statement of the SAI of Somalia

'***Strong CAROSAI for Stronger SAIs in the Caribbean" CAROSAI'***. – Vision statement of the Caribbean Organisation of Supreme Audit Institutions

A vision statement should be written with an external focus to capture how the country and society would improve if the SAI achieves its purpose. It may also display some inward-looking elements to outline what the SAI would aspire to look like in the future.

A vision statement should be inspiring. It should be something that everyone in the organisation relates to and identifies with. It should have a bit of a stretch that challenges the organisation. While the vision statement looks at a future reality, it should also be based in the current reality of the SAI. Articulating a vision very far removed from reality may cause frustration and seem like an impossible dream to the stakeholders of the organisations. The vision statement should also be written in a style and manner that all stakeholders easily understand and remember.

The first component of the mission statement is the statement of purpose, which describes what the SAI is and why it exists. The second component of the mission statement is the description of the business of the SAI – what it does and who it serves.

A mission puts the vision into practice. Unlike a vision statement, a mission statement is factual rather than aspirational. However, like a vision statement, it should motivate and inspire commitment by employees, be expressed clearly and succinctly, and be convincing and realistic. Am mission statement often emanates from the SAI's mandate, but it goes a bit further in that it defines what kind of organisation the SAI needs to be to pursue its vision. It guides staff on what to do on a general level.

Box 5.2 Examples of SAI mission statements

'The Government Accountability Office (GAO) exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people. – Mission statement of GAO, USA

'To Audit and Report to Parliament and thereby make an Effective contribution to Improving Public Accountability and Value for Money spent'. – Mission statement of the SAI of Uganda

'***PASAI supports Pacific SAIs to enhance their mandate and capability to audit the use of public sector resources in a timely manner to recognised high standards with enhanced audit impacts.'*** – Mission statement of the Pacific Organisation of Supreme Audit Institutions

Core values are guiding principles that help to define how the SAI collectively should behave in the society and in the communities in which it operates. While the vision and mission are about the "*what*" of the SAI – what it wants to achieve and what it wants to do to that end – the values are all about the "*how*" of the SAI– how it wants to achieve that. Values also help SAI determine if they are on the right path and fulfilling their goals by creating an unwavering guide for behaviour.

It is crucial for a SAI to be a values-based organisation for several reasons. Values-based organisations ensure a positive and ethical organisational culture, attract talented people, are fundamental for stability and performance and as such have high potential to develop the skills and leadership qualities it needs in its staff (Dvorak & Pendell, 2018). Acting based on values builds trust in the SAI among the staff and the public. Values also guide decision making. When challenged, or facing complexity and uncertainty, the right values can lead to wise decisions.

For the SAI's values to be more than just a declaratory statement, they should be carefully selected. The SAI PMF and stakeholder assessments can give important insights into what values are needed or expected from the SAI. For example, a SAI PMF assessment may find evidence of unethical conduct or lack of cooperation between staff. Values such as integrity and teamwork could assist in emphasising the need for changing such behaviours. An assessment of stakeholders' views and expectations may highlight an overarching need for the SAI to demonstrate transparency, which can be adopted as a core SAI value. Crucially though, values should underpin all of the SAI's policies and actions. In other words, they should transpire and relate to the SAI's work. The Head of the SAI should spearhead this process and encourage commitment and alignment of the SAI's work to the selected values.

Four main types of values can be differentiated:

- **Individual** values are carried by persons and shape the way they act, e.g. creativity or honesty
- **Relationship** values shape the way people in the organisation act towards each other, e.g. respect or fairness
- **Organisational** values shape the way the whole SAI presents itself, e.g. transparency or embracing change
- **Societal** values shape the way the SAI influences citizens' lives, e.g. making a difference or sustainability

Box 5.3 Examples of core values

> ***'Innovation, diversity and impact'***. – Core Values of the INTOSAI Development Initiative
>
> ***'Integrity, Accountability, Transparency, Professionalism, Teamwork'.*** – Core values of the Royal Audit Authority of Bhutan
>
> '***Excellency, transparency, innovation, autonomy and results orientation.'*** – Core values of the SAI of Peru
>
> '***Independence, transparency, professionalism, innovation, integrity, diversity, solidarity.'*** –Core values of the African Organisation of Supreme Audit Institutions

Finally, some key considerations for devising a values statement are:

- The values should be aligned to the SAI's vision and mission;

- The values should define behaviour that all staff members should demonstrate;
- The values should represent the SAI's areas of strength;
- The values should represent the type of culture the SAI wants to present to the world;
- There should not be too many different values. Chose a few that everybody can remember;
- The values should be of different types (individual, relationship, organisational, societal);
- For each value, underlying behaviours should be defined.

5.2 Process for developing vision, mission and values

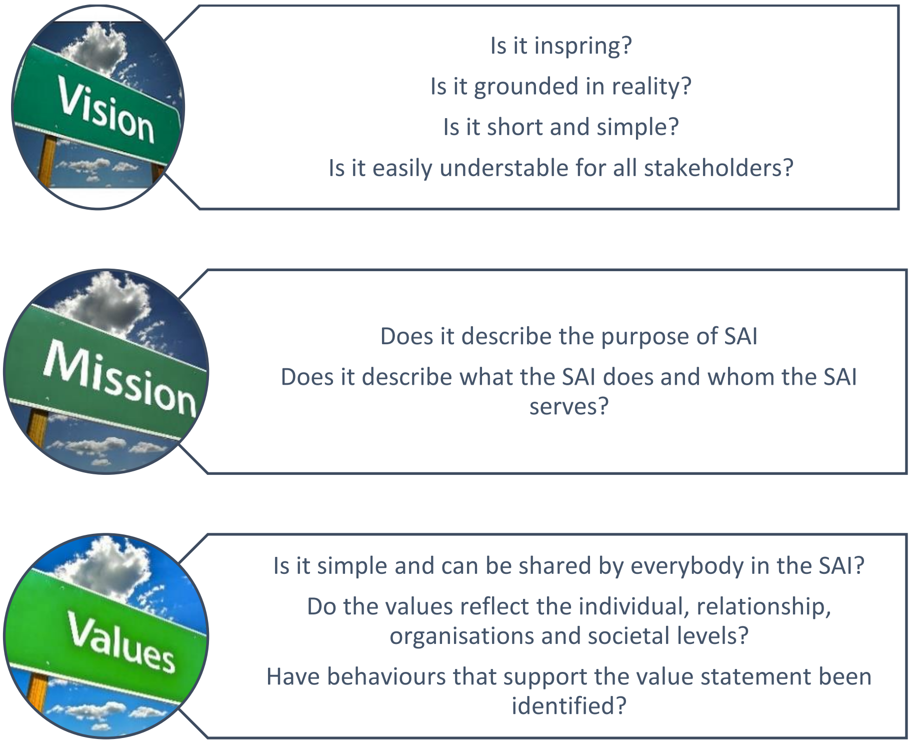
Articulating a vision, mission and values statement is essentially a leadership function, where both the Head of SAI and senior management members should be involved. Internal stakeholders like middle management level and staff should also be consulted before finalising the statements.

When defining or re-examining its vision, mission and values statements, SAI leadership should have a solid, common understanding of the role of the SAI and its mandate as a precondition. It needs to agree on the strategic direction it aspires to take and have a high-level understanding of the expectations that the stakeholders have from the SAI.

On that basis, SAI leadership should look at the available definitions and formats for writing vision, mission and values statement. The process should allow for discussion and feedback from mid-level managers and staff representatives for the draft vision, mission and values statement. In case of small SAIs all staff members can be asked for feedback. In case of large SAIs, to prevent the process from becoming cumbersome, it is better to structure the process in order to keep it manageable, for example through electing representatives from different internal stakeholder groups

The output of this stage of strategic planning is an agreed and approved vision, mission and values statement. The following checklist can be used to review the vision, mission and values statement:

Figure 5.1: Checklist for vision, mission and values statements



The Head of SAI should approve the statements, which should then be widely publicized across the SAI so that all staff members are familiar with them and aware of the progress in the strategic planning process.

Chapter 6: Identify Strategic Issues

Based on the results of the SAI performance assessment and the stakeholder analysis, the strategic planning team can carry out an analysis of the SAI's Strengths, Weaknesses, Opportunities and Threats (SWOT) (Section 6.1). This SWOT analysis is a simple, yet powerful to identify key strategic issues (Section 6.2). Strategic issues are those fundamental questions that the SAI will need to prioritise and select to be addressed in the upcoming strategic management period (Section 6.3). Those will become the main focus of the strategy.

6.1 SWOT analysis

A SWOT analysis is a technique that enables an individual or organisation to understand how it can best align its internal capabilities, potential and limitations to respond to the key requirements and challenges stemming from its external environment. To do that, the SWOT analysis focuses on four separate areas of analysis:

- It analyses the STRENGTHS of the SAI, namely the value existing within the SAI that supports it in delivering its mandate.
- It analyses the WEAKNESSES that detract the SAI from its ability to contribute to changes in public sector performance, or that affect the quality of its products.
- It identifies OPPORTUNITIES in the SAI's environment that can be leveraged to reinforce the effects of its work.
- Lastly, it identifies THREATS that put at risk the SAI's functioning and capacity to deliver on its mandate and mission.

Strengths and weaknesses are mainly characteristics of the SAI itself and lie within its direct sphere of control. They usually pertain to capacities, processes and products of the SAI's work, such as the quality audit reports. Depending on being a strength or a weakness, such aspects can either require preservation, improvement, or even discontinuing. Importantly, though, strengths and weaknesses can refer to both tangible elements such as quality of audit standards, or less tangible attributes such as leadership or internal culture.

For strengths and weaknesses, the SAI performance assessment is the main source (Figure 6.1). The SAI PMF methodology entails a root cause analysis that puts the different elements of performance in perspective to each other and a qualitative assessment that should identify the most relevant strengths and weaknesses of the SAI. Other performance assessment tools should have a similar element. One should keep it mind that strengths and weaknesses are internal characteristics of the SAI as an institution and not external factors. So not all root causes of performance are relevant for this step.

Figure 6.1: Main source of evidence for populating the SWOT matrix

STRENGTHS: Any key current <u>positive</u> aspects of SAI performance <u>within its control</u>	**WEAKNESSES: Any key current <u>negative</u> aspects of SAI performance <u>within its control</u>**

• SAI PMF Domain C: Audit quality and reporting, per audit type:
    • Coverage, Evaluating evidence and reporting on audit findings
    • Timeliness, publication and follow up
• Good practices in stakeholder engagement
• SAI PMF qualitative assessment of performance Section (i): Any key capacities explaining positive performance
	• SAI PMF Domain C: Audit quality and reporting, per audit type:
	    • Coverage, Evaluating evidence and reporting on audit findings
	    • Timeliness, publication and follow up
	• Lacking practices in stakeholder engagement
	• SAI PMF qualitative assessment of performance Section (i): Any key capacities explaining negative performance

OPPORTUNITIES: Any circumstances or factors <u>outside of the SAI's control</u> that are/could <u>positively</u> influence its performance	**THREATS: Any circumstances or factors <u>outside of the SAI's control</u> that are/could n<u>egatively</u> influence its performance**

• SAI PMF qualitative assessment of performance
    • Section (i): Any root causes of positive performance outside of the SAI's control
    • Section (ii): Any positive findings on current contributions of the SAI to transparency, accountability and integrity in the public sector
• Stakeholder analysis
    • Positive views of key stakeholders regarding SAI's current performance
    • Expectations of key stakeholders that align with the SAI's broad perspectives of future direction
• Any additional external factors from the broader political, economic, social or technological environment that may exert a positive effect
	• SAI PMF qualitative assessment of performance
	    • Section (i): Any root causes of negative performance outside of the SAI's control
	    • Section (ii): Any negative findings on current contributions of the SAI to transparency, accountability and integrity in the public sector
	• Stakeholder analysis
	    • Negative views of key stakeholders regarding SAI's current performance
	    • Expectations of key stakeholders that do not align with the SAI's broad perspectives of future direction
	• Any additional external factors from the broader political, economic, social or technological environment that may exert a negative effect

Opportunities and threats refer mostly aspects of the SAI's environment and lie beyond its direct sphere of control. They pertain to factors or circumstances that could enable, reinforce or jeopardize the effects of the SAI's work, and impact on its ability to deliver on its mandate and achieve its vision and mission.

Identifying opportunities and threats is slightly less straightforward than determining strengths and weaknesses. From the previous two steps, there are two sources for opportunities and threats. Using the SAI performance assessment, one can identify the external enablers and constraints to improved SAI performance and increased SAI impact. These could be root causes of performance but beyond the SAI's sphere of control, for example the SAI's mandate, its financial resources or even the general development level of the public financial management system in the country.

From the stakeholder analysis, one can define the stakeholders' views and expectations that are enabling for SAI development and those that are less so (See Section 3.2). Those can be understood as opportunities and threats, too. If for example the Parliament had expressed a clear wish to receive more high-quality performance audit reports and is willing to support the SAI in that, it would be considered an opportunity. If on the other hand, the Executive had expressed an unwillingness to cooperate on this matter, it would be considered a threat.

Opportunities and threats can also be external factors stemming from the broader environment. Similarly, the introduction of a performance-based budgeting approach by the Ministry of Finance could be an opportunity for the SAI as it places more emphasis on its performance audit function, but the same reform may also be a threat if the SAI does not have a clear mandate for performance audit. Other example of opportunities could be the passing of a law aimed at enhancing fiscal transparency in the country, the possibility of provision of donor support, or a change in the governance climate leading to more demand for accountability from citizens. Frequent changes in the composition of the legislative committee in charge of follow-up of audit reports, or a looming external debt crisis in the country, are examples of possible threats.

In some cases, it may be difficult to distinguish between a weakness and a threat. For example, when auditees consider financial audits to be of insufficient quality, it is important to determine whether this is a subjective view (which would place the finding under the threat category). If however this is underpinned by the objective SAI PMF assessment, then the poor quality of financial audits can be classified as a weakness.

The result of the mapping of SAI's strengths, weaknesses, opportunities and threats is a so-called SWOT matrix, which enumerates all key findings and places them together. Figure 6.2 presents an example of a SWOT analysis for a fictitious SAI.

Figure 6.2: SWOT matrix: an example

STRENGTHS	WEAKNESSES
• Financial audit coverage of 65%, based on standards and risk based approach • Moderate performance audit quality • Mostly timely submission of audit reports • Published annual audit report • Quality control and archiving processes defined • Communicating audit results with Public Accounts Committee • Head of the SAI experienced and well respected	• Performance audit unit very small • SAI doesn't make separate audit reports public, only summaries • Limited compliance and performance audit coverage • Sluggish recruitment procedures • Lack of sufficient competent staff • Limited engagement with media
OPPORTUNITIES	**THREATS**
• Public Accounts Committee interested in having more performance audits • Donors have basic confidence in national PFM system, including the SAI • New integrated financial management system rolled out • New Anti-Corruption Commission keen to partner with SAI	• Ruling party is worried that performance audits may question its policies and service delivery • Ministry of Financie is closely involved in setting the SAI budget • State of emergency in the country due to recent natural disaster • SAI staff that are not professionally qualified may try to block moves to professionalize the SAI

As evident from Figure 6.1, the SWOT matrix may be rather busy and merely put together a list of various issues. The true value of the SWOT analysis lies in analysing the possible interlinkages between strengths, weaknesses, opportunities, and threats, to identify the strategic issues the SAI is facing.

6.2 Identifying strategic issues

A key product of the SWOT is the list of the key emerging issues that the SAI needs to consider in relation to achieving its vision and realizing its mission and mandate. Those issues are also known as strategic issues.

Strategic issues: *"fundamental policy question or critical challenge affecting an organisation's mandates, mission and values, product or service level and mix, clients, users or payers, costs, financing, structure, processes, or management" (Byrson, 2011).*

Box 6.1 Key characteristics of strategic issues

The issue is relevant for the vision, mission and values of the SAI. If it is crucial to use a certain opportunity to achieve the SAI's vision, it would be considered a strategic issue. Equally, if a threat endangers the SAI's living up to its values, it would be considered strategic.

It is a long-term issue. One should determine whether the issues at hand are of high importance for the length of the strategic management cycle. All issues may seem important, but it can be helpful to differentiate between urgent and important. Finalising an audit, the SAI begun a long time ago, may be urgent but as such is not on the strategic level. Acting to finalise more audits in time overall, on the other hand, may be important on the strategic level.

It is in the clear interest of crucial stakeholders. If several powerful stakeholders have declared a demand for a certain change it may be considered a strategic issue. The SAI should however assess if the stakeholders' demands are in line with the SAI's general direction of development, mandate and independence, and does not jeopardise achieving other strategic issues. Whether or not to fulfil stakeholders' demands should always remain the SAI's decision.

It is crucial for the value and benefits of the SAI. This criterion is very similar to the first one. If a certain weakness renders it impossible for the SAI to demonstrate value and benefits to the citizens, it would be considered a strategic issue.

Strategic issues are those challenges and constraints that are truly important for the SAI's existence, relevance and excellence. They usually have no obvious best solution. Strategic issues represent a convergence of external opportunities and threats, SAI internal strengths and weaknesses, as well as of current aspects, trends and prospects from the broader SAI environment. It is this complexity that makes issues truly strategic, since the consequences of inaction for the SAI may be both long-term and multi-facetted. To identify strategic issues, the filled-out SWOT matrix could be analysed using a set of key questions (Figure 6.3).

Figure 6.3 Analysing SWOT matrix: key questions

	Strengths	Weaknesses
Opportunities	**Use strengths to take advantage of opportunities** Which possibilities would yield the highest improvements if we INVEST our strengths in them?	**Exploit opportunities to overcome weaknesses** Can/ should we DECIDE to use any of the opportunities to address weaknesses?
Threats	**Apply strengths to avoid threats** How can we employ the things we do well to DEFEND the organization against challenge?	**Minimize weaknesses to avoid threats** Which current weaknesses do we need to DIVEST/ DAMAGE control in order to prevent the situation from getting worse?

A strategic issue must be something the SAI can significantly influence. Issues such as the reduction of budgetary deficit, or eradicating debt may be seen as strategic; however, few SAIs would have the means to take them on. In the terminology and value chain of the SSMF, strategic issues centre at the level of outcomes and focus on the challenges from the SAI's immediate stakeholder environment, which limit the contribution of the SAI's work to a better performing public sector.

Such strategic issues can deal with lacking implementation of audit recommendations by government agencies, with weaknesses in the public sector accounting and reporting systems and practices that slow down the SAI's work, or with a polarized or disengaged media and citizen involvement on topics of public sector control and accountability.

When identifying strategic issues, a key question for the SAI will be to determine how far it can leverage on its current strengths and use emerging opportunities. However, understanding all dimensions of a strategic issue and identifying the whole range of possible responses to them can be challenging. It requires a self-critical and unbiased attitude to pinpoint and frame issues such as "*How can we support better financial reporting without being perceived as interfering in the Executive's sphere of control?*", or "*How can we improve our credibility to citizens when the implementation of audit recommendations is lagging behind?*".

While strategic issues will mainly emerge from the assessment of the current situation and the subsequent stakeholder consultations and SWOT analysis, it is important to highlight that the identification, framing and discussion on strategic issues for the SAI is a process that often precedes the specific planning effort, and will likely continue long past the formal adoption of the strategic plan. It is in the continuous analysis and response to strategic issues that a SAI can truly exercise strategic management. Therefore, strategic issues are typically first framed as questions, which encourage exploration, creative thinking, reflection and weighing in of different options in search of the best solution.

6.3. Prioritising strategic issues

Initially, strategic issues should be considered in an exhaustive manner so that all the issues emanating out of the SWOT analysis are covered. However, oftentimes the sheer number, and the magnitude of the strategic issues may be a few too many for the SAI to consider in one strategic plan. For instance, the SAI may consider that both increasing engagement with Parliament, ensuring better compliance with laws and regulations, and enhancing the confidence of the public in its audit work are of strategic importance to advancing its mission and vision. Yet the SAI may have to make a choice to defer addressing the last issue, owing to balancing the relative importance of the three outcomes with the expected availability of the resources, or the political feasibility of the suggested change.

The decision on how many and which strategic issues to cover in the strategic plan will depend on the specific situation in each SAI. As a general rule, the SAI should consider two or three strategic issues for a strategic planning period of five years and formulate respective desired outcomes for those. The key considerations for prioritising between strategic issues are as follows:

- **Political feasibility:** Even when the SAI is fully independent, it does not operate in a vacuum. Rather, it is part and parcel of the public sector. The role and likelihood of key stakeholders supporting intended outcomes by the SAI is therefore critical. For example, a strategic issue for the SAI may be to address concerns about fiscal transparency in the country. However, in the absence of laws, regulations and political appetite for such changes, the SAI may wish to consider if this should be a central outcome to its strategy. Conversely, the SAI may also find compelling outcomes in national or PFM reform strategies, to which it can align its outcomes. This can confirm and reinforce its position as an institution aiming to enhance the quality of public sector management.
- **Availability of funds or probability for additional resource mobilisation:** For a SAI strategy to be effective, it should in the first place be credible. Credibility implies in particular affordability, since a strategy that is not affordable is not more than a wish list. An aggregate estimate of the likely revenues the SAI can mobilize over the strategic planning period, compared to the additional funding needs associated with the implementation of the strategy will ensure that the SAI remains realistic when taking on strategic issues. Human resources will also need to be taken into consideration. Section 6.3 deals with the issue of resource

estimation linked to the strategy in more detail, while Chapter 8 is dedicated to annual budgeting and resourcing.

- **Potential impact (SAI contribution to value and benefits):** When selecting strategic issues and formulating respective outcomes, the SAI should also consider the extent to which they can affect changes at the highest possible level.
- **Legality:** Closely linked to political feasibility, the aspect of legality can significantly influence the choice of strategic issues. For example, the SAI may want to address the issue of improving the quality of public service delivery, however it may not have a mandate to carry out performance audits. Or, the SAI may want to focus on gender equality but may be bound by national legislation that public sector recruitment is strictly exam-based.
- **Probability of risks materializing:** The SWOT analysis is a powerful tool to identify specific risks as part of the determination of strategic issues. Sometimes, such risks may be deemed too high for the SAI to engage. For example, the SAI may consider improving its relationship with Parliament as strategic, and rightly so. However, if due to the political situation in the country there are frequent elections and changes to members of Parliament, or long period when Parliament is in recess, the SAI may consider focusing on other issues where it can expect to make a stronger contribution.
- **Consequences of inaction:** By definition, strategic issues are fundamental to the existence and performance of the SAI. However, some may be more urgent to deal with than others. The SAI may choose to ask if a strategic issue is so important that it has to be dealt with within the next period no matter the resources needed (critical priority). An important priority is one where the issue at hand is seen as significant, but where the SAI will put a limit on the resources to invest in. Finally, a third set of strategic issues can be classified as desired priorities, which can be dealt with if time and resources allow, but where the consequences of inaction would not be as big.

Chapter 7: Craft the SAI Strategy

Once the key strategic issues for the strategic planning period have been determined, the next step for the SAI will be to develop the SAI strategy. Based on the determination of the desired long-term change at the impact level that the SAI sees as the ultimate effect of its work (Section 7.1), the SAI will need to formulate strategic outcomes for each of the selected strategic issues. Those outcomes will form the cornerstone of the SAI strategy and will identify the key changes in the SAI immediate environment that it wishes to influence, such as improvements in public sector governance or in stakeholders' demand for accountability (Section 7.2). Next, the SAI will need to devise strategic options on best to address the outcomes, and select relevant outputs, or products of its work that it considers most suitable to facilitate the achievement of outcomes (Section 7.3). As part of this step, the SAI will furthermore need to determine the gap in current SAI capacity that needs to be closed in order to facilitate change, and to analyse the risks and assumptions related to any strategy to improve capacities and strengthen performance. There will likely be more strategic options to address that the SAI can realistically aim for over a period of several years. In light of resource constraints and other considerations, the SAI will need to make strategic choices and prioritise which outputs and capacities it will address through the period (Section 7.4). To do so, it will have to consider the feasibility of its proposed options and the likelihood of achieving its stated performance objectives. On that basis, the SAI can go ahead and finalise its strategy, by producing the final results framework and preparing the supporting narrative to the document (Section 7.5). Due consideration has to be paid to the communicating and marketing the strategy externally (Section 7.6).

7.1 Determining the desired impact

As mentioned in Chapter 2, the premise of the SSMF is that a SAI can only sustainably improve its performance if it defines this same performance in terms of the long-term, lasting societal changes it aims to influence. This level of intended results at the impact level is closely linked to the SAI's vision in terms of the type of country and society it would like to support and affect through its work.

The SSMF provides examples of various potential impact-level changes that the SAI can ultimately strive towards. Those are broad changes in transparency, accountability and integrity in the public sector as a whole; an enhanced democracy and public trust in society; better public service delivery positively affecting lives of citizens; and support for the UN agenda 2030 and SDG implementation.

The precise selection and definition at the impact level will be country and context specific. The desired impact of the SAI should and will not change between two strategic plans. It should remain a continuous anchor of the overall strategic direction, guiding and shaping the remainder of the intended results by the SAI.

7.2 Formulating outcomes

> ***SAI outcomes**: specific, tangible desired changes in the SAI's public sector environment, which are linked to the strategic issues faced by the SAI, or to broader sectoral or national priorities on PFM or governance.*

In order to best explore and analyse strategic issues, they are initially framed as questions. However, once they have been analysed and prioritised, the SAI should formulate the specific outcomes associated with each strategic issue. Those should describe clearly and concisely, in positive terms, the desired result, or the intended change that the SAI aims to contribute to.

For example, a SAI may have formulated the following strategic issue: "*How can we be seen as a reliable and independent institution when the implementation of audit recommendations is lagging behind*?". This strategic issue has been based on an analysis of SWOT findings, which suggests that citizens may not really view the SAI as trustworthy, whereas the auditees are not taking reports seriously and implementing recommendations, due to the fact that audit quality is low. As a result, the SAI has chosen to define the following outcome it would like to strive towards: "*Become a credible oversight institution for clients and citizens*".

In another example, a strategic issue emanating from the SWOT analysis is "*What role can we play in the current accountability movement in the country, given our limited audit coverage and professional capacities*? In this case, the SAI has observed that there is a demand for more accountability in the country by CSOs and other actors, because of recent scandals with funds embezzlement by high-ranking public officials. Although not directly implicated, the SAI fears it may not be able to adequately address such demands due to limited resources. However, its performance audit practice is good. As a result of exploring the strategic issues, it has chosen to focus on supporting the case for "*More effective and accountable management of key service delivery programmes*". In other words, since the SAI lacks coverage in financial and compliance audits, it aims to capitalize on its strong performance audit practice, and contribute towards ensuring better accountability at least within a subset of government.

The SAI SSMF includes examples of possible strategic outcomes, for example "Improved compliance with laws and regulations", or "Stronger public confidence in the SAI". One important consideration when formulating strategic outcomes is the use of adjectives such as "improved", "enhanced", "better" etc. The SAI will need to clearly define what does such improvement look like, and how it will measure it as part of its monitoring framework. To the extent possible, the formulation of strategic outcomes should avoid using such so-called pitfall words, or at a minimum agree on a clear definition of what they mean, to avoid subjectivity and misinterpretation. In any case, the desired change should be tangible and attainable over the strategic planning period, under certain assumptions about the behaviour of others.

Finally, it is important to remember that the SAI should also consider relevant outcomes at the sector and national level it can contribute to. In fact, outcomes often relate to national or sector-level priorities, especially on PFM and governance. For example, a SAI can consider the priority of "Improved fiscal governance" which is part of the PFM Strategy spearheaded by the Ministry of Finance. A relevant and related outcome for the SAI could be to contribute to "Stronger compliance of public service officials with fiscal regulations (to ensure aggregate fiscal sustainability)".

7.3 Devising strategic options at the output and capacity level

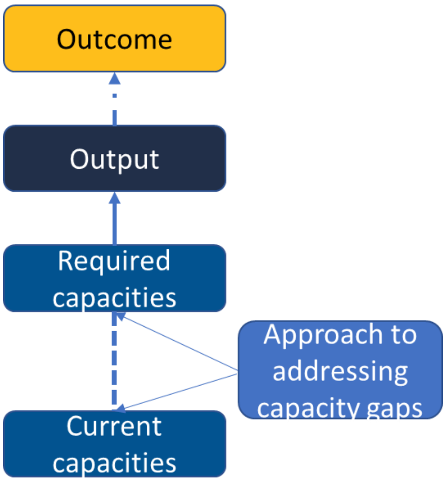
Once all the strategic issues have been identified, and respective outcomes have been formulated, the next step for the SAI will be to determine the strategic options for each outcome. Strategic options refer to the most suitable responses to the outcomes selected by the SAI. They aim to establish a logical chain of intended changes within the SAI control that can best address the challenge posed by the strategic issue, in line with the logic of the SSMF. In short, for each outcome, strategic options will need to identify relevant outputs in terms of products of the SAI's work, which are most likely to contribute to facilitating the outcome. Strategic options will also need establish, in broad terms, the required capacities in relation with the output, determine the current capacity gap and devise a strategy to address it (Figure 7.1). The findings from the SAI PMF assessment will be a critical input to this exercise, as they will identify capacity needs and gaps for the various domains of SAI performance.

Strategic option: *A logical chain of intended changes at the* ***output and capacities*** *level within the SAI control that can best address the challenge posed by the strategic issue, and facilitate the achievement of the desired outcome*

SAI output: *Key products of the SAI's work, such as timely, high-quality and publicly available audit reports*

SAI capacities*: Organisational, professional and institutional attributes such as procedures, methodologies, skills, knowledge, structures, and ways of working that make the SAI effective both as an institution and as an organisation*

Figure 7.1: Strategic option



When developing strategic options, the SAI should not be too critical or restrictive, and the focus should not be so much on feasibility, but rather on relevance in relation to the specific outcome. The SAI should carry out a straightforward, open discussion among the strategic planning team about which options seem most relevant given the magnitude of change they are aiming to affect and the risks, threats, opportunities and challenges they may be facing. All strategic options should be evaluated in the context of their contribution to advancing the SAI's mission and achieving its vision. A simple process to identify strategic options could be structured around the following steps:

1. **For each outcome identified, list the specific opportunities and threats associated with it**. Those will likely stem directly from the SWOT analysis, but it may be useful to further spell out opportunities and threats in relation to the specific issue;
2. **Identify possible outputs that capture how the SAI could respond to the outcome** Consider the most relevant changes within the control of the SAI that can facilitate the desired change. For example, if the outcome is on better implementation of audit recommendations by the auditees, one option may be to improve the quality of audit reports (output level). Another option may be to seek more effective communication between the audit staff and the auditee. A third option could be to enhance cooperation with Parliament and ensure more effective follow-up on the basis of the audit reports, which could require targeted support to Parliamentarians to better understand audit findings. Finally, the SAI may consider working with CSOs in order to put external pressure for implementation.
3. **Rate the outputs in terms of relevance (how well they seem to address the strategic issue) and alignment with the SAI's vision and mission.** There will likely be more than one output for each outcome. Taking the example above, enhancing cooperation with Parliament in the case when there are frequent changes in the composition of the committee tasked with reviewing audit reports may be considered less relevant as compared to the other two outputs. Disqualify any outputs that may not be sufficiently relevant at this time.
4. **Consider in broad terms the required capacities and the capacity gaps for each relevant output.** The next step is to map all the specific required SAI capacity changes in terms of the SAI's institutional, organisational and professional resources related to an output. This means identifying the current capacity gap. In the example above, to improve the quality of audit reports, a key

capacity gap identified by SAI PMF may be weak audit recommendations. In turn, those can be the result of auditors not adhering to audit methodology and limited application of quality control procedures. In order to close the capacity gap, the SAI will have to consider changing methodologies, quality control processes, as well as provide related training. The SAI PMF findings in each performance domain will be a main input to this analysis. Disqualify any outputs that would require capacities that seem that seem entirely unfeasible to address over the coming period. Those could be outputs that may require legislative changes (for example, a change in the mandate), or a degree of resources the SAI cannot realistically expect to be able to allocate.

5. **Record assumptions and risks for each output and related capacity needs.** Assumptions reflect possible constraints from the external environment, such as the behaviour of external stakeholders, and the SAI's expectation on how such behaviour would manifest itself as response to the changes. Risks pertain to factors both within and outside SAI's control that may jeopardise the achievement of results (See Box 7.1). The SWOT analysis will be a key source for this step.
6. **Select two to three strategic options** (outputs and corresponding capacity needs, gaps and approach for closing the gaps) for each outcome for further discussion and feasibility analysis.

Box 7.1 Assumptions and risks

Assumptions and risks

When the SAI considers strategic options, it also makes assumptions about the anticipated change process that will respond to the strategic issue at hand. Also, it should consider the risk, or the uncertainty of an event occurring that could have an impact on the achievement of desired change.

Generally, assumptions are beliefs or feelings that something is true or that something will happen, an assertion about the world we do not always question or check. For instance, if as part of a strategic option the SAI considers a training on audit methodologies, it assumes that the auditors attending the training will pay attention and will acquire new skills. It then also assumes that auditors will in fact apply the skills and be able to write better audit recommendations. An even stronger assumption is that that those recommendations will be better understood and followed up. And on their turn, this can contribute to some long-lasting changes that affect citizens.

Risk, on the other hand, are such events, which, should they occur, could jeopardize the likelihood of affecting the desired change. In the example above, one risk is that the facilitator delivering the training is not knowledgeable enough about the topic. A much higher risk – and in fact a strategic risk - however is that the SAI is perceived as biased by the public, so that even if audit recommendations are better written, the auditees may reject them as they would not consider them valid. Strategic risks are therefore such risks that affect the level of outputs and outcomes in the SSMF. The identification and classification of risks is dealt with more extensively in Chapter 11 of the handbook.

The strength and validity of assumptions, and the impact and likelihood of strategic risks occurring should be rigorously tested as part of the process of identifying strategic options. Assumptions and risks influence both the choice of desired results the SAI selects for its strategy, and the design of the specific interventions to affect such change. Finally, the periodic checking of the validity of the assumptions and the active monitoring and managing of risk is a key part of the implementation of the SAI strategy.

7.4 Making strategic choices through feasibility analysis

In the first two steps of crafting the SAI Strategy, the SAI has identified the most relevant strategic options (a combination of outputs and related capacity needs), at its disposal to facilitate the outcomes it has chosen to orient its strategy towards. For each relevant option, it has formulated a results chain, structured in the logic of the SSMF, identifying the possible pathway to influence the desired change by addressing capacity gaps to achieve tangible outputs.

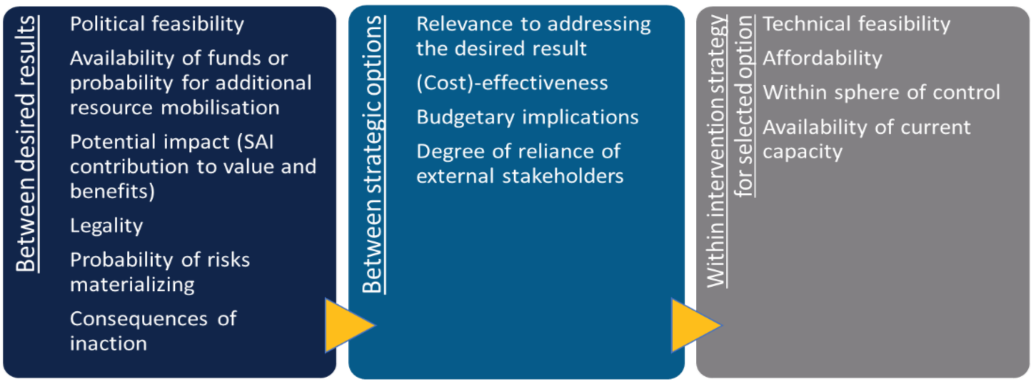
Even if sounding simple, in practice these two first steps may often be a rather unstructured process that does not follow a linear logic. This is because they involve a lot of deliberation, iteration and passionate discussion from the team tasked with developing the SAI strategy. Once this step is finalised, the next part of crafting the SAI strategy aims to restore a more structured approach towards the final product. Carrying out a feasibility analysis is a crucial enabler to this end.

At this stage of drafting the strategy, the SAI will have selected their critical strategic issues and formulated concrete desired outcomes for each of those. However, it will likely have a relatively long list of strategic options on how to address those. In turn, each of the options will imply a capacity gap and so a different set of capacities to be addressed. This may seem overwhelming. In line with the SAI strategic management principle of “Keep it manageable”, it is time for making a final selection of what changes the SAI will aim to address in the strategic planning period. For that, the SAI will have to make twofold strategic choices:

- A choice between strategic options on how to address an issue;
- A choice within a selected strategic option on how to optimally structure the change process.

Making choices requires a considerable degree of political and value-based judgements, spearheaded by the SAI Leadership and its vision and decision on what is important, how important it is, and what compromises should be made in the face of conflicting priorities and finite resources. Nevertheless, avoiding a fully subjective selection process for defining the SAI strategy is imperative in order to ensure implementation. To that end, it is recommended to come up with a list of criteria to facilitate the decision-making process and make it more objective and transparent. Criteria form a key part of the feasibility analysis methodology that the SAI can apply to help discount all options that face high risk of not being implementable and make the final selection between the viable alternatives. Figure 7.2 depicts a possible list of criteria for each level, at which a strategic choice needs to be made, which can be customized based on the SAI’s preferences.

Figure 7.2 Criteria for feasibility analysis



For example, a SAI may identify two strategic options on how to address the outcome of "Stronger Compliance with Laws and Regulations", such as through increased compliance audit coverage (but sticking to existing methodology), or through introduction of ISSAI-based compliance audit. The first option may require some internal capacity shifts and training e.g. to improve the write-up of audit recommendations, while the second implies a more resource-intensive and lengthy process of developing a new methodology, piloting it, training staff and only then aspiring to see some contribution to changes at the outcome level. On the other hand, the effectiveness of the second option in the long run may be far greater than the first one, which essentially relies on doing more of the same. The final choice here could be determined by the budgetary implications and the availability of resources the SAI can realistically expect to allocate to the preferred option (See Box 7.2).

Once a certain strategic option has been chosen, choices will also have to be made regarding the specific design of the strategy, including the sequence of suggested interventions to close capacity gaps and achieve the associated outputs.

For example, when it comes to the quality of the audits, significant changes will not be achieved unless various capacities and process in the SAI are addressed simultaneously or sequentially. One of those is the annual planning process because any real change in the audit process should be reflected in the annual audit plan. Another important aspect can be the quality assurance and quality control processes. Further aspects could relate to the training methodology and the capacity building, coaching and mentoring provided and how well these activities are embedded in the audit practice to create changes at the quality level. Sometimes units in SAIs can operate in silos where the trained auditors are not assigned to doing audits, and the auditors in the field are not being trained. This creates a mismatch in terms of existing technical capacities within the SAI and the utilized technical capacities. Likewise, when it comes to the professionalization of its staff, a SAI has to make decisions in terms of the competencies required, the qualification needed, the certification process and the accreditation mechanisms. Decisions have to be taken of having internal mechanisms or outsourcing this process.

Another example at organisational level is the introduction of new audit streams and their impact on the organisational chart. SAIs might have to establish a performance audit practice or a financial audit practice in some cases, and this usually requires organisational arrangements in addition to technical arrangements. A SAI might have to establish separate units or teams within an existing unit. Those are the kind of choices a SAI might have to make.

Which capacity needs and gaps to address first, and how to create the most effective intervention strategy requires in-depth analysis and consideration when crafting the SAI strategy. Sequencing the changes is also critical, especially when a process requires several changes. Ultimately, the SP team will have to select and specify a clear and sequenced strategy for closing the capacity gaps associated with each output.

Box 7.2 Estimating budgetary implications of strategic options

When making a choice between strategic options, a key factor for the SAI will be the budgetary implications of each option. It will then have to reconcile the costs of the different options with the expected resource availability it may have.

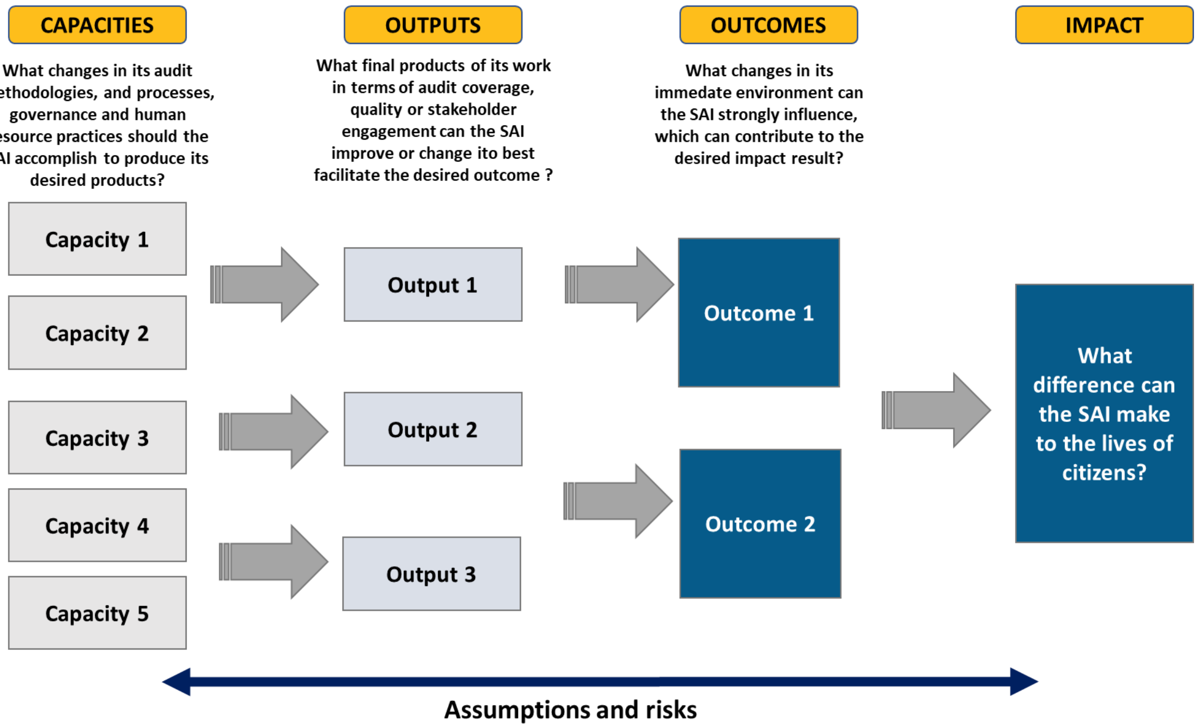
At this stage of the planning process, the SAI should not go into detailed costing of the various options. However, it should consider three broad categories of expenditures for each option: 1. Additional staff needs (hires) and associated recurrent costs (salaries, pension contributions etc.); 2. Other recurrent costs (training, production of materials, consultancy support) e.2.?? Capital expenditure related to the option, e.g. costs for computers, licenses, for additional space, etc. 3. Overhead costs related to administration and management. Such estimates will need to be produced over the course of the entire strategic planning period. This is because most strategic options require implementation over a longer period, and the SAI needs to have a clear idea as to the multiannual implications of any changes. Even when these will be rough estimates, they will be sufficient for the purposes of the SAI making a feasibility analysis and selecting the most realistic option.

On the other hand, the SAI will need to produce an aggregate estimate on the available resources it can realistically expect over the strategic planning period. Usually, the fiscal space for new initiatives will not be big, since much of the SAI's budget is already committed to salaries and other ongoing spending. In fact, at the level of the entire government budget, it is estimated that only 5% of the total revenues are in a given year available for new spending priorities (see Schiavo-Campo, 2007). The situation is likely to be no different in a SAI. Therefore, it will need to carefully consider the potential for mobilizing additional resources. It will have to first assess the likelihood of receiving a higher budget allocation, and second the possibility for receiving external funding through development partners. It should also examine any cost-saving potential

7.5 Preparing the results framework

The culmination of the strategic planning process is the production of the SAI strategy. The centrepiece of the strategy is the results framework (Figure 7.3). The results framework is an explicit articulation of the different chains of results expected from the SAI strategy. The results framework follows the logic of the SSMF (Figure 7.3)

Figure 7.3 SAI results framework



When populating the final results framework, the SP team should specify and describe the following key elements:

- The desired long-term change in terms of SAI **contribution to impact** (delivering value and benefits to citizens);
- The envisaged changes in the immediate SAI environment, which the SAI can influence, corresponding to **SAI outcomes** in relation to the selected strategic issues:
- The expected results under the control of the SAI, or the **SAI outputs**, which will facilitate the achievement of outcomes. It should be noted that each SAI output may contribute to the realization of more than one outcome.
- The **required capacities** in relation to each output and the chosen **approach (pathway) to address capacity gaps** in the SAI that should enable the realisation of each output.
- The necessary **financial and human resources** for each major capacity gap.

- The results framework should also identify any underlying **critical assumptions** that must be in place or fulfilled for the strategy to be successful, i.e. that it leads to the targeted outcomes and impacts.
- Any **risks** that can deter the achievement of intended outputs and the contribution to outcomes and impact shall also be presented, including with the identification of measures on how to mitigate those.
- The **performance measurement** approach on how the realization of outcomes and outputs will be assessed. The outcome and output levels defined in the results framework should be supported by suitable **performance indicators and related baselines, targets and milestones**. The guidance on how to do this task is captured in Chapter 9 in the context of establishing a performance measurement system for the SAI. Although measuring and monitoring performance is presented as part of the section on strategy implementation, outcome and output measurement is a key supporting element of the results framework itself and therefore part of strategy formulation. In fact, considering how the intended results will be measured often leads to more precise and better definitions of the outcomes and outputs in the results framework. For example, a SP may have formulated an outcome on "Better public financial management by key government officials". When considering how this outcome can be measured, the SP team has identified that they would like to use the indicator "Percentage of deviation between the approved and executed budget", since there is a consistent trend of significant overspending, which drives a growing fiscal deficit. As a result, the SP team has changed the definition of the outcome itself to "Improved fiscal responsibility of planning and budgeting officers".

One important aspect to consider when preparing the results framework is the timing and structure of internal consultations with the rest of the SAI. This relates to the strategic management principle of being inclusive. As noted in Chapter 3, Section 3 such internal consultations need to take place to ensure ownership and shared commitment towards the desired results and thus support implementation. Depending on the size and structure of the SAI, the SP team may choose to present either a first or a final draft of the results framework for consultation with staff, or organise specific sessions to gather their input. Leadership approval for the final results framework is of utmost importance.

7.6 Content and communication of the SAI strategy

Next to the results framework and all its key elements, the SAI strategy should also include the SAI vision and mission, its core values, as well as supporting narrative. Different SAIs choose to provide different kinds of information in the strategic plan document. Examples can include organisational history, the legal framework, an organisational chart, a message from the Head of SAI, or a summary of SAI PMF and SWOT analysis results.

Furthermore, for each outcome and output, the strategic plan should provide the rationale for focusing on it, as well as a narrative explaining the result chain associated with the intended change. The SAI has to decide what the contents of the strategic plan document should be and what sequence the contents should be presented in. As a word of caution, the strategic plan should not become a lengthy document. It is better to keep the body of the plan short and simple. The Annex to this chapter contains suggested table of content for the strategic plan.

The contents of the strategic plan need to be put together in a cohesive and attractive fashion. The final SAI strategy should become a stand-alone document that can communicate to an external reader how the SAI intends to improve its performance over the strategic planning period. It is important for the SAI to ensure that the plan is written in a language that is easily understandable, that it provides stakeholders with just the right amount of information on the SAI's plans for the future. Writing skills play a vital part in documenting the strategic plan. Proofreading, formatting and design would also be required at this stage. The SAI management has to sign off on the final draft.

At the end of the strategic plan development process the SAI would be ready with an attractive strategic plan document. The process of marketing or publicising the strategic plan is a process of getting prepared for its implementation through gaining the support and involvement of the SAI's internal and external stakeholders. It involves determining who the plan should be distributed to, how the plan and its contents can be exhibited to the best interest of the SAI. Both the methods of marketing and the audience to be targeted are determined at this stage. The printed plan would also be the SAIs communication tool with all its internal and external stakeholders. The process of marketing may be important for the following reasons:

1. To help create ownership and buy-in of staff within the SAI;
2. To create an increase in awareness and understanding about the SP;
3. To help enhance the SAI's image and reputation;
4. To help obtain support of external stakeholders;
5. To help in managing expectations of stakeholders.

PART C. IMPLEMNTING THE STRATEGIC PLAN

Introduction to part C

A strong strategic plan is a necessary, but not sufficient condition for sustainably enhancing SAI performance. In fact, it is usually when the strategy is finalised that the challenges begin. To quote Jeffry Pressman and Aaron Wildawsky (1978), the founding fathers of the study of implementation in the public sector, "*People now appear to think that implementation should be easy; they are, therefore, upset when expected events do not turn out or turn out badly. […] Implementation, under the best of circumstances, is exceedingly difficult*."

For SAIs, four main ingredients for effective implementation are essential: (1) an operational plan that clearly specifies and allocates annual tasks and resources that accurately reflect the strategic intent; (2) a system for objective and systematic measurement and reporting of performance against operational and strategic targets that ensures organisational accountability and learning; (3) effective and transparent decision-making mechanisms, including risk management; and (4) a system of management controls to hold employees accountable, paired with measures to incentivize their performance, underpinned by inspirational and informed SAI leadership.

As discussed in the introduction, there is significant evidence that SAIs struggle to translate strategic plans into actionable operational plans. What makes for a strong operational plan is therefore the subject of Chapter 8. This chapter also tackles the issue of financial and human resource allocation in the SAI context. SAIs also face challenges with defining and incorporating effective performance measurement in their organisation, and there is a lot of room for improvement in many SAIs when it comes to both their internal and external reporting. Chapter 9 thus treats the crucial topic of measuring SAI performance and establishing a SAI monitoring system. Chapter 10 discusses the types of SAI performance reporting.

While operational planning, monitoring and reporting are formal processes, much of their quality and actual achievements will depend on the decision-making style and preferences of the SAI head and management team, including their risk appetite. Chapter 11 casts an eye to the issues of strategic decision-making and risk management. In turn, decision-making is strongly shaped by the SAI leadership and the propensity of staff to align and implement the desired changes. As Shick (2008) remarks, "*In government, performance depends more on the competence and attitude of civil servants than on systems and procedures*". Chapter 12 therefore considers the issues of leadership and change management.

Chapter 8: Operational Planning

The finalisation of the SAI strategy marks an important milestone for the SAI. It may gain attention and traction in media and among key stakeholders. Equally important, but a lot more hidden and internalised is the SAI's operational plan, which is the subject of this chapter. Even a perfectly crafted strategy would be impossible to implement without a supporting operational plan. The operational plan translates the SAI strategy into implementable tasks and actions, which can be taken up and followed through by SAI staff. It represents a detailed blueprint for implementation, which should ensure that capacity needs identified in the SAI strategy are met, the outputs are attained, and the outcomes are facilitated. In other words, while the SAI strategy is about goal-setting, the SAI operational plan is about goal-achieving.

Section 8.1 discusses the objectives of the operational plan and how it serves as the linking pin between the SAI strategy and the achievement of performance. For an operational plan to fulfil these objectives, it has to display a set of crucial characteristics (Section 8.2). Among those are the need to align the operational plan to both the SAI strategy and the budget, to cover both audit and non-audit activities, as well as to strike the right balance between comprehensiveness, specificity, manageability and flexibility. A SAI will need to carefully consider those characteristics and apply those through its operational planning process (Section 8.3). The Annex to this chapter contains suggested formats and examples for the operational plan.

8.2 Main functions of an operational plan

__SAI operational plan:__ An annual, resourced plan of the SAI's audit and non-audit activities. It describes how, or what portion of a strategic plan will be put into operation during a given financial year and breaks down the approach for closing capacity gaps identified in the SAI strategy into separate activities. It ensures that the SAI focuses its work towards achieving the outputs and facilitating the outcomes of its strategy.

An operational plan is a translation of the SAI's strategy into a practical, more detailed instruction on how to focus and structure the SAI's day-to-day operations towards achieving its performance goals. It provides a framework for action, based on the strategic vision given by the SAI strategy. The operational plan includes the projects, activities, timelines, resources required, estimated budget, outputs, responsibility for the project and risks involved. It should provide enough detail on the annual activities to keep all SAI staff advancing in the direction of the strategic plan, with a common understanding of when, how fast and how far to move. If followed, a well-written operational plan ensures that the SAI's operations achieves the results foreseen in the strategy. An operational plan is therefore the main vehicle that transforms the strategy into actual performance.

Although the key premise of an operational plan is to ensure the translation of the SAI strategy into actionable steps to be carried out during the year, an operational plan can have several additional functions:

- **Facilitates the coordination and optimal allocation of resources**: An operational plan enables the planning and allocation of the SAI's available resources (human, financial and physical) in support of fulfilling the SAI strategy and mandate.
- **Ensures meeting set timeframes as per the SAI mandate**: The operational plan allows managers to structure their work in such a way as to produce the required audits and other expected products as per the SAI's mandate in the stipulated legal timeframes, and with the required quality
- **Promotes cross-departmental cooperation**: An operational plan for the whole SAI considers both audit and non-audit activities. In the process of preparing the plan, it often becomes evident how the various tasks require the coordination and cooperation between various departments and units within the SAI. A good operational plan ensures that the SAI does not work in so-called silos, where different teams do not communicate and do not exploit the potential for synergies and improved efficiency when working together.
- **Supports accountability of SAI staff**: An operational plan assigns clear responsibilities to staff for specific activities. This enables internal accountability, but it also promotes buy-in when/if said staff have been consulted in the development of the operational plan.
- **Guides implementation:** Despite its name, an operational plan is essentially an implementation tool. It allows SAI management to have an overview of all ongoing activities and to steer and adjust them. It guides and supports managerial decision-making towards the ongoing and informed execution of the SAI strategy.

8.2 Key characteristics

An operational plan can be a powerful management tool. To do so, the operational plan should have a set of key characteristics that support the fulfilment of its functions (Figure 8.1).

Figure 8.1 Characteristics of a strong operational plan

A. The critical link between the strategic and operational plan

A key finding from the 2017 Global SAI Stocktaking report was that there is an strong disconnect between the strategic and the operational plan in many SAIs. In some cases, SAIs may lack an operational plan completely, and rather just have an annual audit plan. This means that there is no mechanism to ensure that strategic outcomes and outputs can be achieved through detailed work. Usually, in such situation, the operational or annual audit plan becomes the leading document as it is a tool middle management has likely developed or contributed to and can better identify with and own. The strategic plan becomes a document of declaratory value at most, sitting on a shelf and with little or no relation to the SAI's day-to-day operations. The disconnect between the strategy and the operational plan brings paralysis, confusion and at best a confirmation of the status quo in the SAI.

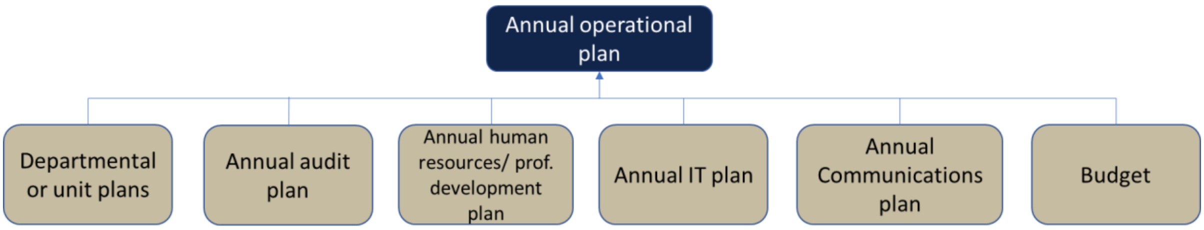
To be effective in achieving performance the operational plan should **be linked to the SAI's strategy**. It should describe how, or what portion of, the strategic plan will be put into operation during a given financial year, with operations detailing actions required within that year, and related responsibilities, timeframes, monitoring arrangements and risks. Thereby it ensures that progress will be made on implementing the strategic plan and that any operational choices will be made with a view to long-term priorities.

The crucial link between the strategic and the operational plan is the level of outputs. An operational plan should take into account the approach of the strategic plan in terms of which capacities related to each output should be closed and when and should detail (a portion of) this work into specific, implementable activities for the year. This means that at any point of time, the SAI management can track how a separate activity is related to achievement of the SAI's core products (outputs).

B. The holistic coverage of an operational plan

While most SAIs would only have one, or at most a handful of strategic plans for a period[13], they usually possess an array of plans at the annual level, with various focus and oftentimes with a variying degree of detail. Figure 8.2 presents an example of the different plans that a SAI may have simultaneously. The risk of having a multitude of plans during the year is threefold. First, it may lead to duplication of efforts, conflicting activities and timing, and can promote the working in silos. Second, it makes the resourcing of activities, both in terms of costing and human resources, more difficult. Finally, from the managerial perspective, it makes the monitoring of implementation and the tracking of progress towards the achievement of the outputs in the SAI's strategy harder.

Figure 8.2 Example of different annual plans in a SAI



To avoid such pitfalls, **the operational plan should be holistic**. That means that it either covers all audit and non-audit activities or is aligned with other SAI-level plans. This concerns activities related to the realization of outputs and ultimately strategic outcomes as well as the SAI's main support services like financial management, HR and training, IT, and infrastructure. The latter may not be strategic concerns, as they will relate to the SAI-s day to day operations, but they do contribute to the strategy's implementation. A holistic operational plan facilitates internal coordination and communication and helps ensure proper resourcing of all activities.

[13] For example, a strategic plan, a communications strategy and a professional development strategy. Similar to the importance of a holistic operational plan, strategic-level documents should also be at the minimum aligned, and best integrated in a single strategic plan to ensure coherence and proper resourcing.

Figure 8.2 also shows how the various annual plans could feed into a single operational plan for the SAI. Several important clarifications should be made:

- A holistic annual plan implies the integration of audit and non-audit activities. The large majority of SAIs have an annual audit plan, which is may be a legal requirement and is possibly discussed with external stakeholders. To meet such requirements does not prevent a SAI from having a holistic operational plan. To avoid that the operational plan becomes excessively lengthy and difficult to monitor, it does not need to include each audit as a separate activity. It can consider grouping the planned audits into aggregate activities, for example "Execute first 12 compliance audits". More importantly, the execution of planned audits should be clearly linked to the outputs of the strategic plan. In the example above, the activity on compliance audit execution could be related to an output on the timeliness of compliance audit reports.
- The preparation of a holistic operational plan does not necessarily eliminate the need for more detailed activity plans, for example at the level of each department. The operational plan will contain activities at a more aggregate level, which can be further broken down by the responsible units. For example, the operational plan will specify an activity on "Organise a training on financial audit ISSAIs". The responsible unit can separate this activity into smaller tasks, related to the preparation of materials and the logistics. From a management perspective, those detailed tasks are not necessarily something to explicitly track and consider.
- Linking routine and ongoing activities, such as human resource management or financial administration to the outputs of the strategic plan may not always be straightforward. However, such activities are also important for the achievement of the desired outputs and should not be left out of the operational plan. One approach would be to include those "below the line", thus at the bottom of the operational plan. Another approach would be to consider where the bulk of specific activities linked to routine work are concentrated and place such activities there as well. For example, if the strategy includes an output on "ISSAI-based compliance audits" and this will involve addressing capacity gaps related to hiring new staff and organising various trainings on compliance audit, routine human resource management activities in the operational plan could be linked to this output, even if they will have broader links to other outputs.
- As an alternative to a single operational plan, the SAI may choose to maintain different plans covering different operations, but keep a strong degree of alignment between them. This

means that all plans should be prepared together and should be facilitated by a joint discussion on resourcing and sequencing of activities. The advantage of this approach can be that SAI middle management may feel more comfortable sticking to their existing documents. The disadvantage is that from the perspective of the SAI senior management, monitoring of implementation can become more difficult.

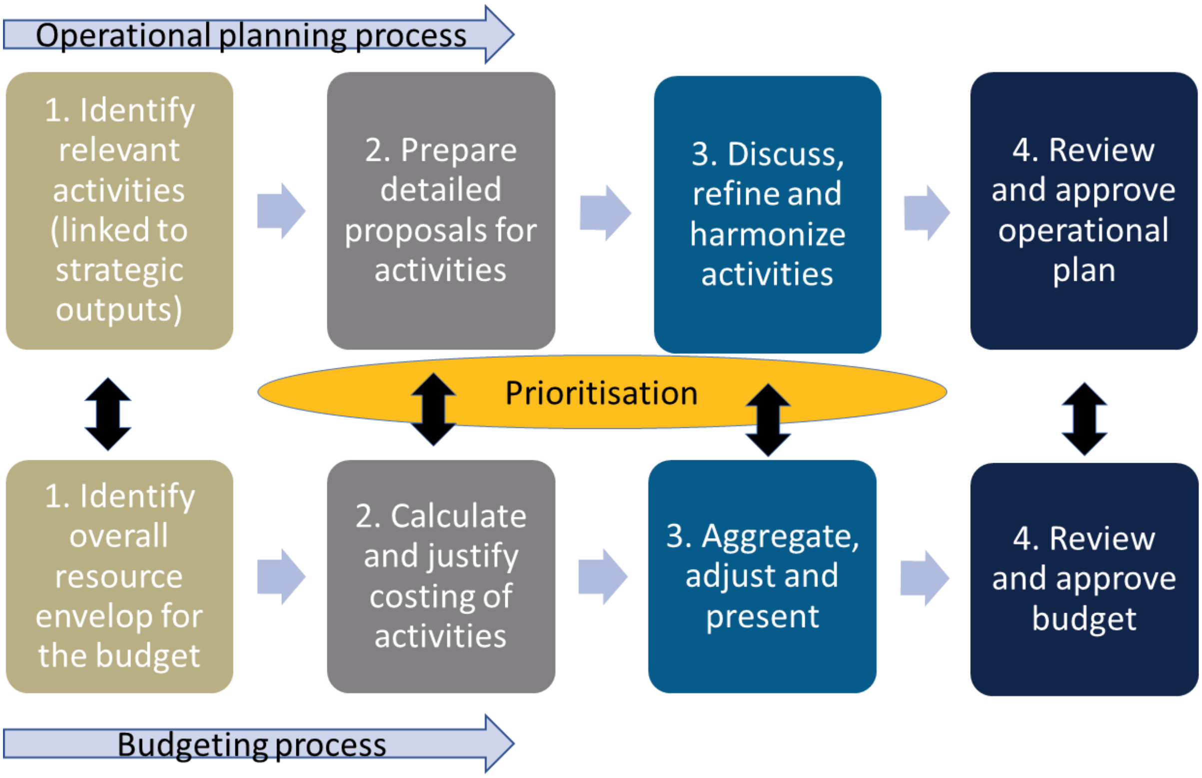
C. Aligning the operational plan and the SAI budget

The annual SAI budget is the financial mirror of the operational plan. Every activity foreseen in the operational plan should be appropriately resourced to be implemented. Therefore, the operational and budget planning processes should be synchronized. An operational plan without an underlying budget is bound to remain a wish list and full implementation becomes highly unlikely.

As in any public institution, the SAI budget should be based on a robust bottom-up costing process, based on breaking down any activity to its smallest inputs to calculate the associated costs. Each line item in the budget should relate to an activity in the operational plan, and no activities in the plan should not be lacking sufficient financial resources. Usually, budget and finance staff in the SAI will work with standard cost norms to budget different activities and services. For example, fees of consultants, price for hiring a conference room, or for printing ten audit reports for distribution. To prepare a well-justified and realistic budget, they need detailed information from the planning process. The SAI budget should reaffirm the commitments made in the operational plan (Figure 8.3).

To ensure this alignment, it is crucial to carry out the two processes simultaneously and to involve the budget and finance staff of the SAI in the discussion about the operational plan. They should be able to provide the overall available annual budget, including a breakdown of existing commitments, such as salaries and other recurrent expenditure. This will determine the fiscal space for new activities. If the financial resources are not enough, a discussion between finance and management can yield ideas for efficiency gains. Vice versa, to arrive at an implementable operational plan, the strategic management team requires the financial figures to determine what is possible.

Figure 8.3 Aligning the operational planning and budgeting processes in the SAI



Initially relevant operations and activities for the year need to be identified, i.e. derived from the strategic plan outputs and related to associated capacity gaps that need to be closed. The overall resource envelope for the SAI should also be clear. At first view, the SAI should already ensure that the emerging set of activities is broadly in line with available resources. Once activities are specified in more detail, they will need to be costed. The ensuing discussions aimed at finalising the operational plan should take into account cost implications so that the final plan is completely underpinned by financial resources. Conversely, the budget should not include activities not foreseen in the plan. Depending on the budget format, the alignment between activities and financial amounts may be clearly visible. In most cases however, budget presentational purposes will require the re-grouping activities into cost centers (spending units) or re-calculating costs. At the end of the process, the operational plan and budget should be reviewed and approved together, ensuring mutual alignment.

Drawing up an operational plan with a clear view of the financial resources need will not only support realistic annual implementation. The alignment of both processes will also support prioritisation, since the selection and specification of activities will need to be critically weighed in against the associated costs. For many SAIs the budget is discussed externally, for example in the Public Accounts Committee in Parliament. This adds another layer of credibility to the operational plan. Some SAIs lack financial independence and their budget proposal needs to undergo the scrutiny of Ministry of Finance. Having a well-prepared, realistic and well-justified budget can significantly aide the chance of such SAIs obtaining the funds they require. Finally, many SAIs are experiencing situations when the actual disbursements they receive are less than the approved budget and are not arriving on time. In such cases, a resourced operational plan linked to the strategic will enable the assignation of scare resources to those activities that are deemed critical.

D. Clear, specific, iterative and monitorable operational plan

The operational plan should be **clear and specific**. Its language needs to inspire the desired action with no confusion or misinterpretation as to what is wanted. Activity descriptions should clearly state what is required, short and to the point. Open-ended activities and use of words such as “promote” “engage”, “increase”, “improve” encourage subjective interpretation and blur strategic direction (Box 8.1). There should be no ambiguity on the expectations among leadership and staff on the activities for the year and requirements associated with them. A common language promotes a shared understanding and increases accountability for individual or team responsibilities.

Box 8.1 Useful questions to consider when formulating activities for the operational plan

- What sequenced steps during the year are needed to reach or progress against the desired output?
- Are we sure? Is that the best way? Do we all understand what is expected?
- Are the activities sufficiently action-oriented (focused on execution and doing)?
- Are they implementable and realistic?
- Do we have enough detail on what is expected?
- Are activity specifications unambiguous? Do they avoid pitfall words, such as encourage, leverage, promote, recognize, support, increase, maintain?

Importantly, clear and specific does not equate prescriptive and rigid. They should not be confused with overwhelming, prescriptive manuals. In fact, an operational plan should be **flexible and iterative**. Such flexibility is central to the implementation of the SAI strategy. In the words of the US President Gen. Eisenhower, “*Planning is great until the shooting starts*”. No one knows with exact certainty what will happen even a month later. The strategic plan gives the high-level orientation for the SAI, which serves as a basis for the content of operational plans. The operational plans are implementation plans for the strategic plan and can only adequately serve that function if they can be modified along the way, as and when situations change, or new elements come into play. The SAI must be bound by "what" it is trying to achieve by the end of the strategic period, but "how" to do it within the strategic period can be open to changes. This requires a good degree of iteration. Operational plans should be subject to change depending on feedback on results that come from monitoring and ongoing field experience. If something is not working, it is often necessary to change what is being done.

The operational plan should be **easy to read, monitor and manage**. It needs to provide everyone in the SAI with enough detail on what to do to ensure moving in the same direction. SAI staff should feel comfortable using the plan on a regular basis. Management should be able to get a quick and thorough overview of implementation and manage on that basis. The easiness of the operational plan is supported by a structure that is aligned to the strategic plan, clear links to other plans, tables that include all key information at a glance and elements that facilitate status monitoring, like for example progress colour coding. The operational plan should allow for activities to be tracked during the year based on clearly defined milestones. It also important to remember that a operational plan is linked to the SAI strategy and breaks down work towards the achievement of SAI outputs. Therefore, the monitoring of milestones and annual targets at the output level is a key element of the operational plan.

8.3 The operational planning process

As every (financial) year has its own operational plan, the operational planning naturally repeats itself annually. However, the first annual operational plan of a new strategic planning period deserves special attention and involves some key decisions that are likely to have an impact on the overall strategic planning period. It is advisable to invest more resources in finding a suitable approach and format for operational planning that can be copied in the coming years right at the beginning of the strategic management period, rather than developing and adopting a new format every year.

A. Scoping and preparation

While not as elaborate as the strategic planning process, the operational planning process also requires a degree of preparation. First, a **strategic management team** needs to be in place to take responsibility for the preparation of the operational plan as well as its implementation, monitoring and reporting on it. This team should consist of at least two persons with at least one person from senior management. For purposes of coordination, it is highly advisable to carry out consultation with all middle-level management, for example departmental heads and persons in charge of both audit and non-audit functions. Their involvement is crucial to provide the necessary degree of detail and in-depth knowledge in order to draw a realistic operational plan. Moreover, it ensures ownership among the key persons responsible for implementation.

Before writing the operational plan, the team needs to familiarise itself with the strategic plan as the main input source for the operational plan. It should also **map and study any other plans** the SAI has in place, like annual audit plans, professional development plans, communications plan and so on. Understanding how such plans have been drawn and how they are followed up will provide rich information for learning and improvement.

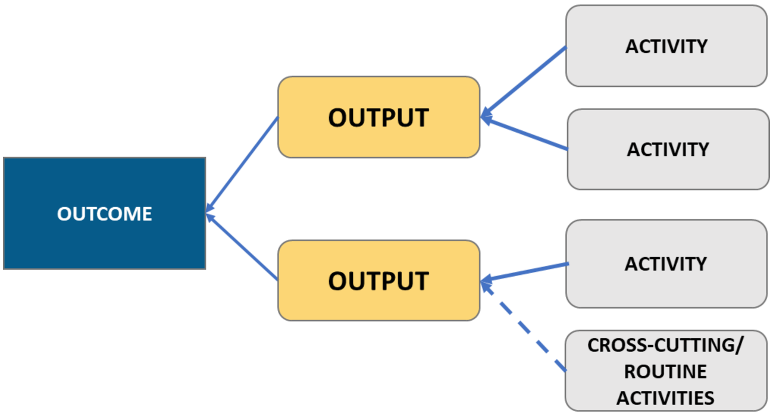
As a next step, the strategic management team needs to decide on the **form** of the operational plan. The team will need to consult and make a choice between a single, holistic operational plan, or a coexistence of various annual documents that guide the SAI's work. If the operational plan will not be holistic, alignment to the other planning processes must be ensured at the earliest possible stage. If the strategic management team decides to go for a holistic plan, it should clearly identify which elements from the various plans it should take up and at the level of the overall operational plan. Some activities from separate plans will need to be aggregated, while others will be brought down to a more detailed working plan for a unit or department in the SAI. To make the choice, the strategic management team should discuss with the rest of the leadership and determine their preferences with view of monitoring and decision-making based on the operational plan. The team should also require input from middle management and different functional units on how they see their units contributing to the strategic plan for that year and what are their priorities.

The next choice is related to the **structure and key elements** of the operational plan, as well as the **timeframe** it should cover. The operational plan should follow a structure that fits the SAI very well and that makes it easy to follow up. Ensuring clear and visible alignment to the structure of the strategic plan is highly advisable, as this makes the function of the operational plan as a vehicle to implement the SAI strategy visible to everyone involved and facilitates decision-making. The operational plan could also be aligned to the SAI's organisational structure or even the budget format. As regards the timeframe, it is highly recommended that the operational planning process runs parallel to the budgeting process. The operational plan should be ready and approved before the start of the fiscal year.

Finally, the strategic management team should also decide on the **level of detail of activities** in the operational plan. In the holistic approach, it is advisable that activities are kept at a relatively aggregate level, to allow management a clear and easy overview of all of SAI's work. Details could be then specified in lower-level plans, for example of SAI units or teams. Another important consideration is the degree of maturity and experience of the SAI with operational planning and management. A less experienced management team may have good arguments to develop a plan with a good degree of detail, to allow for stronger top-down oversight and control of implementation. For more mature SAIs, the activities could be defined more broadly, to allow middle management enough flexibility and responsibility in shaping and steering the detailed tasks under each activity.

B. Drafting the operational plan

Figure 8.4 Link between outcomes, outputs and activities



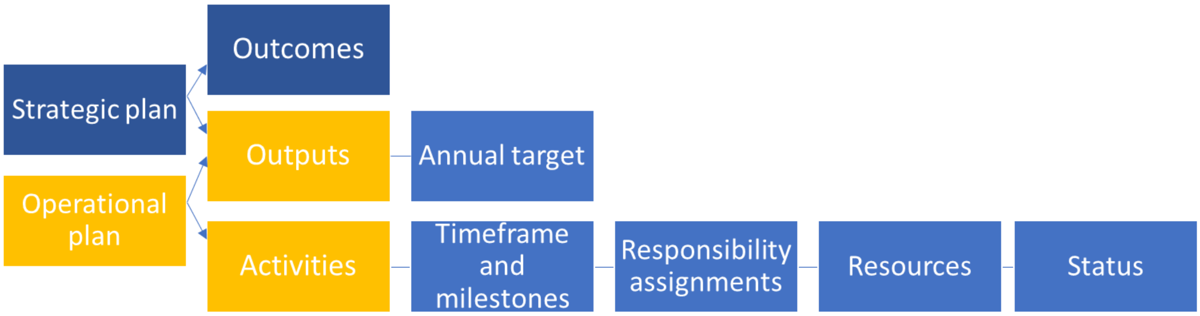
The drafting process is closely related to the decisions on the **form and structure** of the operational plan. It starts with giving the plan its basic outline. For each output from the strategic plan, the strategic management team needs to consider the approach for closing capacity gaps identified and the sequence thereof. From it, the team needs to identify the relevant annual activities that are necessary to close the various capacity gaps (Figure 8.4). Moreover, those need to be put in a logical order. It could be that various different activities will need to be carried out in parallel and lead to one desired output, or that the result of one activity is necessary before the next one commences. The team should also consider which capacities will only need to be addressed in a subsequent year.

Consider an example where the SAI has identified the enhancement of performance audits towards ISSAI compliance as one output in its strategy. As this is a new endeavour for the SAI, it has identified various organisational capacities, such as a performance audit methodology, a quality assurance mechanism, as well as a procedures to consult with external stakeholders on topic selection. The SAI also needs to recruit and train suitable performance audit staff to ensure professional capacity. In the first year of the strategy implementation, the SAI may choose to focus on working on the methodology and on the recruitment of selected new staff. The operational plan will include related activities to those capacities, which could either run in parallel (if for example a consultant or a team within the SAI is tasked with writing the methodology) or could be sequenced. In this case, the operational plan would first capture activities related to staff recruitment, followed by an activity on the preparation of a draft performance audit methodology. The testing and piloting of that methodology and the recruitment and training of additional performance auditors could be left for the second and third year.

As mentioned, activities need to be defined in a **clear and specific** way. They should be action-oriented – that means focused on execution – and realistically implementable. Each activity should be supplemented by a milestone that specifies what is the end result of an activity. In case of activities spanning over the majority of the duration of the operational plan, milestones can be broken down based on the expectation for work done within a period, for example within each quarter. For instance, if an activity focuses on carrying out an audit, a milestone for the first quarter could be a completed draft report, while for the second quarter of the year the milestone could be that the report is signed off by the SAI Head. Timeframes are also important and should take into account peaks of work in the SAI. For example, trainings should not be scheduled during the period when audit reports need to be finalised.

Once all the outputs have been assigned appropriate activities there is basically a plan of what needs to be done. The strategic management team will need to add more elements to ensure actual implementation though, the flesh of the operational plan (Figure 8.5).

Figure 8.5 Possible elements of an operational plan



One important elements is **responsibility.** Who is responsible and ultimately accountable for each activity? Responsibilities might include several levels, like a senior manager being responsible for a process but a unit or department collectively doing the actual bulk of the work with other units being responsible for certain contributions.

Another element that the operational plan should cover is a **specification of the financial and other resources required**, most notably staff time. Other likely elements could be the identification of possible operational-level risks that may jeopardise the plan's implementation or a tracking of progress in the execution of activities. The operational plan should be linked to the SAI's risk register (See section 11.5 on risk management). It should cover the most likely and potentially impactful risks and mitigation measures against them, at least for the output level and possibly for major activities.

In the case of an operational planning approach focusing on alignment rather than integration, a reference to interrelated activities from other plans may be very useful.

C. Finalising and follow-through

As the operational plan is designed to shape everybody's work in the organisation for the whole year it needs leadership approval and staff ownership. Several rounds of discussions with leadership may be necessary, depending on the previous degree of involvement in the preceding process. There should be enough time planned for that. Box 8.2 provides a set of questions that can be used as a final checklist to ensure the quality of the operational plan. Finally, the operational plan needs to be distributed to all staff so that they can assume responsibility for implementing it.

Box 8.2 Operational planning quality checklist

- Are all activities in the operational plan clearly linked to the outputs of the SAI strategy?
- Are all core elements of the strategic plan contained in the document? Does the document convey the essence of the SAI's strategy?
- Does the plan cover all the SAI's activities (audit and non-audit) or is it at least aligned to other plans?
- How does the plan treat ongoing routine activities, for example financial management?
- Are the resources identified enough to achieve the outputs?
- Are the time frames realistic?
- Does the plan identify responsible persons for each activity?
- Is everything clear and specific?
- Have operational-level risks been identified?
- Is the plan document easy to read and understand for the stakeholders?
- Is the content logically structured?
- Is the document visually attractive?

Chapter 9: Monitoring of Performance

Monitoring of SAI performance is a continuous function over the whole duration of the strategic management period. The information from a monitoring system enables the SAI and its key stakeholders to track progress against the strategic and operational plans and to take facts-based decisions.

It is important to keep in mind that although performance monitoring as a function falls under the domain of strategy implementation, the fundaments of the SAI's monitoring framework should be set already when crafting the SAI strategy. The strategic plan should specify relevant performance indicators, baselines, targets and milestones for each outcome and output it has committed to.

This chapter describes two important elements of a monitoring system for the SAI. Section 9.1 discusses the concept of a monitoring framework that measures the different levels of the results framework in the SAI strategy. Section 9.2 presents the need for a monitoring plan that details how the SAI will regularly monitor progress against the monitoring framework.

9.1 Monitoring Framework

For a SAI to be able to track the implementation of its strategic plan, it is necessary to have in place a monitoring framework. This framework sets out the SAI's performance indicators, baselines, milestones and targets that will help assess whether the planned capacities, outputs and outcomes as specified in the results framework SAI strategy are on track and are being achieved. There are several key elements to a monitoring framework which this chapter addresses separately below:

- **Indicators**: A quantitative or qualitative measure that shows the level of achievement of envisaged change, most notably at the outcome and output level.
- **Baselines**: The status of the indicator at the beginning of the strategic period.
- **Milestones and Targets**: On what level the indicator should be at a given point in time.

A. Indicators

An indicator is simply 'the thing that will be measured'. It must be measurable, both in theory, and within the practical realities of the SAI. Indicators should relate to performance areas within the SAI's strategic plan, at the levels of SAI capacity, SAI output and SAI outcomes.

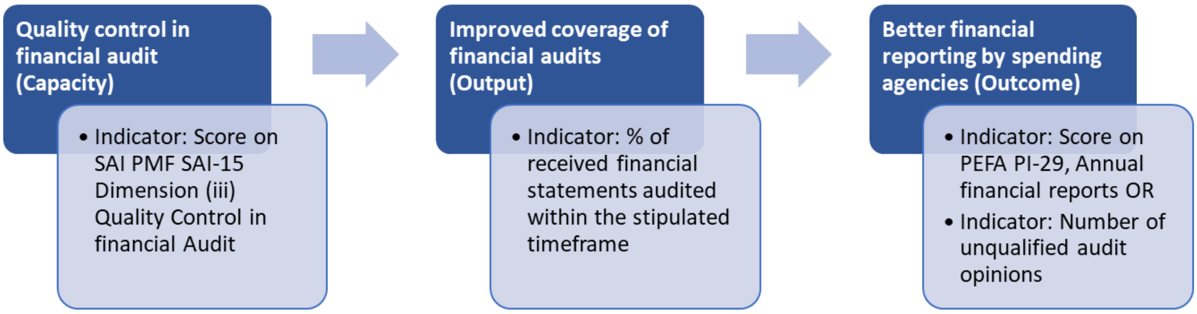
Indicators should possess a set of characteristics. They should be non-directional (i.e. not state 'improve performance') and should not include the baseline or future targets (which are a separate part of the performance measurement system). They can be quantitative or qualitative. Quantitative (numerical) indicators are relatively straightforward to measure. Qualitative indicators are more descriptive and often require additional criteria for measurement. Examples of good and bad indicators are given in Table 9.1.

Table 9.1 Examples of good and bad indicators to measure SAI performance

Intended result from SAI strategy	Bad Indicators	Weaknesses	Good Indicators	Observations and data source needs
ISSAI-based performance audits (output)	Overall quality of performance audit	No indication what will be measured	% of the SAI's performance audits completed during the year which pass the SAI's quality assurance review	This implies the SAI needs to have a quality assurance system, and that it makes a pass/fail assessment of an audit against the SAI's relevant audit standards
Timely publication of audit reports (output)	Increase the percentage of audit reports published to 50%	Indicator includes both a direction (increase) and the target (50%), but no definition of the population or timeliness	Percentage of the SAI's audit reports completed during the year which are published within three months of completion	SAI may need to consider which audit reports are expected to be published (i.e. do all financial audits lead to a published audit report), and establish a system to record the dates by which audits are completed, and published.
Competent financial auditors(capacity)	Number of trained financial auditors	Not specific what is meant by 'trained' and to what level auditors at different grades should be trained	Number of financial auditors meeting the SAI's defined competency, qualification and experience requirements for their grade	Implies the SAI needs to define the competency, qualification and experiences required for each level of financial auditor, and a system for monitoring auditors against these requirements.
High-quality performance audit findings and recommendations (output)	Relevance of performance audit recommendations for audited entities	Requires specific criteria on "relevance" and may be cumbersome to measure.	Score on SAI PMF indicator 13 (iii): "Reporting on performance audit"	Implies the SAI must carry out a SAI PMF assessment, or at least assess this dimension, according to the frequency with which it wants to measure this indicator.
Effective parliamentary follow-up of audit reports (outcome)	Frequency of audit report reviews in Parliament	Does not say anything about the quality and the results of audit reviews	Score on PEFA indicator PI-30, Legislative scrutiny of audit reports	Implies there is a PEFA assessment (which is not the SAI's decision) done by the time the outcome will be measured.

One of the most important considerations to make when designing indicators is the level they refer to. When designing indicators for the outcome level, they should specifically measure the results that the SAI, through its audits and other work contributes to but that are outside the SAI's direct sphere of control. Indicators on the output level should directly measure the output, meaning the direct result of the SAI's work. If the SAI intends to design indicators on the capacity level, they should also directly refer to the capacities. A monitoring framework with indicators on the wrong results level is not suitable for measuring the achievement of results. An example of indicators on different levels is provided below.

Figure 9.1 Examples of indicators for a chain of results at the capacity, output and outcome levels



To decide which indicators are the most suitable for each objective, the SAI strategic management team should reflect on what the objective is aiming at. What exactly will change and for whom? If certain aspects are expected to be "better" what does "good" mean? What are the defining qualities of outputs?

While there are no set rules for choosing indicators for the different results two popular acronyms can give guidance: SMART and CREAM.

Table 9.2 Definitions of SMART and CREAM indicators

SMART indicators	CREAM indicators
Specific: The indicator is exact, distinct and clearly states what will be measured leaving no ambiguity for those monitoring them.	**Clear:** The indicator is unambiguous about what will be measured.
Measurable: The indicator can be measured, in theory as well as in the specific circumstances of the SAI. This may refer to quantitative measurement methods as well as objectifiable qualitative observations.	**Relevant:** The indicator in fact measures the specific result it has been assigned to.

Achievable: The indicator is achievable with the projected human and financial resources available to the SAI.	**Economic:** The indicator is measurable regularly within the resource constraint of the SAI. This refers to human as well as financial resources. The resources necessary to measure the indicator should not exceed the use and power of it.
Relevant: The indicator in fact measures the specific result it has been assigned to.	**Adequate:** The indicators in combination enable the SAI to measure progress towards the objectives.
Time-Bound: The indicator states not only what should be achieved but gives a clear timing for that achievement.	**Monitorable:** The indicator can realistically be measured on a regular basis and with repeated and continuous telling power.

Source: UNDP (2009) Handbook on Planning, Monitoring and Evaluating for Development Results.

It will not and does not need to be possible in every single case to have indicators which strictly fulfil all the SMART and CREAM criteria. The strategic management team should treat these as guiding principles. The main requirement is that they enable the SAI to track changes in performance over time.

The number of indicators in a monitoring framework should be kept manageable. Too many indicators will be cumbersome to continuously monitor. SAI staff should thus concentrate on a few indicators, each having high telling power with respect to the outcome or output they are supposed to measure. Though indicators are always context specific, a general rule of thumb is to focus on two to three indicators per outcome and one to two per output.

Finally, it is important to not confuse the indicators with the results, meaning output, outcome or impact. Achieving results should remain the objective of the SAI's development efforts and other activities, rather than improving on the indicators. Also, indicators do not provide proof as such that an objective has been achieved but rather a reliable sign that the desired change has happened.

B. Baselines, Milestones and Targets

The **baseline** for an indicator is the status of the indicator at the beginning of the strategic management period. For an indicator like *% of audit recommendations implemented within a year of issuance* that could, as an example, be 10 percent at the beginning of the strategic management period. A relevant source for baseline data is the assessment of the current situation that was carried out at the beginning of the strategic management cycle. The baseline is important because it allows for retrospective comparison and thus makes the change visible. It is also important to know where one is to realistically set targets for the future. If performance indicators are taken from a SAI PMF assessment, the baseline can be taken from the assessment results, and the target can be the desired future result on the relevant indicator or dimension in a subsequent SAI PMF repeat assessment, or individual application of the relevant indicator or dimension.

The **target** is the desired state of the indicator towards the end of the strategic management period, for example 50 percent of audit recommendations being implemented within a year of issuance.

Milestones are steps towards the target, descriptions of where the indicator should stand at a certain point in time. Depending on the indicator, what it measures and how work intensive it is to retrieve the necessary data, milestones might be set just once half-way through the strategic management period, annually or even semi-annually. A general rule is that a SAI should measure progress on outcome-related indicators less frequently than output-related indicators as it takes more time for change on the outcome level to happen.

Table 9.3 Example of an indicator, baseline, milestones and target at the output level

RESULT LEVEL: SAI Output				
SAI Output 1: Gradually increased performance audit (PA) coverage	**Baseline 2019**	**Milestone 1 2020**	**Milestone 2 2022**	**Target 2024**
Indicator Definition: Number of the following sectors/topics covered by PA reports (in the previous five years): defence, education, environment, health, infrastructure, national economic development, revenue collection, police, PFM, social security.	2 **Achieved:**	4	8	10
	Indicator Use (Purpose, Frequency) SAI's annual performance report and mid-term review & final evaluation of SP implementation. **Data Source and Responsibility for Data Collection**: Analysis of list of submitted PA reports. Data to be gathered by the SAI's planning department.			

9.2 Monitoring Plan

The monitoring plan is a detailed description of the process of monitoring progress against the indicators, milestones and targets laid down in the monitoring framework. Usually, the monitoring framework and the monitoring plan will be a joint document, ideally elaborated already when crafting the SAI strategy. Nevertheless, a SAI may choose to work out the details of the monitoring framework and plan at a later stage, when it has also prepared its first operational plan related to the new strategy. This will allow for an integrated monitoring process that caters simultaneously for operational and strategic planning monitoring needs.

A monitoring plan consists of several elements that will be detailed below:

- **Data**: The type of data that will be collected and its source.
- **Frequency**: The exact points in time that measurements will be undertaken.
- **Methods**: The methods for data gathering, verification and analysing.
- **Responsibilities**: Whose task it is to gather, verify and analyse data.

A. Types and sources of data

Different data is needed to measure the performance at the level of capacities, outputs and outcomes at different points in time. The right data analysed in the right way will create information that in turn leads to decisions that are based on facts rather than feelings and are, finally, convincing. What data to collect depends on the level of performance to be monitored and the specific indicators.

For every indicator, the exact source of data should be stated. Here, it is crucial to ensure that the specified data systems will actually produce the exact data that is required, at the frequency with which it is required. This is often assumed when the performance measurement is designed, only to find at the data collection stage that the data source does not match the indicator definition. For example it is assumed that a SAI's quality assurance (QA) system will generate data on compliance with the audit standards, but in practice the QA system often produces narrative reports with no overall, specific conclusion on each audit. In addition, of the SAI's QA practices are underdeveloped, the reliance on QA reports as an adequate indication of compliance with the audit standards may be difficult. Establishing a sound performance measurement system then also requires the SAI to make adjustments to its underlying systems to generate appropriate performance data.

There are two key considerations for choosing what data to collect: **economy** and **relevance**. **Relevant** data is data that will provide the exact information needed to measure each performance indicator. Another aspect is if existing data suffices to understand performance or if it is worth to change the SAI's processes to obtain the data. Colloquially speaking, this is the difference between data the SAI's management *needs to have* and data they *would like to have*. Finally, if no relevant data can reasonably be attained, redesigning indicators should be considered.

Economic data is any data that can be gathered at and affordable cost and timely. A key approach is to rely on already existing data that can be reused for monitoring performance. This could be financial data and HR data, for example. The main concern should be whether the cost of retrieving the data is worth its benefit. Data on savings resulting from audits could be very useful, but costly to obtain and methodologically challenging. Surveys, as a second example, can work but require capacities on the SAI's side.

B. Frequency of measurement

The performance measurement system should clearly define how often each indicator will be measured. This should be linked to the purpose of the measurement, in particular on how will the data be used. A performance measurement system will only be sustained if it has very clear uses and is integrated into the core management systems of the SAI. It should be used to inform operational planning and to aide discussions at the regular in-year management meetings to adjust operations during the year. Data should feed into annual performance reports, should be used to inform performance reviews, and as input for reviews or evaluations of implementation of the SAI's strategic plan.

As noted above, the purpose and frequency of measurement will vary according to the results levels at which performance is being measured. The frequency of measurement should find an appropriate balance between the costs and benefits of data collection. It should also bear in mind that results at high levels such as SAI outcome level are unlikely to change significantly from year to year, and thus may not be appropriate for annual measurement. An illustration of the purpose and frequency of measurement is provided below.

Table 9.4 Purpose and frequency of measurement

Result Level	Purpose of Measurement	Likely Use of Data	Frequency of Measurement
SAI capacity	• Keep operational plan implementation on track	• Inform operational planning • Inform decisions at regular management meetings • Inform performance reviews (e.g. of SAI departments/functions)	Quarterly to annual, depending on frequency of management meetings and cost of data collection
SAI output	• Demonstrate how the performance of the SAI is changing • Demonstrate implementation of the strategic plan	• Annual performance reports • Review / evaluation of implementation of the strategic plan	Every 1-3 years, depending on cost of data collection and how quickly indicators are expected to change
SAI outcome	• Communicate the value of the SAI to stakeholders by showing how it makes a contribution to the lives of citizens	• Annual performance reports • Ad hoc communication materials	Every 1-5 years, depending on cost of data collection and how quickly indicators are expected to change

		• Review / evaluation of implementation of the strategic plan	

C. Methods

This section follows three simple steps of working with data and elaborates the methodical choices the SAI must make for monitoring: Collecting Data, Verifying Data and Analysing Data.

For **collecting data,** the first methodical question is which data gathering methods - quantitative or qualitative- are more relevant and easily attainable for the specific indicator. Quantitative data is numerical and is seen by many as more reliable and objective. Qualitative data is descriptive rather than numerical. Both have their advantages and disadvantages, depending on the kind of information the SAI needs for reporting and decision making. Quantitative data is mostly easier to gather and many data points can be covered. It is much easier to analyse the data mathematically and it is easy to regularly replicate the same data for newer batches of data. On the other hand, quantitative data often lacks detail and does not always provide the opportunity for deeper analysis. Depending on its nature, quantitative data can also be difficult to obtain, for example calculating the savings achieved from audits is not an easy task. Qualitative data is gathered through in-depth analysis and produces rich and detailed data. It is suitable for understanding mindsets, perceptions and feelings. However, qualitative data is usually very time consuming to gather and often hard to draw generalised conclusions from. Qualitative data relies heavily on the skills of the person gathering the data. In many cases, a combination of data gathering methods can be useful to come to meaningful information.

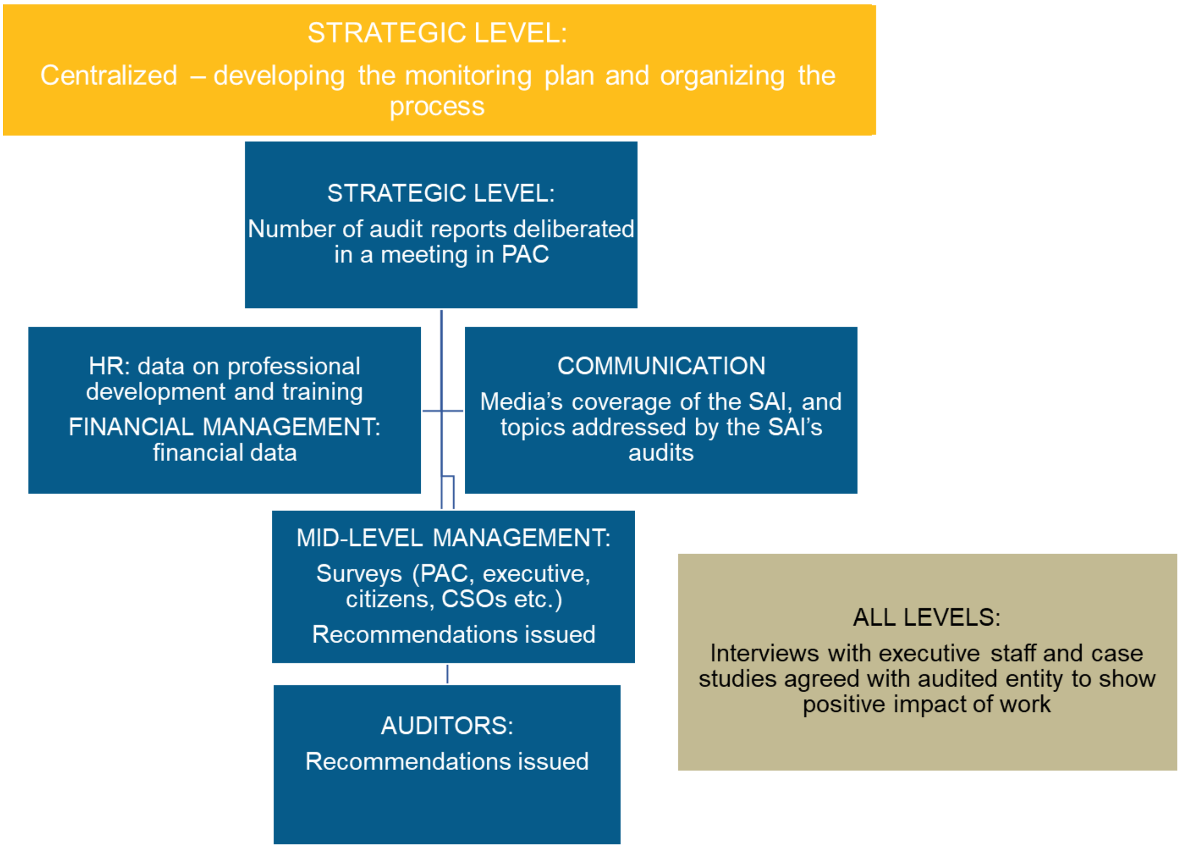
Verifying the collected data is the next step. As the collected data will inform management decisions of the SAI, it is crucial to ensure data validity and reliability. In many cases, verifying data may be achieved by simply having another person look at the correctness of the data and doing a simple quality control check. If it is possible, data triangulation, i.e. verifying data from another source may also be considered. Certain high-risk data collection techniques merit stronger verifying procedures. If a SAI wants to calculate savings resulting from audits it should develop and verify the calculation method used, for example with peer SAIs that have also chosen to do such measurement. Another possible verification test is whether the audited entity agrees that these savings results from the audit. When qualitative interviews get summarised, the summaries should be verified by the respondent.

Finally, and most importantly, the data needs to be **analysed** to arrive at meaningful information. That means that the raw data needs to be put into perspective, grouped and mathematically analysed to find patterns, connections and relationships. In total that will allow those monitoring performance to establish contextual relevance of the data to decision makers. As an example, if the SAI conducted a survey of stakeholders, it will end up with a big spreadsheet full of data points that do not as a mass provide any meaningful information. Through analysis of the data like excluding outliers, calculating averages, and sorting by stakeholder group, the monitoring may end up with meaningful information like the most common responses of certain groups which may indicated what the SAI could focus on more.

D. Responsibilities

Like for activities in the operational plan, the different responsibilities in the monitoring plan need to be defined. This applies to the three steps from the previous section: collection, verification and analysis. Every level of the SAI can be involved in monitoring, depending on the nature of the task and the specific data to be handled. While the strategic decisions about monitoring, like frequency and responsibilities, will be taken by SAI management, for example the strategic management team, different parts in the organisation have different kind of data to contribute (Figure 9.2). Auditors would for example register the recommendations they issue, whereas the Human Resource department would be tasked with collecting data on development and training, and the communications department would monitor media appearances of the SAI.

Figure 9.2 Responsibilities for monitoring among different SAI staff



The final output will be a monitoring framework that sets clear indicators, milestones and targets for the strategic plan's objectives as well as a more detailed monitoring plan that describes the process of monitoring the SAI's performance to those responsible for it. To determine the quality of this framework, Box 9.1 provides a checklist.

Box 9.1 Checklist for verifying quality of the monitoring plan

- Do all outcomes and outputs have at least one defined indicator?
- Is measurement of capacities in place?
- Are all indicators measurable, both in theory and in the practical realities of the SAI?
- Are all indicators specific and relevant for the respective capacities, outputs and outcomes?
- Are all indicators non-directional and do not describe the target in themselves?
- Do all indicators have a baseline and specific milestones and targets?
- Are data sources for the indicators identified and will they provide good data at an affordable cost?
- Is the frequency of measuring performance linked to the way the results will be used?
- Are all responsibilities, for gathering, verifying and analysing specific data as well as for the management of the overall system clearly defined?

Chapter 10: SAI Performance Reporting

Reporting is an integral part of a SAI's work. INTOSAI P-12 and ISSAI-20 stipulate that SAIs should report publicly on how they manage their operations, should be able to communicate the results of their audit work effectively to key stakeholders, and should promote transparency through their work. Performance reporting is also part and parcel of the SAI's strategic management cycle. It provides powerful evidence and narratives that justify strategic decisions. It enables SAI leadership to make informed choices on steering and implementation and ensure continuous learning towards achieving the results of the SAI strategy.

This chapter starts with a discussion on the key purposes and main properties of SAI performance reporting in Section 10.1. Section 10.2 discusses the role and characteristics of internal reporting, while Section 10.3 deals with external accountability reporting. Finally, Section 10.4 is dedicated to the issue of advocacy in the context of SAI capacity development efforts and reform.

The Annex to this chapter contains examples with suggested content per type of SAI performance report.

10.1 Purposes and key characteristics of SAI performance reports

SAI performance reporting purposes:
•Demonstrating impact
•Ensuring transparency and accountability
•Demonstrating improvement
•Facilitating steering and learning
•Justifying need for additional support
•Ensuring internal support and SP/OP

Performance reporting relates to the timely, reliable, clear and relevant public reporting on the SAI's mandate, strategy, activities, financial management, operations and performance. However, for the SAI to be able to exercise strategic management effectively, it will require additional types of performance reporting during the year, which will draw on the information from the monitoring system and ensure continuous learning and improvement. Therefore, the SAIs may use performance reports for different purposes, aimed at providing both external assurance on the SAI´s work and on facilitating internal implementation processes. Regardless of the type of reporting and the specific results, here are some important properties that any SAI performance report should possess:

- **Focused on results –** Performance reporting is not the same reporting on activities. Any report should provide a clear link to the envisaged performance objectives. In many cases this would include an explicit analysis of the SAI's progress towards the achievement of its strategic outputs and outcomes.

- **Evidence based –** Performance reporting is one of the main ways for a SAI to demonstrate its relevance and set an example. That means that its findings must be evaluated based on a balanced and structures analysis of different types of information to make a convincing argument. Thus, performance reporting relies crucially on a functioning performance measurement system as well as other data sources.
- **Transparent and forward looking –** The SAI should transparently describe its performance and the reasons for it. It should identify constructive forward-looking solutions for any underperformance.
- **Relevant –** A classic pitfall of SAI performance reporting is the tendency to include too many details. Especially when reporting externally, the SAI should assess what information is relevant and responds to the audience's expectations.
- **Economical –** Performance reporting as the potential of becoming a very time-consuming task. It is imperative to clearly define a process, and roles and responsibilities for performance reporting, including for quality control, that are in line with capacities and minimise costs.

10.2 Internal reporting

Internal reporting has the main purpose of exchanging information across the SAI to maintain an overview of the organisation, assess the feasibility of current operations, allow for mitigation of emerging risks, inform decision makers and staff, assess performance and hold to account management and staff internally. Each internal report will allow management to reassess the current situation and react accordingly. Depending on the type of internal report – monthly, quarterly or biannual – the report's content, audience and objective may differ (Table 10.1).

Table 10.1 Objective, audience and performance information needs per type of internal report

	Monthly or quarterly reports	Six-month report
Purpose/ Use	• Monthly or quarterly progress against achievement of the operational plan • Steer execution to align to the SAI strategy	• Take stock of overall progress against operational plan • Reporting per output linked to outcome • Explanation for any deviations • Outline and justify changes to operational plan
Main audience	• Middle management • SAI Leadership	• SAI Leadership • Middle management • All SAI staff

	• Staff responsible for implementation of key activities	
Performance information	• Data on progress against milestones from the operational plan • Monitoring of operational risks • Financial data	• Progress and outlook of achievement against annual output targets • Budget execution data • Staff utilisation data

Internal reports should entail information on *activities, resource use*, and *results and performance* with a focus on their strategic implications. *Activities* in this case entails audit work, other routine work, and activities on capacity improvement and development projects. This information comes from middle management (for example, audit directors) nd those assigned with other tasks in the operational plan. *Resource use* includes budget execution, human resource, admin, and operational costs. Most of that information comes from different functional and support units of the SAI. *Results and performance* include the progress and milestones towards the operational plan as well as future directions. This part inevitable comes from SAI leadership. That listing of content and responsibilities shows that internal reporting serves a bottom-up as well as a top-down process. It gives leadership a consolidated overview of the different audit activities, budget execution, and other activities. And it makes sure the messages from the top are delivered to the whole of the organisation.

Finally, internal reports will serve as a basis for in-year decision making. When all data has been collected according to the monitoring plan and reporting calendars and analysed accordingly considering indicators and milestones, an objectifiable assessment of performance against the strategic and operational plans is possible. Drawing from that, narrative reporting summarises the performance and provides a sound basis for taking decisions. In the common case that some results are not as expected, the data and report summary should enable SAI management to decide to change direction, prioritise activities, outreach to others for support or even terminate activities.

9.3 External reporting

External Reporting, for many SAIs in form of an annual performance report, serves different purposes for the SAI. It has, firstly, outward-looking purposes. It is a tool for accountability of the SAI in the sense of INTOSAI P-12 and towards stakeholders' expectations. It may serve as an advocacy tool to engage stakeholders on issues of common interest. In parallel, an external report can also serve internal purposes such as learning and revisiting the strategy.

SAIs’ duty to **transparency and accountability** is laid down in INTOSAI P-12, principle 8, saying that*: “SAIs should manage their operations, economically, efficiently, effectively and in accordance with applicable laws, and report publicly on these matters, as appropriate*”, as part of being a model organisation through leading by example. In the context of strategic management, accountability in external reporting has an even wider role to play, as the publicly available performance report is the main way for the SAI to demonstrate accountability for the implementation of the commitments made its strategic plan. In the same way in which the strategic plan should be public, the annual performance report should be public too and demonstrate how the SAI is living up to the promises and commitments in its strategy. The strategic plan is also a response to the expectations of the SAI’s key external stakeholders, which also implies a need to provide them with information on how it is advancing in meeting such expectations. Depending on the legal circumstances, the SAI may have a special degree of accountability towards certain stakeholders, like the PAC that also needs to be reflected in external reporting.

At the same time, external reporting provides an excellent opportunity for the SAI to **advocate** for its interests. For the context of strategic management, there are two important reasons for advocacy. Firstly, causes for a SAI’s performance are not always within the direct control of the SAI. They depend on available resources, the legal framework and cooperative behaviour of auditees. The SAI can publicly report on any deficiencies and advocate for stronger inputs from institutions it depends on. Secondly, even if the SAI is performing well on the output level, it is always dependent on other institutions to deliver outcomes. Here, the SAI can advocate for others to use the immediate results of the SAIs work and thus increase its impact.

Finally, even external reports can serve the internal purposes of **strategy** and **learning**. An external report should give a consolidated picture of performance that goes beyond a mere account of the status of achievement on each indicator. That allows the SAI to look at the causes of good and bad performance and act on that basis.

9.4 Accountability and advocacy

For an external report to fulfil its accountability and advocacy functions, it needs to focus on performance rather than activity. To do that in a consolidated manner, the SAI needs to revisit its whole value chain from outcomes to outputs and capacities and activities. The report should clearly point out the underlying reasons for good and bad performance by reflecting on the linkages of elements in the SAI value chain. It could for example report on whether an updated quality control protocol and staff training on the capacity level have led to more timely and high-quality financial audits on the output level and finally to better public financial management and would thus fulfil its accountability requirements for that part of its strategy. It could also report on a very limited possibility to hire staff due to the civil service commission that makes setting up a functional performance audit unit (capacity) very difficult which prevents the SAI from delivering timely and high-quality performance audit (output) to finally contribute to better public financial management (outcome). The SAI might also report on lacking implementation of recommendations which makes it impossible for a high-quality output (performance audit) to facilitate the achievement of a positive outcome. It would thus make use of the advocacy function of external reporting to increase the impact of its work results.

The accountability and advocacy functions of external reporting answer different questions. The main question for the accountability function is in how far the SAI lives up to expectations. That entails:

- How does the SAI perform compared to its objectives?
- In how far does the planned value chain work out?
- What did the SAI do to achieve this?
- And what did the SAI do to mitigate risks?

The main questions for the advocacy function is how external stakeholders can help the SAI. That entails:

- Which external inputs help the SAI perform?
- Where is stakeholder action needed to turn outputs into outcomes?

One of the most pressing issues for those tasked with external reporting is how they should report on under performance. As accountability and transparency are inevitably linked, the an external report cannot stay silent about a lack of performance. Rather, the report should aim to clearly explain and analyse the reasons behind the lack of progress. It should also identify corrective measures and constructive solutions on the way forward. By that, the SAI can lead by example not only when it comes to excelling at performance, but also when it comes to being open and ready to learn from the challenges and errors made on the quest for better performance.

Chapter 11: Strategic Decision-making and Risk Management

Strategic decision-making lies at the heart of implementation and is a cornerstone of strategic management. It encapsulates all five SAI strategic management principles – it should be realistic, simple, inclusive, results-focused and aimed at managing change. This chapter seeks to first explain the concept of strategic decision-making and place it in the SAI context (Section 11.1). It then goes on to explain how different decision-making styles will affect and shape the extent, to which decision-making is a formalized and structured process, based on the objective and systematic use of performance information (Section 11.2). Section 11.3 introduces a practical approach to ensuring that strategic decision-making is exercised in pursuit of strategic intent but remains anchored in evidence Finally, Section 11.4 deals with the topic of risk management as a key area where strategic decision-making will have to be exercised.

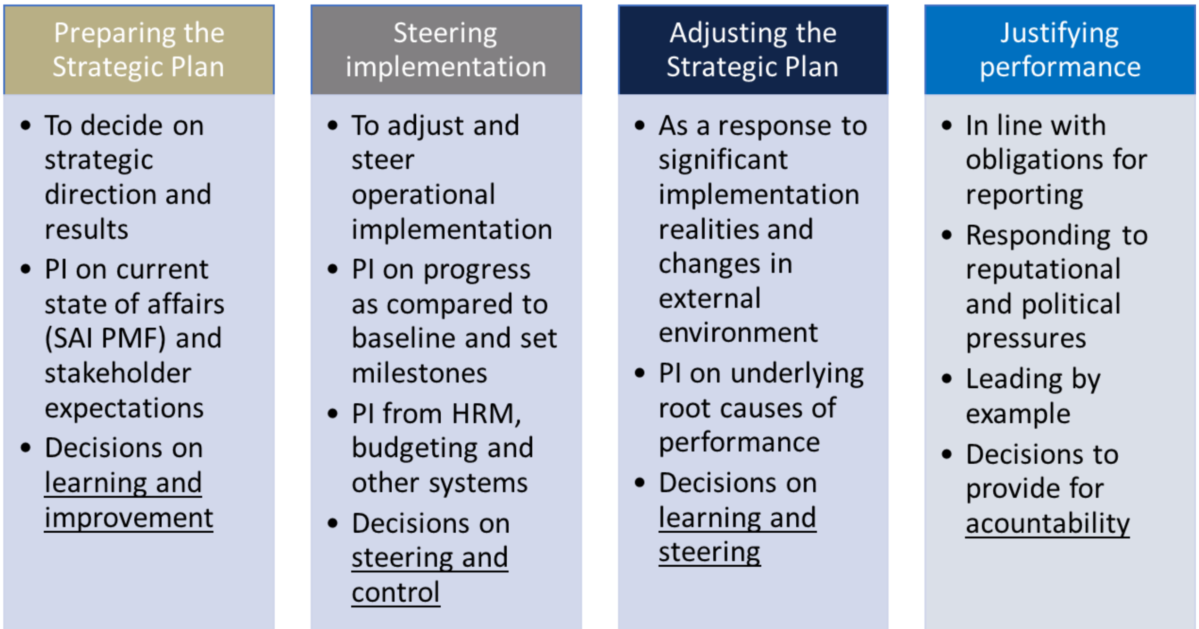
11.1 Strategic decision-making: concept and objectives

Strategic decision-making: *Making informed choices to facilitate performance, based on comparing strategic direction and implementation realities, supported by performance information*

Strategic decision-making is a key element of strategic management focused on achieving performance and results. It implies a continuous iteration between planning, implementation and monitoring for the production of strategic and operational choices meant to steer SAI's direction and performance. Henry Fayol, the founder of modern-day management theory, said that "*to manage is to forecast and to plan, to organise, to command, to co-ordinate and to control*". Thereby, strategic decision-making is about putting together strategic direction and implementation realities, as reflected through the performance information obtained by the monitoring system and making informed decisions on that basis.

The main aims of strategic decision-making are (1) to learn and improve; (2) to steer and control implementation, and (3) to ensure accountability. To meet those aims, in the context of SAIs, strategic decision-making is exercised at four main levels (Figure 11.1).

Figure 11.1 Levels and aims of strategic decision-making, including performance information (PI) need



A. Anticipative decision-making for learning and improving

Firstly, decisions need to be made as part of the process of preparing the strategic plan. This so-called anticipative decision-making is concerned with deciding on a desired state of SAI performance and selecting the preferred course of action on how to achieve this (Raczkowski, 2016). The topics of making strategic choices and prioritization in the context of drafting the SAI strategy was dealt with in Chapter 7, and it represents a first key expression of strategic decision-making. The main aim of strategic decision-making in this context is to make an informed choice based on information on past performance but envisaging future improvement. Therefore, when exercising this type of strategic decision-making, SAIs will have to take into account both results from performance assessments and reviews, as well as analyse the perspectives and expectations of their key stakeholders in order to outline a future direction. The SAI leadership's vision, preferences and style will provide the final shape of the SAI strategy. The main aim is for the SAI to learn and improve.

B. Decision-making for steering implementation

Secondly, and perhaps somewhat contrary to its name, strategic decision-making is not only about making choices at the strategic level. It is also concerned with ensuring that operational-level decisions support, nurture and enhance the fulfilment of the SAI's strategic direction. Strategic decision-making is therefore a key part of making continuous adjustments, refinements and choices at the operational level. The level, at which such decisions are taken is mostly in terms of activities, in pursuit of the overall desired performance results as set out in the strategic plan. When exercising such decisions, the SAI leadership and management will have to draw on data from the achievement of operational performance milestones and targets. It will then have to seek the key drivers of operational performance and then assess the information on implementation realities against the envisaged outputs and outcomes in the SAI strategy. A decision will have to be made on the right course of action. This can include re-prioritization of activities, changing of their design or sequence, or even their discontinuation. The main aim of decision-making at this level is to steer and control implementation towards the achievement of envisaged SAI performance as set in the strategic plan.

C. Decision-making to adjust the SAI strategy

A third level of strategic decision-making is concerned with making strategic-level adjustments and changes to the strategic plan itself. No plan should be set in stone, and even with the best of planning and forecasting of risks, unexpected changes may occur that may dictate a revision of the whole strategy, and not just of the operational plan. For example, a sudden change in the PAC composition and expectations from the SAI, a natural disaster that affects the SAI's ability to function, or a sudden withdrawal of donor support. Even more so, even without any unexpected or dramatic events occurring, implementation realities will always be affected by the SAI environment and context and will motivate an adaptation of the SAI strategy. A change in the Integrated Financial Management Information System (IFMIS) in government can redefine the approach towards IT system audits in the SAI. A change in the accounting principles, for example towards a move to full accrual accounting, can have wide-range implications for the nature and type of audits the SAI does. A large-scale corruption scandal across government may lead a SAI to re-focus its strategy towards stronger efforts to fight against corruption. In this sense, strategic decision-making focuses on examining in depth recent lessons learnt from the implementation of the strategic plan, verifying whether initial assumptions are still valid, considering any changes in the SAI external environment and stakeholders' preferences, implementation and making decisions about which parts of the SAI strategy remain valid, and which require adjustment or even discontinuing. Much of this process concerns risk management (see Section 11.4 below).

Such decisions are particularly challenging, since they may be interpreted as breaking the promises and commitments made in the SAI strategic plan. Pressman and Wildawsky (1978) capture this by saying "*Promises can create hope, but unfulfilled promises can lead to disillusionment and frustration. By concentrating on […] implementation […], we should be able to increase the probability that policy* *promises will be realized. Fewer promises may be made in view of a heightened awareness of the obstacles to their fulfilment, but more of them should be kept*." A careful examination of a multitude of performance information, as well as a confident SAI leadership, able to explain and justify the changes, are particularly important for this level of strategic decision-making. The main aim here is to both learn and improve, and steer implementation.

D. Decision-making for accountability purposes

Finally, strategic decision-making will have to be exercised in line with one of the SAI's core objectives as per INTOSAI P-12, namely being a model organisation in ensuring accountability with respect to their own performance. This includes decision making in terms of being accountable to the SAI key stakeholders such as the Legislature. There is a significant degree of choice in how performance will be presented, explained and justified in a SAI annual performance report, and how dialogue with stakeholders will be structured. Decisions will need to be made in terms of responding to political pressures, reputational risks, or threats to SAI independence. The influence of the SAI leadership style will be particularly strong at this level, but it is also where the telling power of performance information, especially in terms of SAI realization of outcome and output targets, can have a very strong effect.

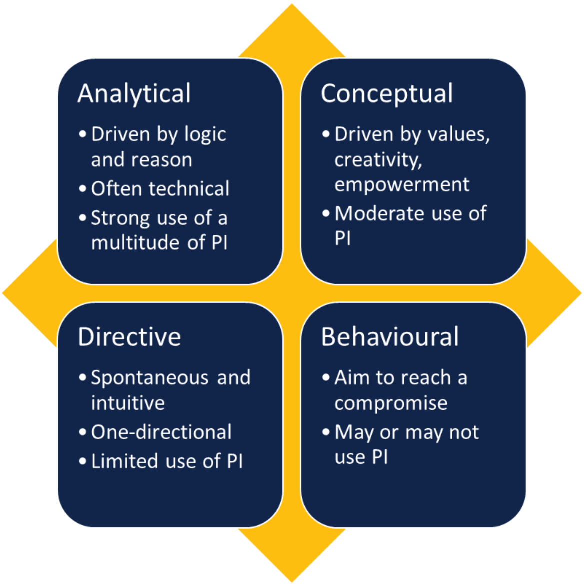
11.2 Decision-making styles and performance information needs

As demonstrated in the previous section, the different levels at which strategic decision-making is exercised, and their specific objectives have different implications for the type of performance information that will be considered. However, how decisions will be made always includes a normative aspect. Strategic decision-making occurs at the intersection between objectivity and normativism, with the SAI leadership style and preferences in constant interplay with the type and amount of objective performance information to inform decisions.

The decision-making style of the SAI leadership will have a strong influence over the type, volume and weight of performance information to be drawn into consideration in relation to a decision. This is also referred to as a hard or soft coupling of performance information and judgement (Van Dooren, Bouckaert and Halligan, 2015). The potential consequences of decisions in terms of their possible impact on the SAI's performance, will also play a role.

How people make decisions is often linked to their personality traits. Rowe and Buoulgarides (1994) identify four broad styles of managerial decision-making (Figure 11.2):

Figure 11.2 Decision-making styles and propensity to rely on performance information (PI)



Adapted by Rowe and Buoulgarides (1994).

- **Analytical**—oriented at strong need for achieving results, setting new challenges for themselves and others. It is characterized by a positive approach to cognitive complexity, accumulation of data and information, and slower decision-making, which is sensible and based on many possibilities.
- **Directive**—directed at power, this type of decision-making may be linked to the desire to dominate and subordinate staff. It is characterized by low level of cognitive complexity and ambiguity. Such approach leads to spontaneous restriction of the amount of available information and decision-making capabilities
- **Conceptual**—similar in style to analytic but directed at independence (associated with creative work) and need for praise and acknowledgement. Decision makers use idealism, conformism and are people-oriented, and their decision-making process has typically strategic, thus far reaching time horizon. Before making a decision, they usually collect as much information as possible and test many possibilities or convene with many people in a thinking process (or councils).
- **Behavioura**l—decision makers communicate easily, have the ability to reach a compromise and are highly people-oriented and at the same time have low cognitive complexity. may or may not consider enough performance information).

Next to the decision-making style, another determinant of the need for performance information is the perceived impact of the decision at hand. Not all decisions, even if strategic in nature, will matter in the same way. For example, a decision on whether to reallocate financial and human resources from performance to compliance audits will likely carry different weight than a decision to change the SAI's system for follow-up on ethical complaints or introduce a system for performance-related pay. In general, those decisions that will concern the SAI's core business, the way it presents itself to stakeholders and that represent a significant departure from the organisational status quo, will be considered as having a higher impact, and will likely justify a higher need for performance information to inform the decision-making process. This issue is also closely related to the topic of risk management, as higher impact decisions carry a higher risk, and therefore prompt a stronger reliance on performance information to assess the situation and decide on the way forward. Table 10.1 presents a non-exhaustive typology on the potential impact of performance judgements in the SAI.

Table 11.1 Typology of decisions based on their potential impact

Lower impact decisions: May require less performance information	Higher-impact decision: May require more performance information
Peripheral and internal organisational issues, for example changes in the archiving system, or introduction of performance management tools	**Changes that affect SAI core business**, such as adoption of new methodologies, or shifting the focus from one audit type to another
Non-reputational issues, such as developing a new staff retention and promotion policy	**Changes that may affect the reputation of the SAI**, for example on whether or not to public a critical audit report, or on the reporting on the follow-up of audit recommendations
Decisions that do not carry significant budgetary or human resource consequences, such as the revision of the Code of Ethics, or extending the piloting of a new performance audit methodology	**Decisions with a strong budgetary or human resource impact**, such as outsourcing parts of the audit work, introduction of a large-scale professionalization programme, or the introduction of Computer-Assisted Audit Techniques (CAATs)
Decisions that do not affect the degree of SAI autonomy and independence such as introducing a quality assurance mechanism or changing SAI's organisational structure	**Decisions that may affect the (perceived) autonomy or independence of the SAI**, for example following up on requests for audits by Parliament or the Executive, engaging too closely on accounting or internal control issues or commenting on the Government's budget proposal when not mandated to do so
Decisions congruent with the organisational culture, for example introducing stronger management controls in a highly bureaucratic SAI environment	**Decisions not congruent with the organisational culture**, for example strengthening managerial autonomy in an environment where most decisions are usually done directly by SAI leadership

Adapted by Van Dooren, Bouckaert and Halligan, (2015).

11.3 Decision-making principles and process

It is important to ensure that strategic decision-making remains a structured and, to the extent possible, an objective and transparent process. If there is no clear process, decisions risk to be opportunistic, opaque and often not implemented. Striking a balance between a process that should be both structured and logical on the hand, and on the other hand should accommodate the different SAI decision-making style, is no easy task. Adhering to the following three principles will support SAIs during the decision-making process:

- **Basing decisions to the extent possible on evidence**: Well-justified decisions consider a wealth of evidence. While personal styles and preferences will vary, evidence lies at the heart of a good decision.
- **Inclusive in considering others' perspectives**: A well-respected decision will be the one that has taken into account the views of key stakeholders the decision affects. This does not necessarily means finding a compromise between conflicting perspectives, but rather taking in all arguments and weighing in all options before a decision is done.
- **Transparent in communication**: For SAI staff to be able to follow a decision, it should be able to understand its rationale and implications. Communication is therefore a critical reinforcer of decision-making.

To further aid the decision-making process, SAIs could follow an approach where the challenge at hand is scrutinized by asking and responding to eight key questions.

Box 11.1 Decision-making guiding questions for SAIs

1. What is the result we are aiming to achieve with the intended change? Have we defined it sufficiently and unambiguously? How does this result relate to the outcomes and outputs in the SAI strategic plan? Which principle considerations (effectiveness, efficiency, quality) are key to take into account?

2. Do we have sufficient information to make the decision? If not, where can we find it?

3. What are the feasible options in terms of time, resources, political acceptance etc. (link to feasibility analysis criteria applied to the process of development the strategic plan in Chapter 7)

4. What is the best possible scenario of what the intended change would bring?

5. What is the worst possible scenario of what the intended change would bring?

6. Is the best possible scenario worth risking to end up with the consequences of worst possible scenario?

7. Can we live with the consequences of the worst possible scenario?

8. Does the decision feel right/ Can we justify it to ourselves and to our stakeholders?

Adapted from Baker (2007)

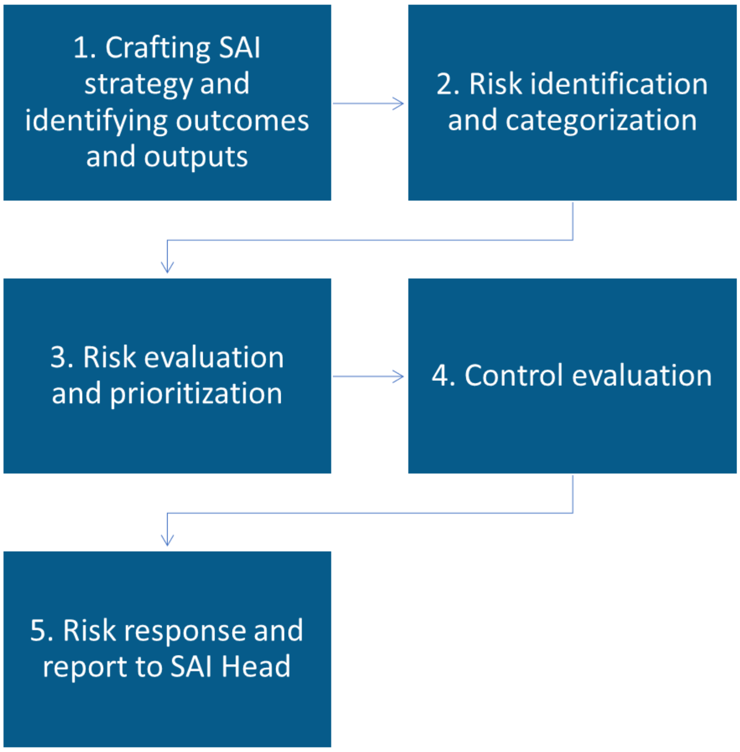
For example, a SAI may be contemplating introducing IT audit. The first key question would be aimed at identifying what the concrete expected results of IT audits would be, and how they would contribute to the strategic outcomes of the SAI strategic plan, such have been defined as "Being a relevant SAI for citizens" and contributing to "Efficiency of public financial management systems". The SAI would need to examine the potential effectiveness of IT audits, and critically question of it is really well positioned to make the SAI more relevant. Possible information sources to answer such questions could include examples from peer SAIs on the introduction of IT audits, as well as a good analysis of the necessary resources (skills, technology, methodology, time) required. Importantly, such an analysis would also have to consider opportunity costs in terms of re-training staff, as well as the multi-year cost implications i.e. in respect to specialized software licenses etc. The broader PFM environment and the feasibility of IT audits (especially in cases where government IT/ financial management systems are rudimentary) should also be considered. Collecting such information from the onset may not always be easy but is necessary in order to make an informed decision. At best, the SAI will be able to contribute to better government IT systems in support of better public sector performance. At worst, the SAI will spend a lot of efforts and resources without achieving any tangible results. SAI management would then need to consider the trade-off between the best possible and worst possible outcome, given all information at hand. Depending on the decision-making style, the decision could go either way.

In another example, consider a SAI that is struggling with limited progress towards achieving its outcome of better stakeholder engagement, which is part of its strategic plan. With progress stalling, it may be worth taking a step back and re-assessing this in light of current circumstances. Important considerations here would be related to both effectiveness and relevance. The SAI management would need to gather detailed information on both inputs in the implementation (staff, funding allocated to activities to ensure stakeholder engagement), milestones achieved, possible output targets achieved (e.g. number of downloads of the strategic plan, or number of citizen inquiries and complaints received through the new phoneline) occurrence and management of operational risks etc. The key question to ask is "*Why has implementation not been satisfactory?*". On that basis, the SAI management should devise options going forward, which could range from discounting any efforts to implement the strategy, to focusing a lot more efforts in. There may be need for tweaks at different levels.

11.4 Risk management

The previous sections have demonstrated that strategic decision-making is closely linked to the process of managing risks in the SAI. Risk management is a key component of strategic management for the SAI as it indirectly affects a SAI's achievement of goals and objectives. The need for effective risk management in the SAI stems from INTOSAI P-12 on the Value and Benefits of SAIs, which underscores that SAIs must be seen as credible and trustworthy and must periodically assess risks. Consequently, SAIs should install effective mechanisms to deal with risk and uncertainty, avoid external threats, and mitigate the potential damaging impact of internal vulnerabilities[14].

Figure 11.3 SAI risk management process



Source: Adapted from EGVBS (2018), based on COSO ERM 2017

Figure 11.3 depicts a general risk management process adapted to SAIs. The process of crafting the SAI strategy (1) incorporates a first exercise in the identification and categorization of strategic risks (2)– those events that, should they occur, could jeopardize the achievement of the SAI's outputs and outcomes[15]. To that end, the strategic planning team should dedicate sufficient time for discussion and analysis of possible risks that may affect the realization of the strategic plan. Some of those will stem from the SWOT analysis (Table 11.2).

Table 11.2 Typology of risks faced by SAIs

Type of risks	Examples of sub-categories of risks	Description
Strategic risks: **Risks that threaten the prospects of the SAI to realise their mission and achieve**	Reputational risks	Risks that could impact negatively on the integrity, credibility and reputation of the SAI, and the way external stakeholders perceive it, mainly influenced by

[14] INTOSAI Working Group on Values and Benefits (WGBVS) of SAIs (2018): SAIs Internal Risk Management and (Identification of High Risk Areas / Programs in the Public Sector. Exposure draft.
[15] See also Box 7.1 in Chapter 7

the strategic intent (outcomes and outputs) in the SAI strategic plan		communication means such as media management.
	Ethical risks	Related to integrity, independence, objectivity, competence, professional behaviour, confidentiality and transparency, which ultimately create credibility that enhances the image of the SAI.
	Legal risks	Risks that would affect the independence or ability of the SAI to comply with regulations and contractual obligations to fulfil audit or judicial responsibilities or other legal requirements. Includes risks related to financial independence.
	Political risks	Risks arising from unclear or informal authorities and accountabilities, and/or ineffective or disproportionate oversight of decision-making and/or performance.
	Other external risks	Risks that may affect the entire functioning of the SAI, for example occurrence of conflict or a natural disaster.
Operational risks: **Risks pertaining to inadequacies or deficiencies in the management of the SAI's internal systems, processes, structures, tools and resources, as well as risks arising from external events that could negatively impact on their operations**	Financial risks	Risks that result in failure to maintain effective financial, efficient and transparent management and accountability arrangements for financial resources
	Technological risks	Related to the ability of the SAI's technological tools to support the achievement of strategic objectives

Source: Adapted by WGVBS (2018).

As shown in Table 11.2, during implementation, a second category of risks, namely operational risks, is also of key importance. Operational risks are such that affect the daily activities of the SAI. They may be easier to deal with, but it is important to underscore that operational risks may have consequences at the strategic level as well. For example, a SAI may be facing an operational risk due to the lack of robust procurement procedures. Although this is an operational issue, it may have serious consequences at the strategic level. A flawed selection process of a private audit company to carry out a part of the SAI's obligations as per its mandate may result in reputational and ethical damage to the SAI.

At the implementation level, risk management is about monitoring the occurrence of both strategic and operational risks, and about taking decisions on how to best mitigate or react to those materializing. Managers control risks when they modify the way they do things to make their chances of success as great as possible while making their chances of failure, as small as possible. Therefore, although the process of identification and categorization should happen during the process of creating the SAI strategic plan, such risks should be periodically assessed, updated, apprehended and monitored during implementation. It is thus at the implementation stage that risk management usually receives dedicated attention and gets expanded into a stand-alone operation in the SAI, in support of the realization of the SAI strategy.

Back to the process described in Figure 11.2, once risks have been categorized, they need to be evaluated in terms of the probability of their occurrence, and the potential impact they could have, in terms of the consequences for the SAI, should they occur (3). Usually, this process is done through assigning each identified risk a rate based on either a numerical or qualitative scale, or both. The likelihood of a risk materializing can be rated on a scale for highly unlikely to recurrent, while the impact can range from serious to limited. Specific criteria and questions should be used to ensure a consistent assessment.

The analysis of the two aspects of risks – probability and impact –will yield a so-called risk map for prioritizing which risks are most important to deal with immediately, and what kind of response, such as mitigating or transferring the risk, is most appropriate. The response to risks is also determined based on the current control environment (in particular for operational risks) in the SAI (4), with respect to its effectiveness and presumed ability to respond to the possible occurrence of high-impact risks. A risk response (5) usually falls into one of the following four categories:

- **Avoid**: A risk that should be avoided is a risk that is likely to cause significant consequences, should it materialize. This means that the SAI should employ everything at its power to avoid the risk. This may also mean discontinuing certain activities in order to avoid the risk. For example, the SAI may be facing a reputational risk that it is perceived as ineffective, due to limited progress with the implementation of its strategy. This may also jeopardize the way audit clients accept the audit recommendations of the SAI. In order to avoid such a risk, a SAI may decide to revise its strategy, and likely limit its scope and ambition.
- **Reduce**: A risk that should be reduced is a risk where the SAI believes it can effectively limit both the probability of occurrence and the potential impact if the risk materializes. For

example, the SAI may be facing a significant reputational risk due to continuous efforts from the Executive to dictate the SAI's selection of audit subjects. This a risk that can be reduced by the SAI taking a proactive stance, for example through dedicated stakeholder engagement activities, or by strengthening the citizen engagement in audit, since it may jeopardize how the public perceive the SAI and thus harm its legitimacy. In addition, the SAI should consider how it can effectively deploy existing strategic management tools towards reducing risk. For example, it should assess whether the values it has set support risk management, and whether specific risk management policies are widely available and clearly understood by all staff.

- **Tolerate**: This response is mainly reserved for risks that are considered as both unlikely to materialize and of low impact. For example, the SAI may have identified that its legal framework related to financial independence poses a risk for interference from the Executive in reducing the approved SAI budget, which is a legal risk. If, however, such interference has never occurred before, and if the SAI considers that there are enough safeguards to ensure the extent of cuts would be low (for example a strong and independent legislative body where the issue can be raised), then the SAI may choose to tolerate the risk.
- **Share**: This risk response focuses on ways to transfer (part of) the risk to a third party. For example, if the SAI has been suffering from a weak public image due to its unreliable financial audit reporting, and thus faces a reputational risk, a way to share the risk would be to sub-contract financial audits to a private provider.

In practice, a risk management process for the SAI should be an integrated management function spearheaded by a dedicated risk management officer that reports directly to SAI leadership. A SAI risk register covering both strategic and operational risks should support the regular review of planned mitigation measures and the continuous assessment of the nature of risks and their occurrence. What is important is to strike a balance between control, cost of control and appropriate risk taking. For example, the SAI would likely have very low tolerance when it comes to ethical risks but it may be willing to take on a higher technological risk by implementing a new IT system that may cause some short-term disruption to work until everyone in the SAI is well versed into the technicalities of such system.

Risk management should be a as a standard agenda item at SAI management meetings, aiming at agreeing over the relative significance of risks across the different levels of the SAI and the individual responsibility for risk management. The Annex to this chapter includes an example of a SAI corporate risk register.

The SAI should avoid at any costs a situation where risk management remains an add-on that is not integrated with other management processes. Risk management should also be systemic and should ensure that there is a continuous analysis of operational risks across different parts of the SAI that can be elevated to the strategic level. There should be clear responsibilities for monitoring, mitigating and reporting on risk management in the SAI. Finally, it is important to consider risk management as more than just a compliance exercise that is automatically embedded in day-to-day decisions (Willliams, 2017).

Chapter 12: Change Management, Leadership, Organisational Culture and Communication

A strategic plan is a structured roadmap for the reform of the SAI's institution and organisation towards improving performance. It contains a specific vision about change and a concrete, deliberate design about how to achieve such change intentionally and transform the institution. Yet the practice shows that, despite a plethora of tools, guidance and support for the crafting and implementation of strategic or capacity development reform plans, about 80 per cent of public sector reforms fail in this key objective of achieving major organisational change, or "*transformative change*" (McKinsey Centre for Government, 2018). Hence, it appears that even the best written strategic plans, supported by a strong technical implementation process and sound strategic decision-making, may not be enough for a SAI to succeed in improving its performance as envisaged in its strategic plan.

Against this backdrop, a growing consensus has emerged for the need for change management, or a dedicated approach to navigating not only the technical, but also the people-side of change, as an essential determinant of achieving the change foreseen strategic and other reform plans (Baker, 2007). A 2015 study by the World Bank demonstrates that public sector reforms where a change management component was introduced alongside technical aspects achieved a higher degree of performance improvements over the same period(World Bank, 2015). In the context of SAIs, the existence of an explicit change management focus as part of the a SAI capacity development project's design has been highlighted as a main factor for ensuring relevance and effectiveness of such support (INTOSAI Development Initiative , 2014).

This chapter aims to close the SAI strategic management cycle by casting an eye on change management and its key ingredients. Section 12.1 discusses the concept of change management and why it is important in the SAI context. The subsequent sections deal with three important determinants of successful change management: SAI leadership (12.2), organisational culture (12.3) and effective communication (12.4). Section 12.5 provides some on the formal tools and soft principles for a change management process that accompanies the design and implementation of the SAI's strategy.

12. 1 Change management concept and rationale

Change management aims to deal with the unexpected non-technical challenges of implementing a new strategic plan. In other words, while strategic management as a whole focuses on the content of change and ensuring performance improvements, change management tackles the process through which such change comes about (Van der Voet, 2014). Accordingly, (World Bank, 2015) defines change management as "*The process of helping people understand the need for change and to motivate them to take actions, which result in sustained changes in behaviour*". Another definition is provided by (Baker, 2007): "*Change management is the process, tools and techniques to manage the people-side of the change processes, to achieve the required outcomes, and to realise the change effectively within the individual change agent, the inner team, and the wider system".*

The main premise behind having a dedicated change management approach as an integral part of strategic management is that the people who are mainly responsible for implementing the change envisaged in a strategic plan and thus achieving better performance are often those that may resist change the most (Van der Voet, 2014). There are different reasons why staff may not support the reforms suggested by a SAI strategy. They may not understand the reason why change is needed, or they may not agree with the technical design of the reforms. Oftentimes, when it comes to more technical changes, such as introducing new software like TeamMate, staff may fear that they may not be able to adapt their skills to the new requirements. When a SAI strategy contains wide-ranging organisational changes, staff may oppose it due to fear and uncertainty about a changed work environment and the possible negative consequences such as loss of a position or authority. In some cases, opposition may come from the SAI senior staff echelon too, especially due to embarrassment to admit that changes could have been done before. Although SAIs have made great strives towards becoming more responsive and adaptive to a rapidly changing environment when it comes to new audit topics, internally they are oftentimes less prone to accept and embrace change.

While there is general agreement that change management is important, there are differing understandings in terms of what can be a successful framework for navigating such change (Van der Voet, 2014). Many models exist on how to plan holistically for change management in the context of public sector. The Annex to this chapter covers in more depth some of those models. The extent to which change management should be formalised alongside technical reforms, and the main factors influencing the success of a change management approach are also a subject of discussion among practitioners and academics. (Kuipers, 2014) distinguishes following drivers of change management:

- Contextual and socio-economic factors, such as the political and direct external stakeholder environment;
- Content-related factors that pertain to the degree and scale of desired changes;
- Process-related factors such as planning for incremental change, communicating and navigating change and overcoming internal resistance to change;
- Leadership behaviour.

Context- and content-related factors are mainly dealt with in the "formal" aspects of the strategic management process. The analysis of the broader SAI environment and context is explicitly considered in the SAI's strategic plan at the level of risks and assumptions. The SAI strategic plan also outlines a degree of desired changes that is considered realistic and manageable.

Figure 12.1 Key internal determinants of change management

The remainder of this chapter focuses on the process-related factors, most notably communication and studying the role of the SAI's organisational culture, as well as on leadership. The position adopted in this handbook is therefore that change management for SAIs includes both formal processes and tools, such as communication methods or performance incentive techniques, as well as less tangible aspects such as exercising effective leadership and responding to the informal dynamics posed by the SAI's organisational culture (Figure 12.1). These elements are mutually interdependent and reinforcing each other. A successful leader will employ strong communication taking into account the organisational culture. In turn, a strong organisational culture that adopts the SAI's values and has a shared vision will be strongly influenced by the leadership style and communication approach.

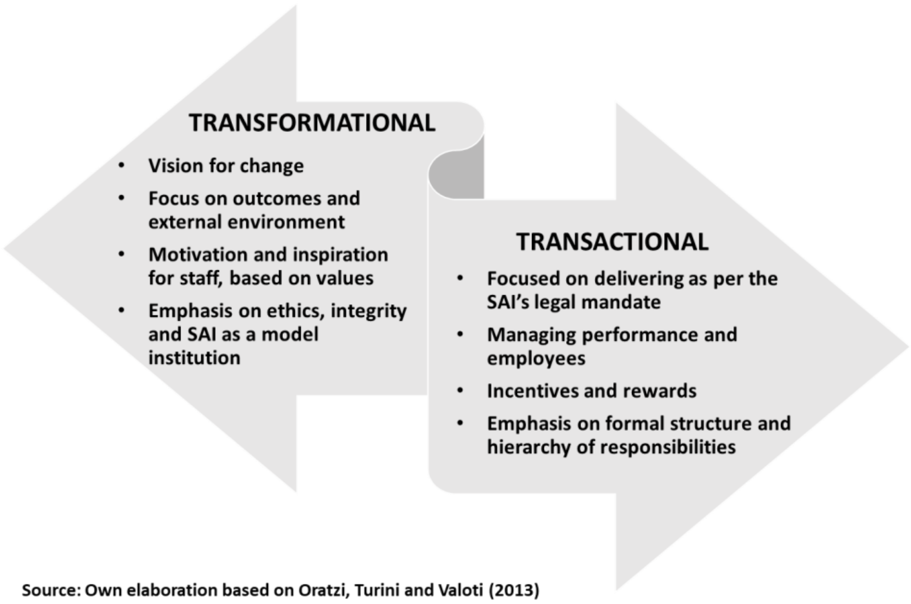
12.2 SAI leadership

Leadership lies at the heart of SAI strategic management. The SAI Strategic Management Framework correspondingly identifies it, together with the SAI's organisational culture, as a cross-cutting factor that will influence the quality and the results of the entire strategic management process and thus SAI performance. As noted by the IDI in the announcement to its SAI Young Leaders initiative (see Box 12.1), "*SAI Leadership is widely recognised in the INTOSAI community as the most effective moving force, which transforms a SAI. Supporting SAIs in sustainably enhancing capacities and performance is impossible without SAI leadership driving positive change*".

While no commonly accepted definition exists of what constitutes public sector leadership, one widely cited definition is from Van Wart (2003). According to him, public sector leadership is "*the process of*

(1) providing the results required by authorized processes in an efficient, effective and legal manner, (2) developing and supporting followers who provide those results, and (3) aligning the organisation with its environment." In turn, this process is best facilitated by a combination of so-called transformational and transactional approaches to be employed by public sector leaders (Figure 12.2).

Figure 12.2 Transformational vs. transactional leadership



Source: Own elaboration based on Oratzi, Turini and Valoti (2013)

In the context of SAIs, transformational leadership translates to an expectation that SAI leaders would pursue and guide the transformation of the SAI by articulating an appealing vision and clarity of the desired outcomes to be achieved. Transformation is also about ensuring the SAI's responsiveness and relevance for to its external environment. A SAI leader would underpin such transformational strategic direction by motivating, inspiring, and continuously developing the SAI staff, and preserving fairness, ethics and integrity in their actions, including by leading by example herself or himself. On the other hand, SAI leadership is also concerned with the more transactional, or managerial aspects of directing organisational performance and employee behaviour. Such pecuniary measures include formal mechanises for motivating, monitoring and evaluating organisational and employee performance, focusing on autonomy, mastering of skills, and providing direction and prospects for career progression. They also imply taking corrective actions including rewards and sanctions when said performance is not as expected (Orazi, Turrini, & Valotti, 2013).

In the realm of SAIs, the leadership may often struggle with finding the balance between being focused on the transformational and outward-looking aspects of leadership, and the need to control and steer implementation and performance at the technical and often detailed level. Especially in such SAIs where human resource capacity is weak, it is not uncommon for SAI leadership to be heavily involved in finalizing audit reports, for example by doing the quality control and even formatting and editing of documents and adjusting planning at the very detailed level. This may limit the space for exercising transformational leadership. As noted by (Orazi, Turrini, & Valotti, 2013), "*Leadership skills truly do matter in improving the performance of public sector organisations, and it is highly likely that the optimum style is an integrated one: Public sector leaders should behave mainly as transformational leaders, moderately leveraging transactional relationships with their followers and heavily leveraging the importance of preserving integrity and ethics in the fulfilment of tasks*".

Against this background, the IDI has been supporting leadership development for SAIs since 2017, through its SAI Young Leaders initiative, which integrates an approach that focuses primarily on transformational leadership, but without ignoring transactional aspects. The initiative aims to nurture young leaders in SAIs, to enable their own growth and contribute to development of their SAIs. The initiative aims to connect SAI leadership at different levels with main focus on the SAI Young Leader. The initiative also envisages adding to and consolidating a global SYL network that interacts, shares and works together. The SAI Young Leaders initiative views leadership development as consisting of four different clusters: Discover Self, Grow People, Discover Universe and Create Value (Figure 12.3). The cluster comprise various aspects aimed at reinforcing transformational leadership, such as emotional intelligence, interpersonal and motivational skills, understanding of the SAI environment and envisaging change. At the same time, crucial transactional leadership elements, such as time and performance management, coaching and project management are also reflected.

Figure 12.2 IDI's SAI Young Leaders approach to leadership development

12. 3 SAI organisational culture

The extent, to which the organisational culture can accommodate and adapt to change has been found to be critical to effective change initiatives and strategies (Parry & Proctor-Thomson, 2003). Like any other organisation, each SAI has its own culture – an interplay between symbols, rituals, stories, and shared history what influence the attitudes and behaviour of the people work in it. Part of this culture is inherited and reinforced, by continuously using the same approach to solve specific problems. This may limit the potential to embrace change. Another part is shaped by the differences, disagreements, challenges and conflicts that also exist in the organisation (Hughes, 1996). This may both limit and create opportunities for change, since it is likely that there are sub-cultures and particular groups in the SAI that could be mobilised to promote organisational change (Baker, 2007)[16].

Organisational culture and leadership are intrinsically related as leaders shape culture, for example by "setting the tone at the top", but culture can define what kind of leaders are acceptable and ultimately successful. Again, it takes a strong leader to be able to break through the barriers of such an organisation and induce it to step out of its comfort zone in order to get to the next level of performance (Schein, 2004).

In the same ways as leadership, the SAI's organisational culture can either be transformational or transactional. The former means that staff would be more prone to accept flexibility, disruption and innovation. The latter refers to a culture where staff is more focused on complying with the strictly transactional relationships defined by the SAI's organisational structure, job profiles and responsibilities, and therefore on maintaining the status quo, hierarchy and conformism (Parry & Proctor-Thomson, 2003).

Although transformational organisational culture has been strongly correlated with successful change management, it appears that it is the transactional organisational culture that continues to be the prevalent one in many SAIs. This type of organisational culture clearly corresponds to the notion of the SAI pursuing its responsibilities as per its mandate and exhibiting a strong degree of service-orientation and compliance to formal rules. In this context, it is up for SAI leadership to determine how to best achieve a fit between the desired change in a strategic plan, and a culture that may not be so receptive to change. Involvement of SAI staff in the consultations around the strategic plan priorities, identifying so-called "change champions" to promote change internally, as well as encouragement of individual initiative may all be effective strategies to achieve an optimal combination of transformational and transactional culture – one that sees and accepts change as needed and beneficial, but that does not perceive such change as completely and drastically disruptive to the status quo.

[16] Those should ideally be identified already at the level of mapping the SAI's internal stakeholders as part of assessing the SAI stakeholders' views and expectations (Chapter 3).

12.4 Effective communication

Effective communication within the SAI is a last key ingredient of an effective change management approach. In fact, communication is of such fundamental importance, that it essential not only for the purposes of change management in terms of navigating the people-side of change, but also for ensuring technical feasibility throughout the strategic management cycle. In this sense, it also relates to the strategic management principle of being inclusive (See Chapter 1 and Annex).

One of the primary rationales of communication in the context of strategic management is to demonstrate respect among all the internal and external stakeholders involved in the change process. Without effective communication, change will be slower and less effective. There is even a risk that the change project may break down altogether through misunderstanding, misinformation, lack of crucial knowledge and an air of secrecy or exclusiveness. Communication is needed also to avoid reinventing the wheel, repeating processes or even working in conflict.

By definition, communication is a two-way process. In the context of SAIs, this means that SAI leadership needs to not only communicate their change rationale and decisions to staff, but also encourage them the opportunity to question and present their ideas. Kotter and Heskett (1992) identify successful leaders as those who repeatedly communicate their visions, allow people to challenge these messages and stimulate middle managers to take up the cause and provide leadership themselves. Table 12.1 provides some insight into the different roles and responsibilities regarding internal communication in the SAI during strategy preparation and implementation.

Table 12.1 Internal communication roles and responsibilities

	Strategy preparation	Strategy implementation
Leadership	• Communicates the SAIs mandate, vision and core values • Explains rationale for change • Seeks feedback from mid-management and employees on strategic priorities and gives credit when due • Communicates clearly, thoroughly and regularly on the strategic plan contents and any updates	• Setting a tone enabling accountability and strengthening the culture of internal control • Empowers middle management to take an active role in organizational planning • Provide flexibility for middle management in implementation • Justifies clearly operational decisions if diverging from middle management's views • Ensure complementarity, vertical alignment and enable cooperation/ interlocks between departments

Middle management	• Provides significant inputs to strategy development • Channels through staff suggestions, and feedback on the strategy	• Indicate what works best, what doesn't work and why • Regular and open, honest interactions between management and staff • Provides precise and clear instructions to staff on what is expected of them • Informs and consults with staff on ongoing implementation regularly and also informally ("on the floor") • Maintains an open door policy
Staff	• Raises questions and communicates any concerns about the need and consequences of change • Provides their views and expectations about the SAI's strategic direction, e.g. through a structured consultation process	• Everybody within the SAI can provide input into organizational planning in some form • Seeks clarifications if activities and their parameters are not clear • Provide feedback to direct management on ongoing implementation

As regards external stakeholders, the SAI should be similarly open to others' views and expectations and listen to the feedback coming from its main institutionalised and non-institutionalised counterparts. A thorough stakeholder analysis (Chapter 5), as well as high-quality SAI performance reporting are useful tools to facilitate external communication. The SAI PMF methodology also provides guidance on good practices s in engaging with external stakeholders (Domain F).

12.5 Principles and tools for change management

The preceding sections of this chapter have demonstrated that change management is a complex process underpinned by three key variables – leadership, organisational culture and communication. To support an effective change management strategy, the SAI should consider following formal tools, all of which are addressed as part of the strategic management toolbox:

- Creating a common vision
- Crafting a strong, well-defined and well-justified strategic plan
- Effective risk management
- A clear communication approach, focusing on both internal and external stakeholders
- Gradual implementation process to allow cultural adaptation
- Systems for regular monitoring and decision-making

- Training, testing and adapting new systems and process based on experiences
- Continuous assessment and addressing of skills needs.

In addition, the change management process should be guided by following principles:

- Relating to employees’ opinions and paying them due attention
- Suppressing bias
- Consistent application of decision-making criteria
- Providing current information to the employees in due time and feedback after the decision has been made
- Justifying the decisions made
- Building trust with employees through honesty and truthfulness in communication
- Treating the employees in a way the managers would like to be treated themselves—politely and kindly.

PART D. EVALUATING THE STRATEGIC PLAN

Introduction to part D

When a strategic management period approaches to an end, it is time to take stock of all that has happened. Usually, the latest at the start of the last year of its strategic management period, a SAI could consider one of two options: An evaluation of its strategic plan and its implementation, or a repeat SAI PMF assessment. While both of those serve a similar purpose, they have specific advantages and disadvantages. Chapter 13 discusses those two main approaches to closing the strategic management cycle and concludes how their findings should fit into the SAI's next strategic plan.

Chapter 13: Taking stock of performance improvements

In line with the strategic management principle of focusing on outcomes, a SAI would need to take an in-depth assessment of whether outcomes have been achieved, and what have been the key lessons learnt for the next strategic planning period. In some cases, examining performance in a holistic manner may even be necessary mid-way through a strategic plan. The duration of a SAI's strategic management cycle, as specified in the period covered by the strategic plan, may vary from anything between three and ten years. Although no statistics are available, most SAIs tend to draft their strategic plans to capture a period of around five years. There are significant differences though, and sometimes SAIs also follow general public service rules and procedures to determine this duration. In general, it is recommended to take stock of achievements every three to five years.

This chapter builds on the discussion in Chapter 5 that covered in detail how the SAI PMF tool can serve as a powerful instrument for assessing SAI performance. A repeat SAI PMF assessment has many advantages for the SAI, and those are discussed in Section 13.1. Section 13.2 then deals with an alternative approach of taking stock, namely though an evaluation of the SAI's strategic plan design and implementation.

13.1 SAI PMF repeat assessment

One relatively straightforward way of assessing changes in performance is to carry out a repeat assessment using the SAI PMF framework. This could serve multiple purposes. It will generate data for the performance measurement system regarding the state of SAI performance at the capacity and output level, which will aid the evaluation of strategic plan implementation. And it will also form an updated assessment of the SAI's current situation, as a basis for development of the next strategic plan. Such an assessment should be timed so that its findings are available early enough to inform both the evaluation of the strategic plan, and the development of the next strategic plan. This approach has several strong advantages for the SAI:

- A repeat SAI PMF assessment allows for tracking of performance changes between indicators and dimensions, including a score comparison whenever the same version of the SAI PMF framework has been used.
- The SAI management and staff would be familiar with the assessment set-up and report and would know how to interpret the findings and performance changes. An IDI guidance document on SAI PMF repeat assessments is planned for publication in 2020, and there are some publicly available repeat assessments that can serve as an example.

- If the SAI has done the first assessment as a self-assessment exercise, it can use the same internal team, if available. This can contribute to an efficient process.
- The SAI PMF narrative report can capture small improvements and changes that are not evident in the indicator and dimension scores. For example, an improvement in the timeliness of submission of the SAI's compliance audit results to the appropriate authority from eight months after the year end to seven months after the year end (where no legal timeframe is established). The SAI still receives the score of 2, but its performance has improved.
- The SAI PMF narrative report can also reflect on capacity development activities implemented but not yet impacted on SAI performance. For example, a performance audit unit has been created and a performance audit manual is being developed but is not yet being used for performance audits. The reform should be noted in the performance report, even though it has not yet impacted on SAI performance.
- The integrated assessment of performance could draw on the data of the SAI performance measurement system, and on the findings of annual SAI performance report to do an in-depth analysis of the SAI's contribution to the outcomes and impact specified in the SAI strategy. Depending on the chosen outputs, SAI PMF scores may serve as direct evidence of attainment, for example when it comes to the coverage (SAI-8), timeliness or SAI follow-up of audit reports (SAI-11, SAI-14 or SAI-17).

13.2 Evaluation of the SAI strategic plan design and implementation

Evaluations serve two main purposes:

- Learning, to improve current and future policies, approaches and operations and their results.
- Accountability for results and impact, including the provision of information to the public.

According to the DAC, evaluations should seek to answer questions about the relevance, effectiveness, efficiency, impact and sustainability of interventions (known as evaluation criteria). In addition, evaluations should address questions related to the purposes, nature and architecture of interventions. For example, evaluations of INTOSAI regional bodies could also answer questions about their governance, structure and strategy to support improvements in the performance and capacity of SAIs in the region. An evaluation of a SAI intervention can also use pertinent international standards (e.g. ISSAIs) as assessment criteria, perhaps drawing on tools like SAI PMF which include an assessment of performance against the ISSAIs and other international good practices.

Evaluations are generally conducted independently of those involved in an initiative. Often independent, external evaluation experts are commissioned. However, an organisation may sometimes decide that an evaluation designed for internal learning purposes may have more impact on learning if it is conducted by suitably experienced evaluators (or performance auditors) internal to the organisation.

The SAI, in consultation with its key stakeholders, should consider the need for, and purpose of, an evaluation of the strategic plan, and its timing. It should ascertain whether any of its stakeholders require an evaluation, either of the SAI, its strategic plan implementation, or specific capacity development initiatives. For example, in some countries the legal framework requires a periodic, independent review of the performance of the SAI. In addition, long term capacity development initiatives financed by donors or peer SAIs may contain a review or evaluation requirement. Early discussions on evaluation requirements and purposes may make it possible to cover all evaluation requirements in a single, broad evaluation of the SAI's strategic plan implementation, and the contribution of capacity development initiatives to this. Regardless of the modality chosen, the timing of an evaluation should be carefully considered and aligned so that results can feed into the development of the next strategic plan.

An evaluation of a SAI strategic plan is likely to address both accountability and learning purposes, to meet the needs of key stakeholders. It is likely to combine process evaluations, lessons learned evaluations, outcome evaluations and/or possibly impact evaluations[17], to answer broad evaluation questions such as:

- What is the overall impact of the SAI to the lives of citizens, including assessment of its intended and unintended consequences, and the possible contribution of SAI outcomes to impact?
- Whether there have been improvements to SAI outcomes, and what factors (including SAI outputs and capacity, and external factors) contributed to, or constrained, achievement of SAI outcomes?
- Are planned SAI outputs produced in an effective and efficient manner? Are there better ways to deliver these outputs?
- How have SAI capacity development initiatives contributed to the improvement of SAI capacities and achievement of SAI outputs? What lessons can be learned?
- Is the SAI strategic plan still relevant to stakeholder expectations; is the chain of capacities-outputs-outcomes necessary and sufficient; have the assumptions been realised; is the

[17] The approach used in this handbook discourages the direct measurement of the results framework at the impact level. A strategic plan evaluation should consider that it is very challenging to determine the SAI's contribution at the impact level because of issues of attribution and because of the long period it may take for impact changes to take place and be measurable.

strategic plan deliverable given available resources; and how can implementation be further strengthened?

- Is the SAI performance measurement system producing timely, meaningful and useful information for decision making? How can it be improved?

The timing of evaluation(s) will again depend on the purpose of the evaluation. However, the SAI should aim to work towards satisfying all stakeholder needs with a single evaluation. This should be timed so that the evaluation results can be fed into the development of the next strategic plan. What is to be avoided is starting the evaluation after the strategic plan period has finished, and not being able to feed lessons learned into the next strategic plan. A broad evaluation could take 12-18 months from initial conception to finalisation of the report. The broad plan for monitoring and evaluation of the strategic plan should therefore identify the planned timing for the start and finish of the evaluation, so the results can feed into the initial stages of developing the new strategic plan.

If the strategic planning period is quite long, or if the SAI considers it appropriate in light of stakeholder expectations, a mid-term review of strategic plan implementation may also be considered. This would be much lighter than a full evaluation, hence use of the term ‘review’ to manage expectations of stakeholders. It provides an opportunity to demonstrate and review progress and consider the need for changes to the plan and to implementation measures. It would not usually seek to understand the how and why of the success of the strategic plan.

The following Table 13.1 provides an illustration for possible timelines for monitoring and evaluating a SAI strategic plan. It assumes a five-year strategic planning period. It also shows how it might fit with related activities including assessing the current situation and development of the next strategic plan.

Table 13.1 Strategic management timelines

Activity	**Year 0**				**Year 1**				**Year 3**				**Year 4**				**Year 5**				**Year 6**			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Strategic plan period																								
SAI PMF																								
Stakeholder analysis																								
Craft the SAI Strategy																								
Draft operational plan																								
Internal monitoring reports					X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X				
Annual performance report																								

Strategy mid-term review																								
Repeat SAI PMF/ strategy evaluation																								

13.3 Preconditions and process for taking stock of SAI performance

Regardless of whether a SAI chooses to go for a repeat SAI PMF assessment, an evaluation of the strategic plan, several preconditions need to be in place:

- SAI strategic (and operational) plan, including performance measurement system
- Early agreement on the broad need for, and purpose of, a SAI PMF repeat assessment or an evaluation of the SAI strategic plan (i.e. learning and improvement, accountability, to inform the next strategic plan or capacity development efforts, or a combination of those)
- Data systematically collected on specific indicators from the SAI's monitoring system
- Suitably independent, credible and experienced SAI PMF assessment/ evaluation team
- Terms of Reference drawn up to guide the SAI PMF assessment or evaluation
- Clear responsibilities for managing, approving, disseminating findings and responding to the SAI PMF or evaluation report key findings

A SAI PMF repeat assessment or an evaluation of a SAI strategic plan are both major undertakings, requiring dedicated time from senior management to participate, manage stakeholders, support dissemination activities and address the findings. A decision to undertake a SAI PMF repeat assessment or an evaluation should be made at the level of the Head of the SAI, with broad buy-in from senior management. A dedicated officer, perhaps from the SAI's strategic planning team, should be appointed as responsible for coordinating the different parties involved in the process. The SAI PMF assessment or an evaluation are likely to involve some or all of the following groups:

- The Head of the SAI, as key decision maker regarding the SAI PMF repeat assessment/ evaluation;
- An assessment/ evaluation owner within the SAI, with overall responsibility for coordination
- An assessment/ evaluation team within the SAI, to support the design, implementation, review and dissemination of the exercise;
- An independent assessment/ evaluation team, responsible for conducting the SAI PMF assessment/ evaluation;

- Staff from across the SAI, who will need to be aware of the exercise, its purpose, and be willing and able to engage with the assessment/ evaluation team;
- External stakeholders, who may have a variety of different roles in process, from engaging with the team in charge, to having input to the design of the evaluation, and financing an external SAI PMF assessment or evaluation team.

The process for carrying out a SAI PMF assessment is described in detail in Chapter 5. While broadly similar, an evaluation of a SAI strategic plan may follow a slightly different path and include the following steps:

1. Decision to conduct an evaluation, purpose and planned timing
2. Develop and agree terms of reference
3. Select evaluation team based on the term of reference
4. Inception report by the evaluation team setting out their detailed evaluation approach
5. Implementation phase, gathering and analysing evidence
6. Discussion of initial findings and writing the draft report
7. Feedback and discussions on the draft report
8. Finalisation of the report
9. Disseminating findings and deciding how to take these forward

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Annex 1: Further guidance, formats and examples per chapter

Chapter 1: SAI performance and strategic management

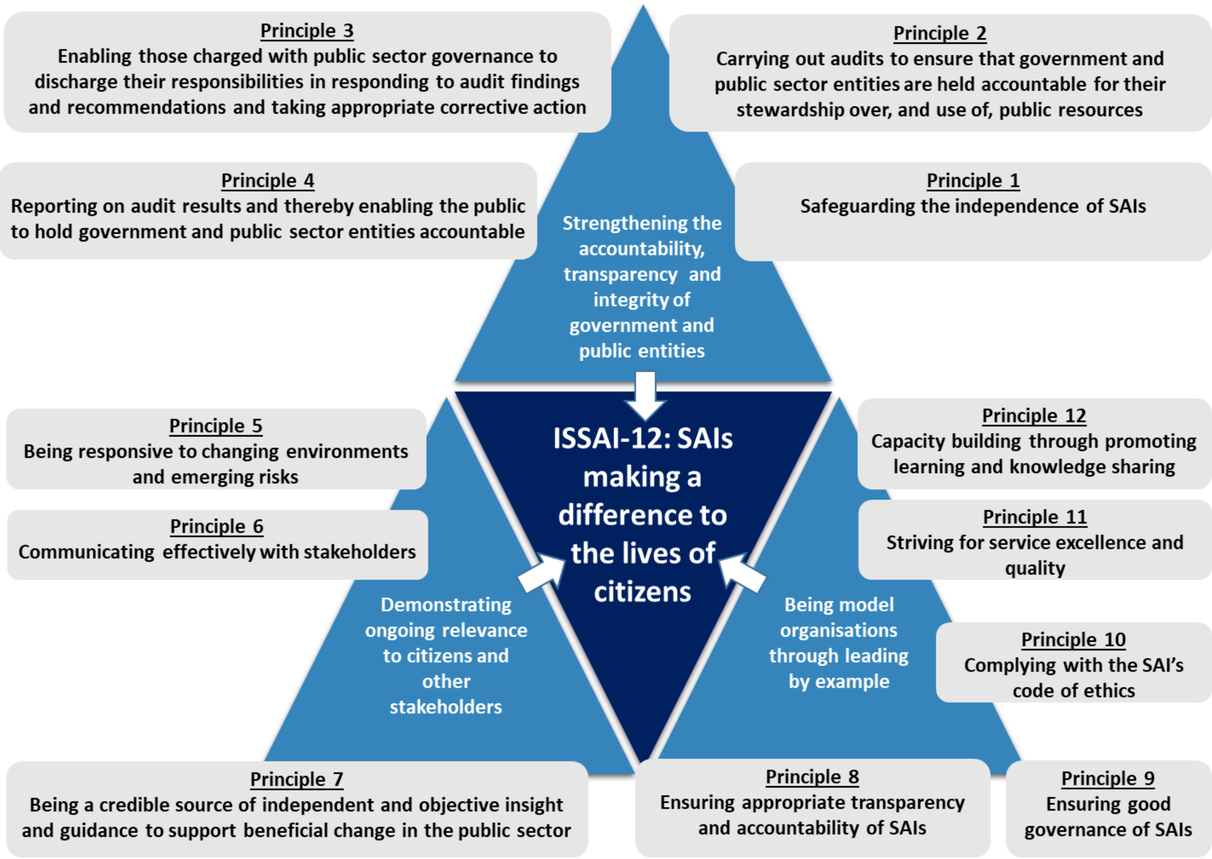
1.1 SAI Strategic management principles in practice

KEEP IT MANAGEABLE	• Decide on a representative, but compact size of performance assessment and strategic management teams • Ensure commitments in the strategic plan can be implemented, even if it requires a stretch • Do not go for large numbers of outcomes and outputs but focus on what are key priorities for the time period • Do not overburden the performance measurement system with excessive number of indicators
BE INCLUSIVE	• Consult with key internal and external stakeholders during the strategic planning process (but keep it manageable) • Consider emerging risks, needs and developments from the broader SAI environment and how they can affect SAI performance throughout implementation • Seek opinions and feedback from middle-level management on what works and what not and the reasons why during the operational planning exercise and reviews • Consider integrating a gender and/or equality perspective in the strategic plan especially if those are national strategic priorities
FOCUS ON OUTCOMES	• Make the outcome level – those changes in the close SAI environment that the SAI considers it can best influence through its core services and products– the cornerstone of the SAI strategic plan and SAI performance • Identify SAI outputs – the core products of a SAI such as audits or judgements - in terms of how they best facilitate the envisaged outcomes • In the operational plan, decision-making and prioritisation on implementation issues and resource allocation should always consider how activities affect achievement of outputs and facilitate outcome level changes • Report and account for SAI performance in terms of contribution to outcomes
LEAD BY EXAMPLE	• Ensure whatever plans, audit reports and performance assessment can be published are published, and timely • Prepare a model budget proposal, with clear reasoning and justifications • Subject the SAI financial statements to an independent audit (e.g. as a peer review) • Initiate a constructive dialogue with key stakeholders on issues of common interest e.g. accountability or transparency of the management of public funds, accounting systems and practices, coordination of institutions and entities involved in financial control and oversight

MANAGE CHANGE	• Do not forget that whatever system and process changes may be required, people need to be on board • SAI Leadership leading by example in setting the tone at the top • Focus on provision of information to staff, including explanations behind the decision-making process and reasoning to insure staff understand the underlying reasoning • Emphasise that performance improvements, accountability and transparency go hand in hand and the objective is not to punish underperformers but to help them adapt towards the changes

Chapter 2: SAI Strategic Management Framework

2.1 The 12 principles of INTOSAI P-12



Chapter 3: Plan the plan

3.1 Project Plan Template

Milestone	Output	Methods and Process	Responsibility	Date
Planning the SAI PMF assessment	SAI PMF assessment Terms of References			
Conduct SAI PMF assessment	SAI PMF report draft			
Quality control and independent review of SAI PMF assessment	Independently reviewed SAI PMF report			
Identify relevant stakeholders	Stakeholder register			
Stakeholder mapping	Stakeholder power-interest grid			
Conduct stakeholder consultations	Stakeholders' expectations and attitudes			
Stakeholder Analysis	Overview of stakeholders' issues			
Consolidating internal and external perspectives	SWOT analysis			
Identifying strategic issues	List of prioritized strategic issues, input from leadership			
Defining the SAI results framework	Results framework including outcomes, outputs and capacities, resourcing, risks and assumptions and performance measurement			
Internal consultations on draft results framework with staff	Draft final results framework supported by SAI staff, or representatives)			
Leadership approval of results framework	Obtain final approval by leadership			
Drafting the strategic plan	Text version of the strategic plan			

Chapter 4: Assess current situation

4.1 SAI PMF assessment findings SAI Norland

I) Integrated Assessment of SAI Performance

The detailed assessment results set out in chapter 4 of this report shows that the Audit Office of Norland (AON) has scope for improvement across all domains. Over recent years the AON has taken a range of initiatives intended to introduce improved processes, procedures, manuals and methodologies. But these have not yet been fully adopted and adhered to consistently across the organisation. This means there are some real opportunities for improvements to take place relatively quickly, particularly regarding audit planning, quality assurance and improved communications with stakeholders. There is a clear need for AON management to follow through on these initiatives to ensure they become fully embedded and sustainable. Furthermore, if the National Audit Bill is enacted, the AON will enjoy greater freedom and control over its resources. Consequently, it is important that the AON prepares properly for the major changes that the new law will bring. In the absence of those changes, the quality and timeliness of audit reports will remain variable, and the contributions of AON to improvements in the transparency, accountability and quality of public financial management will be negligible.

Audit coverage

The Audit Office of Norland (AON) performs adequately in terms of auditing the entities that are within its mandate. The Audit Office undertakes financial audits and compliance audits, as provisioned for in the National Audit Act. For 2018, it audited 80 per cent of all submitted financial statements and 70 per cent of all entities were subject to compliance audit. There are, however, some deficiencies in AON's work. Firstly, the office does not yet report publicly on delays or non-submission of financial statements. Secondly, AON does not apply a risk-based selection approach for financial and compliance audits. As a consequence, AON cannot demonstrate that their audits cover the most pertinent issues, which negatively affects the quality of reports and may pose a reputational risk should a scandal emerge in one of the audited entities. Moreover, the audit team found that the reports are delivered within short time frames, caused by the current approach.

A main reason for the lack of a risk-based approach in compliance audit is beyond AON's sphere of control. The current legal framework requires AON to complete 100% coverage of compliance audit in respect of the appropriation accounts and financial statements it receives in respect of ministries and departments. This requirement, together with limitations in audit planning, skills of staff and issues with the communication with auditees result in a low financial and compliance audit coverage.

AON has given increasing prominence to performance audit in recent years and such reports form a significant part of the AG's annual report. Performance audit reports are still limited in number due to the comparatively small size of the performance audit division, however they cover various subjects. The performance audit manual provides thorough and practical guidance on how to determine potential topics for performance audits. Nonetheless, there is scope for improving the selection process for performance audits by assessing risks to value for money across all areas of government spending and by consulting more with external stakeholders to collect their views on risks.

Quality of audit reports and recommendations

The assessment team observed significant shortcomings in the quality of financial and compliance audit reports. The financial audits that were assessed did not have proper conclusions and recommendations. In some cases, these audit reports also failed to put findings into context. Compliance audit reports only included observations. The reports did not give any reasons as to why these observations happened, nor did they provide recommendations designed to resolve the underlying reasons causing these observations. The same issues are found each year across a wide range of institutions, but, apparently, AON does not analyse the reasons behind these reemerging observations.

AON updated its financial and compliance audit methodological and guidance materials two years ago (2016). However, the assessment showed that the poor quality of the final reports was mostly due to the inconsistent application of standards and manuals, improper audit engagement planning, as well as limited application of quality control processes by AON staff. There is no functioning quality assurance function in AON. This was further exacerbated by a scattered approach to training and professional development and a lack of a human resources strategy. All those factors are clearly under AON's control and could be remedied within reasonable time.

Although individual audit plans are prepared, there is no overall audit or operational plan that would ensure that AON's resources are used where the need is greatest. Such a plan should be risk based and ensure that identified high risk areas receive the necessary resources to undertake an appropriate level of audit. This is particularly important where the number of employed audit staff is below the approved figure - as is currently the case. Should a major scandal emerge, the AG and AON as an office would be vulnerable to criticism, as the AON does not undertake an overall risk assessment of government spending as a basis for informing the allocation of audit resources.

Although officers have necessary skills and experience, the absence of a proper structure for professional and management training that is based on a comprehensive analysis of needs also impacts on the quality of audit reports and consistent application of standards and methods. AON has recently started investing more in training. This is an important move, but such training should be based on identified needs. Moreover, in order to maximise the benefits of training, hence ensuring that resources are not wasted, officers should be given the opportunity to apply their new-found knowledge. Although risk and materiality issues are covered by AON manuals, the office does not ensure that these are applied consistently and reliably - demonstrating the current gaps in quality control processes and training.

The total absence of a properly functioning quality assurance process also represents a risk for the AG and AON, as there is no meaningful independent review of audit quality. AON does have a centralised quality assurance section, but in practice the work it does is limited to an extended quality control on the audit draft reports prior to submission to the AG for signature. The lack of an effective quality assurance system also means that AON is failing to capitalise on a valuable opportunity to identify weaknesses in performance. Subsequently, AON fails to identify appropriate remedial action through training or improved guidance.

Similarly, AON lacks a centre of expertise on financial and compliance audit staffed by experienced officers and trainers. Hence, audit staff have no access to expert advice when assistance is needed on more complex matters that arise from time to time. Together with the output from an effective quality assurance function, a centre of expertise would assist AON in determining and meeting training needs by analysing requests for assistance and weaknesses identified through the quality assurance process.

The performance audit function is generally performing better. It benefits from being a comparatively small and compact function. Hence, it is easier for this unit to ensure that it continues to meet and maintain quality standards. Being a new unit, it is staffed with young and eager personnel who have received proper training by international consultants, next to prolonged traineeships in a peer SAI. However, while the planning and implementation of performance audits is of good quality, the quality of performance audit recommendations, in particular, still remains work in progress. In general, the recommendations are broadly formulated in relation to very detailed findings, rather than seeking to address broader systemic issues or organisational or programmatic weaknesses and defects. Moreover, the team found that it was difficult to assess the potential effectiveness of these recommendations in potential changes happening within audited entities. The reason is that AON lacks a process for the systematic follow-up of the conclusions and recommendations that it issues in its performance audit reports.

Timeliness of audit submission and publication

AON performs impressively in terms of timely submission and publication of all types of audit reports, despite the legal obligation to prepare each report in all three official languages. Still, this requirement results in a significant amount of human and financial resources spent on such translations.

A main factor that enables timely submission and publication is the workforce numbers that AON enjoys. Over the last three years, the number of employees has increased by approximately 40 per cent, mostly in auditor positions. Nevertheless, the current legal framework leaves decisions on the staff complement, recruitment and promotion largely with the Executive. The observed upwards trend in AON staffing can be attributed to both an increased effort from the SAI to engage with its external stakeholders and raise awareness on the need for appropriate human resources, as well as to external pressure on the Executive by development partners. Unfortunately, staff increases have not been supplemented by financial allocations to ensure a parallel expansion of AON's premises and equipment. Auditors often work in sub-optimal conditions and overcrammed offices. Except for the performance auditors, all audit teams share one laptop among five persons. These difficult working conditions makes AON's strong results in submitting and publishing reports even more impressive.

SAI follow-up of audit results

There is significant variation in AON's practices for following up on its audit results. In financial audit, there is no formal follow-up procedure for ensuring that audit entities properly address AON's observations (reports do not include recommendations). However, auditors generally do revisit previous year's audit findings at the audit plan stage and re-examine them in the current year. The entity is given the opportunity to explain what they have or have not done in relation to audit observations. Where appropriate, the audit report to Parliament will include reference to previous year's findings and the action taken or not taken to address those.

In contrast, AON has a working and systematic process to ascertain if the audited entity has addressed compliance audit findings and issues from the previous audit. However, this process does not include an assessment of the adequacy of corrective measures, and often appears to be superficial.

Finally, AON's follow-up of completed performance audit reports is restricted in practice to the provision of advice to relevant parliamentary committees on audited entities' responses to, and comments on, the Auditor General's reports in advance of any Committee meeting to consider those reports. Otherwise there is no structured, systematic follow-up of AON's performance audits.

The differences in the SAI's follow-up of audit results between the audit types can be partially explained with the significantly longer existence of a compliance audit practice as compared to financial and performance audit. Moreover, it appears that parliamentarians show a greater interest in compliance audit reports than the other reports. The team also found that parliamentarians are more familiar with the compliance audits.

Stakeholder engagement

The assessment found that while AON has managed to establish a working relationship with the Public Accounts Committee (PAC), the relationship was not as close as desired. AON has been successful in advocating for a significant staff increase to both PAC and the Executive. However, there is scope for improving the relationship to ensure that PAC can maximise the benefits of the audit reports. Similarly, AON needs to have appropriate follow-up mechanisms in place to ensure that recommendations from the PAC are properly addressed and, where appropriate, action taken in response to them. AON should also seek to engage more effectively with the media and civil society if it is to increase its impact. Equally important, AON needs to work more closely with the Executive to ensure that government ministries, departments and agencies properly understand the reports produced by AON and what needs to be done to put things right. AON should seek to become "the critical friend" to ensure that it works with those responsible for public spending to maximise the benefits for the citizens of Norland.

ii) The Value and Benefits of Supreme Audit Institutions – Making a Difference to the Lives of Citizens

Overall AON could do more to demonstrate the values and benefits of SAIs simply by engaging much more proactively with its stakeholders. The assessment team believes that the organisation has been too inward looking and passive in engaging with its stakeholders. However, the agreement to undergo the current assessment process and to publish its results illustrates a desire to change which is to be welcomed.

Strengthening the Accountability, Transparency and Integrity of Government and Public Sector Entities

The impact of AON's work depends on the quality and credibility of the audit reports, and how effectively AON engages with the entities subject to audit, the Parliament and other institutions that uses its reports. The wider public finance environment within which the organisation operates – and whether that environment is conducive to a "culture of accountability" – also significantly contribute to the quality and impact of audit reports in practice. This wider environment, moreover, includes the legal framework within which the SAI operates and an assessment of to what extent AON meets the basic principles for public sector auditing as defined by INTOSAI.

Currently, AON makes no attempt to measure what impact the SAI has on the accountability, transparency and integrity of government and public sector entities. It is therefore difficult for AON to know whether it contributes to strengthened transparency and accountability of public sector entities. The assessment team concludes that the fact that AON exists and is active will itself have some impact, but it is likely to be limited.

A recent event, The "Obligation Scandal", demonstrates how the work of AON has contributed to improved transparency and accountability. This scandal attracted widespread public and parliamentary attention - underpinned by an AG's report to the Committee of State Enterprises on the issue. The report and subsequent events led to parliamentary debates and the establishment by the President of a special commission to collect and examine further evidence with a view to prosecuting those involved.

The decision to publish the SAI-PMF report, as well as the noticeable efforts to translate and publish audit reports, paired with a newly developed Twitter account, are some positive signals towards more transparency in the public sector. On the other hand, the failure to comment on delays and non-submission of financial statements in the audit reports is not conducive to this objective.

Demonstrating Ongoing Relevance to Citizens, Parliament and other Stakeholders

SAIs demonstrate ongoing relevance by responding appropriately to the challenges of citizens, the expectations of different stakeholders, and emerging risks and changing environments in which audits are conducted. AON appears to have real opportunities for enhancing impact by engaging more actively with stakeholders and strengthening audit quality. In turn, such moves could make AON a more credible organisation in the eyes of stakeholders. Encouraging greater public and media interest in its report would have the benefit of exposing weaknesses in transparency and governance, thus generating pressure for improvement in the stewardship of public on funds on the part of the Executive. Similarly, engaging more actively with Parliament would stimulate interest in the way in which public funds are utilised. However, by providing greater support to Parliament, the AON would encourage Parliamentarians to hold public servants to account for their delivery of public services and spending of public funds.

AON does not actively seek feedback on its performance from any of its stakeholders. Moreover, does not AON actively engage with its stakeholders when determining how best to use its resources. In addition, the lack of a formally approved and implemented communication strategy demonstrates that there is scope for improvement in responding appropriately to the expectations and challenges of different stakeholders.

Being a Model Organisation through Leading by Example

The assessment team understand that AON plans to publish this report - setting a positive example on transparency and demonstrating AON's willingness to open itself to external scrutiny. However, there are a number of areas where AON needs to improve if it is to be seen as an example for others, and to demonstrate clearly that it fulfils its functions in an efficient and effective manner. These include: improved stakeholder communication; improved strategic and annual planning processes; the meaningful implementation of the Code of Ethics; finalisation and maintenance of audit manuals; improved and fully effective quality control and quality assurance processes; improved training opportunities and continuing development and implementation of risk-based audit methods.

iii) Analysis of AON's Capacity Development Efforts and Prospects for further Improvement

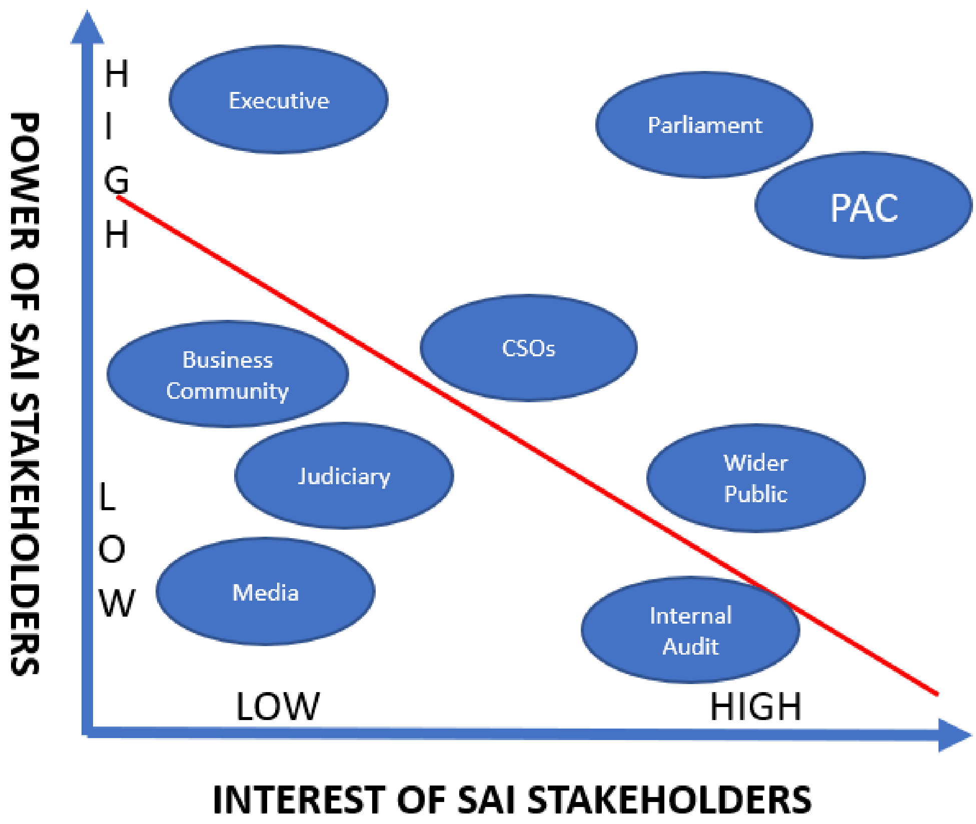
Past and present capacity development projects resulted from a recognised need for AON to improve its technical capacity in core audit areas. Our assessment indicates that the audit manuals prepared with the support of these projects are used and that AON audits broadly comply with the requirements of the ISSAIs although there is scope for further improvement particularly in terms of consistency of application and improved consideration of risk and materiality. It is also evident that efforts to introduce "TeamMate" have been successful, although a shortage of laptops and limited staff training has acted as a brake on the universal application of the software.

The World Bank and the EU have indicated that they are willing to support a project aimed at strengthening the capacity of AON in line with the envisaged mandate and responsibilities arising from the new National Audit Bill, once enacted. To maximise the success of capacity development opportunities presented by this proposed project it will be vital that AON uses the results of this assessment to prepare a comprehensive and realistic strategic development plan with clear outcomes, outputs and measurable indicators. The plan should differentiate between outputs and tasks which will be necessary following the planned legal reforms and those at the more technical level which can be addressed irrespective of whether the proposed reforms take place.

If the Bill is enacted and a new fully independent AON is created, the new organisation will need to carry out several major reviews aimed at ensuring that it is fit for purpose and able to fulfil the full range of its duties and responsibilities. These reviews will among other things need to encompass the following: an optimal organisation and staffing structure for the new organisation; the competencies required at each level of the hierarchy; and provide a training needs analysis and subsequent training programme to ensure that professional audit staff have the opportunity to attain the competencies necessary to discharge the full range of their responsibilities. In the course of this process,

AON will also need to determine the level of resources it wishes to devote to different audit types such as performance audit.

4.2 Example for a power interest grid with a cut-off point



4.3 SAI Norland stakeholder issues analysis

Stakeholder	Possible Change from SAI Reform	Perceived Benefit of Change	Perceived Risk of Change	Overall Attitude to SAI Reform (-5 to +5)
Executive	Better audit reports with more relevant recommendations; More public attention to audit reports; More stringent follow-up of audits	Audits could become more helpful and relevant to executive	Executive could come under greater public scrutiny and greater pressure from media, parliament and CSOs;	-2

			Stringent follow-up may decrease executive's room for manoeuvre	
CSOs	Strengthened financial management in the country	Some of CSOs' issues may be resolved due to better financial management, though unclear; SAI may become better source of information for CSOs		+1
Wider Public	Strengthened cooperation with executive but also strengthened oversight of the executive	Public highlighting of problematic executive behaviour	Further politicization of the SAI and strengthening of the governing party's role	+/- 0
Parliament	Better audit reports with more relevant recommendations; More stringent follow-up of audits	Parliament in a better position to fulfil its oversight role		+2
PAC	Better audit reports with more relevant recommendations; More stringent follow-up of audits; Institutionally strengthened SAI; More performance audits	Public Accounts Committee in a better position to fulfil its oversight role; More scrutiny on more relevant issues; PAC seen as reform driver; PAC and SAI become strategic partners that strengthen each other		+4

Chapter 5: Articulate vision, mission and values

5.1 Vision, Mission and Values Step by step

Step 1: Create a Vision Statement

Developing the vision statement is a creative process without hard and fast rules. Develop a simple statement that answers one or several of the following questions:

- What should the SAI stand for?
- How would the SAI define its success?
- What success will the SAI accomplish?
- How will the SAI positively have an impact on its society?
- What will the SAI and its stakeholders value the most about the organization?

Step 2: Create a Mission Statement

As preparation, you may answer the following questions:

- What is the focus problem that our SAI exists to solve?
  This may entail sub-questions like: What need or opportunity does our SAI exist to resolve? Who is affected by the problem? How are they affected? If we were successful what impact would we have regarding this problem?
- What are the assumptions on which our SAI does its work?
- What is the purpose of our SAI?
  The purpose should describe why a SAI exists rather than what it does. Focus on the ultimate result of the SAI, not the method of achieving the result.
- What are the methods that our SAI uses to accomplish its purpose? What is the SAI's business or primary service?

Combine the Purpose sentence and description of primary services and activities into a mission statement of the model: *Doing A to Achieve B.*

Step 3: Determine your SAI's values

First, clarify you organisation's belief system: What are some the values, beliefs and guiding principles that guide your management's and staff's interaction with each other and with external stakeholders?

Secondly, define those values' practical impact for each value you defined: What are the behaviours all should commit to in everyday practice in support of those values, beliefs and guiding principles?

Chapter 6: Identifying strategic issues

6.1 SWOT analysis of SAI Norland

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STRENGTHS

• Broad audit mandate covering all three audit types
• SAI produces a high number of audit reports despite resource challenges
• Performance audit quality satisfactory
• Access to information ensured in practice
• Good coverage of financial audits
• Submission and publication are timely
</td>
<td>
WEAKNESSES

• No overall planning
• Weak legal framework (independence, mandate)
• No quality assurance
• No risk-based audit
• Weak engagement with Public Audit Committee
• No follow-up mechanism in the SAI
• No stakeholder communication strategy
• Outdated organisational structure
</td>
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<tr>
<td>
OPPORTUNITIES

• New national audit bill (SAI PMF)
• PAC interested in strengthening the SAI’s role and more performance audits (stakeholder analysis)
• Widespread attention to the SAI’s role in the “Bond Scandal” (SAI PMF)
• New PFM strategy emphasising the role of the SAI and aiming to address weaknesses in public procurement, management of State Owned Enterprises and accounting that were highlighted in a recent PEFA assessment (Country background)
• Parliamentarians expect input from the SAI for the oversight role of the executive (stakeholder analysis)
• World Bank and EU willing to support SAI (SAI PMF)
</td>
<td>
THREATS

• Delays in financial statements (SAI PMF)
• Resource strain because of extensive translation requirements (SAI PMF)
• Weak educational system (Country background)
• Little appreciation of the SAI’s work on the executive’s side and little implementation of recommendations (stakeholder analysis)
• SAI not particularly known to civil society (stakeholder analysis)
• Media’s reporting on PFM issues is limited (Country background)
• Financial management in the country perceived as weak by CSOs (stakeholder analysis)
• Citizens see the SAI as close to the ruling party (stakeholder analysis)
</td>
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</table>

6.2 Strategic Issues SAI Norland

Example 1:

SWOT findings:

- Citizens see the SAI as close to the ruling party (*Threat*)
- Little appreciation of the SAI's work on the executive's side and little implementation of recommendations (*Threat*)
- No quality assurance (*Weakness*)
- Parliamentarians expect input from the SAI for the oversight role of the executive (*opportunity*)

Strategic Issue: "*How can we be seen as a reliable and independent institution when the implementation of audit recommendations is lagging behind*?"

Example 2:

SWOT findings:

- No risk-based audit (*Weakness*)
- No follow-up mechanism in the SAI (*Weakness*)
- SAI produces a high number of audit reports despite resource challenges (*Strength*)
- PAC interested in strengthening the SAI's role and more performance audits (*Opportunity*)
- Financial management in the country perceived as weak by CSOs (*Threat*)

Strategic Issue: "*How can we contribute to a more effective financial management system when our own systems do not effectively prioritize resources*?"

Chapter 7: Craft SAI Strategy

7.1 SAI Norland Results framework

<table>
<tr><th>CAPACITIES</th><th>OUTPUT</th><th>OUTCOME</th><th>IMPACT</th></tr>
<tr><td>Communications Strategy</td><td>Regular consultations with key stakeholders</td><td rowspan="6">Increased credibility in the SAI and its work among key stakeholders (Public Accounts Committee, Parliament, audited ministries)</td><td rowspan="11">A more reliable, responsible effective and accountable management of Norland's public resources towards sustainably improving the quality of life of Norlandians</td></tr>
<tr><td>Annual audit plans and selection procedures</td><td rowspan="2">High-Quality financial, compliance and performance audit reports on topics chosen based on risk and relevance</td></tr>
<tr><td>Updated performance audit manual</td></tr>
<tr><td>Monitoring plan</td><td rowspan="3">Regular public reporting on the SAI's performance</td></tr>
<tr><td>Reporting mechanism</td></tr>
<tr><td>Staff skilled in monitoring and reporting</td></tr>
<tr><td>Quality assurance mechanism</td><td rowspan="3">Accurate financial audit opinions</td><td rowspan="5">More reliable and responsible financial management and reporting</td></tr>
<tr><td>Consistently applied quality control mechanisms</td></tr>
<tr><td>Consistent knowledge of standards and manuals among financial auditors</td></tr>
<tr><td>Appropriate follow-up mechanism of financial audit recommendations</td><td>Increased follow-up and reporting on implementation of financial audit recommendations</td></tr>
<tr><td>Integrated follow-up mechanisms of financial statement non-submission</td><td>Reporting on financial statement non-submissions</td></tr>
</table>

7.2 Strategic Plan key quality requirements

1. Duration: At least 3 years, preferably 5
2. Based on the SAI PMF report covering the main SAI strengths and weaknesses and the explanatory factors thereof, as captured in the integrated assessment of performance
3. Factors in stakeholder expectations and emerging risks, and is geared towards opportunities and areas where the SAI can add value within the context of the general country PFM and governance environment;
4. Clearly states the SAI's vision, mission and values
5. Developed with a clear performance orientation, in terms of how the SAI audit coverage, quality and timeliness contribute to broader public sector improvements
6. Has a results framework with a logical hierarchy of purposes: impact - outcomes - outputs – needed capacities
7. Describes in brief the rationale and contents of the outcomes, outputs and capacities, as well as the assumed links between these
8. Identifies the current gap between needed and current capacities (linked to SAI PMF) and describes in broad terms the course of action over the strategic planning period on how to address those
9. Clarifies in brief how the implementation of the strategic plan is going to be monitored and reported
10. Contains a manageable number of indicators to be used for measuring the achievement of the outcomes and outputs
11. Is developed with a clear consideration of the available resources (funding and staff) and the potential for additional resource mobilization
12. Has a buy-in and understanding from all staff
13. Clarifies strategies for resourcing of the plan
14. Clarifies strategies for gender, inclusion and diversity

7.3 Strategic Plan key elements

The outline of the strategic will be developed and refined through consultations. Typical elements of the strategic plan are:

1. Overview of the SAI’s contribution to impact: a one-pager illustration/poster showing the results framework including vision, mission, values, outcomes, outputs, and capacities
2. Table of contents
3. Acronyms
4. Foreword by the AG
5. Current status of the SAI and its environment (including topics as mandate, summary of the SAI PMF report, current organisational structure, selected stakeholders’ expectations, PFM situation in the country)
6. Vision, mission, and values
7. Description of outcomes, outputs and needed capacities and the course of action to close identified capacity gaps
8. Monitoring and reporting
9. Resourcing

Chapter 8: Operational plan

8.1 Possible template for an operational plan linked to strategic plan and aligned with other plans

1. Outcome Statement

2. Activities in year x

Output	Activity	Responsible	Time frame	Mileston e year x	Status Quartal y	Budget	Staff need	Relevant other plans
Output 1	**Activity 1.1**							
	Activity 1.2							
Output 2	**Activity 2.1**							
	Activity 2.2							

8.2 Possible template for an integrated Operational Plan

Strategic Outcome 1							
Output	**Activity**	**Milestone**	**Target Date**	**Responsible**	**Budget**	**Staff assigned**	**Other resources**
Output 1	**Activity 1.1**						
	Activity 1.2						
	Activity 1.3						
Output 2							

8.3 SAI Norland integrated operational plan (Year 1 of Strategic Plan)

Increased credibility in the SAI and its work among key stakeholders (Public Accounts Committee, Parliament, audited ministries)							
Output	**Activity**	**Milestone**	**Target Date**	**Responsible**	**Budget**	**Staff assigned**	**Other resources**
Regular consultations with key stakeholders	Develop Communications strategy	Communication needs identified	01.05.	Head of Planning & Reporting Department	$	2 staff P&R Department	All other departments to feed information
		Communication strategy draft	01.08.	Head of Planning & Reporting Department	$$	3 staff P&R Department	Consultant
		Communication strategy comments collected	01.12.	Head pf Planning & Reporting Department	$	1 staff P&R Department	All other departments for comment
High-Quality financial, compliance and performance audit reports on topics chosen based on risk and relevance	Write Audit Plan for next year	Risk Assessment completed	01.08.	Head of Planning & Reporting Department	$	1 Staff Planning Department; 1 Staff per Audit Department	-
		Analysis of relevant topics completed	01.08.	Head of Planning & Reporting Department	$	1 Staff Planning Department; 1 Staff per Audit Department	-
		Audit Plan finalised and approved	01.12.	Head Of Planning & Reporting Department; Board	$	1 Staff Planning Department; 1 Staff per Audit Department	-
	Updating Performance Audit Manual	Draft of New Performance Audit Manual	01.12.	Head of Methodology and Training Department	$$	2 Staff Methodology Department; 2	Consultant

						Staff PA Department	
	5 Performance Audits	PA of Poverty Reduction Programme	01.07.	Head of PA Department	$$	3 Staff PA Department	Cars from car pool
		PA of Road Construction Agency	01.07.	Head of PA Department	$	2 Staff PA Department	Cars from car pool
		PA of Forest Protection Agency	01.11.	Head of PA Department	$	2 Staff PA Department	Cars from car pool
		PA of Prison Authority	01.11.	Head of PA Department	$	2 Staff PA Department	-
		PA of International Cooperation Projects	01.11.	Head of PA Department	$$	4 Staff PA Department	-
Regular public reporting on the SAI's performance	Train Staff in Monitoring and Reporting	Seminar implemented	01.06.	Head of Planning & Reporting Department; Head of Methodology and Training Department	$$$	1 Staff Planning & Reporting Department; 1 Staff Methodology and Training Department	All Staff Planning & Reporting Department; 3 Staff per Audit Department; Trainers and Training Facility

Chapter 9: Monitoring of performance

9.1 SAI Norland monitoring framework

RESULT LEVEL: SAI Outcome						
SAI Outcome 1: Increased credibility in the SAI and its work among key stakeholders (Public Accounts Committee, Parliament, audited ministries)						
Indicator Definition: Average expressed credibility by key stakeholders on a 0 to 10 scale	**Baseline 2019**	**Milestone 2020**	**Milestone 2021**	**Milestone 2022**	**Milestone 2023**	**Target 2024**
	To be defined after first measurement in 2020					
	Achieved:					
Indicator Definition: Percentage of performance audit recommendations implemented within one year of issuance	**Baseline 2019**	**Milestone 2020**	**Milestone 2021**	**Milestone 2022**	**Milestone 2023**	**Target 2024**
	20 %	20 %	30 %	40 %	50 %	60 %
	Achieved:					
Indicator Definition: Percentage of SAI reports issued (audit and performance) that are subject of a PAC meeting	**Baseline 2019**	**Milestone 2020**	**Milestone 2021**	**Milestone 2022**	**Milestone 2023**	**Target 2024**
	60 %	70 %	80 %	90 %	100 %	100 %
	Achieved:					
SAI Outcome 2: A more reliable and responsible public financial management and reporting						
Indicator Definition: Percentage of financial audits resulting in an unmodified opinion	**Baseline 2019**	**Milestone 2020**	**Milestone 2021**	**Milestone 2022**	**Milestone 2023**	**Target 2024**
	50 %	50 %	65 %	80 %	95 %	95 %
	Achieved:					
Indicator Definition: Percentage of financial audit recommendations implemented	**Baseline 2019**	**Milestone 2020**	**Milestone 2021**	**Milestone 2022**	**Milestone 2023**	**Target 2024**
	20 %	35 %	50 %	65 %	80 %	80 %
	Achieved:					
Indicator Definition:	**Baseline 2019**	**Milestone 2020**	**Milestone 2021**	**Milestone 2022**	**Milestone 2023**	**Target 2024**

Percentage of non-submitted financial statements measured in the monetary value they represent	30 %	25 %	20 %	10 %	5 %	0 %
	Achieved:					

RESULT LEVEL: SAI Output						
SAI Output 1A: Regular consultations with key stakeholders						
Indicator Definition:	**Baseline 2019**	**Milestone 2020**	**Milestone 2021**	**Milestone 2022**	**Milestone 2023**	**Target 2024**
Number of key stakeholder groups identified in the communications strategy that were included into annual consultations.	*To be defined in the communications strategy*					
	Achieved:					
SAI Output 1B: High-quality performance audit reports on topics chosen based on risk and relevance						
Indicator Definition:	**Baseline 2019**	**Milestone 2020**	**Milestone 2021**	**Milestone 2022**	**Milestone 2023**	**Target 2024**
Percentage of performance audit reports that pass the updated peformance audit manual's requirements according to the SAI's quality control procedures	*Baseline to be established after performance audit manual is updated (2021)*					95 %
	Achieved:					
Indicator Definition:	**Baseline 2019**	**Milestone 2020**	**Milestone 2021**	**Milestone 2022**	**Milestone 2023**	**Target 2024**

Number of performance audit reports issued that covers one of the following topics: Defence, Education, Environment, Health, Infrastructure, National economic development, Revenue collection, Significant public sector reform programmes, Public finance and public administration, Social security and labour market	2	2	3	3	4	4
	Achieved:					
SAI Output 1C: Regular Public Reporting on the SAI's performance						
Indicator Definition:	**Baseline 2019**	**Milestone 2020**	**Milestone 2021**	**Milestone 2022**	**Milestone 2023**	**Target 2024**
The SAI issues to parliament and publishes an annual performance report	No	Yes	Yes	Yes	Yes	Yes
	Achieved:					
Indicator Definition:	**Baseline 2019**	**Milestone 2020**	**Milestone 2021**	**Milestone 2022**	**Milestone 2023**	**Target 2024**
The SAI's annual performance report contains the SAI's performance vis-à-vis the strategic plan's output	No	No	Yes	yes	Yes	Yes
	Achieved:					
Indicator Definition:	**Baseline 2019**	**Milestone 2020**	**Milestone 2021**	**Milestone 2022**	**Milestone 2023**	**Target 2024**
The SAI's annual performance report contains the SAI's performance vis-à-vis the strategic plan's outcomes and recommendations directed at those whose action is needed to achieve them	No	No	No	yes	Yes	Yes
	Achieved:					
SAI Output 2A: Accurate Financial Audit Opinions						

Indicator Definition	Baseline 2019	Milestone 2020	Milestone 2021	Milestone 2022	Milestone 2023	Target 2024
Indicator Definition: Percentage of financial audits that pass the SAI's improved quality control mechanisms	*Baseline to be established after quality control mechanism has been updated (2021)*					
	Achieved:					
Indicator Definition: Percentage of financial audits that pass the new quality assurance mechanism	*Baseline to be established after quality assurance mechanism is in place (2021)*					
	Achieved:					
Indicator Definition: An independently quality assured iCAT of the SAI's financial audit practice confirms that the SAI complies with the relevant ISSAI level 4 requirements	No	No	No	No	No	Yes
	Achieved:					
SAI Output 2B: Increased follow-up and reporting implementation of audit recommendations						
Indicator Definition: Percentage of financial audit recommendations that have been subject to follow-up within three years of issuance	50 %	60 %	70 %	80 %	90 %	100 %
	Achieved:					
SAI Output 2C: Reporting on financial statement non-submissions						
Indicator Definition: The SAI publicly reports on all financial statements that have not been submitted, partially submitted or submitted with delays	No	No	Yes	Yes	Yes	Yes
	Achieved:					

Annex Chapter 10: SAI performance reporting

10.1 Overview of key contents per type of SAI performance report

Report	Scope	Time due	Main content
Quarterly	January-March (Q1), April-June (Q2), July-September (Q3), October-December (Q4)	April (Q1), July (Q2), October (Q3), January (Q4)	• Progress against activities during the quarter as per the operational plan • Budget execution against plan
Semi-annual	January-June	July	• Overall progress against operational plan (consider reporting per objective linked to strategic goal) • Assessment if implementation is still on track • Explanation of reasons for any deviations from plan • Outline of changes to operational plan for the next six months, if any • Financial and human resource overview
Annual	January-December	First quarter of next year	• Meant to be shared externally – need for introduction to SAI mission, vision, mandate, structure etc • Address from the AG • Annual progress against strategic goals (accomplishment of planned activities as per the operational plan, reported high-level per objective with some detail) • Narrative explaining achieved performance and main drivers/ factors thereof incl. materialization of risks • Key statistics on e.g. human resources, completion of audit activities • Possibly summary of main audit results • Financial overview against approved (revised) budget • Outlook for next year

10.2 Suggested contents of a SAI annual performance report

1. Overall context of the SAI's performance for the year (What were the circumstances, what has changed as compared to last year?)
2. Achievement of output / outcome targets and supporting narrative
3. Materialization of risks
4. Key statistics on the SAI:
    a. Staff numbers
    b. Gender composition of staff
    c. Qualification of staff
    d. Average person-days going into audits
5. Financial information
    a. Approved vs. executed budget and analysis
    b. Average cost per audit
6. Audit information
    a. Audits delivered, per type
    b. Audit recommendations implemented
7. Success stories (examples of very impactful audits, for example)
8. Lessons learned
9. Changes and revisions of the strategy
10. Planned actions for following year

Annex Chapter 11 Strategic decision-making and risk management

No.	Risk type	Specific risk	Impact (1-5)	Probability (1-3)	Risk rating (impact x probability)	Control measures	Control Owner	Alert Code [18]
1.	Strategic - reputational	Risk that a case of mismanagement of funds becomes public but has not been captured by AON due to lack of a risk-based audit selection approach	3	2	6	Short term: Carry out a periodic scan of possible topics an adjust audit plan if necessary Long term: Develop appropriate risk-based selection procedures	Heads of audit departments Head of methodology and training department	
2.	Strategic – reputational	Risk that quality of audit reports is low due to lack of quality assurance	4	2	8	Short term: Scale up quality control procedures and carry out regular meetings with audit staff to address issues of quality Long term: Implement quality assurance and related training mechanism	Heads of audit departments Head of methodology and training department	
3.	Strategic – political and legal	Risk that Executive will block proposed changes to SAI legal framework	4	1	4	Carry out meetings with Ministry of Finance, use PAC support and mobilise media, incl. through organising press conferences and awareness-raising campaigns	Head of SAI, media department	
4.	Strategic – ethical	Risk that the implementation of	4	1	4	Continue work on ethics policy and organisational structure, carry out	Head of planning and	

[18] 1-5 green, 6-10 yellow, 10-15 red

No.	Risk type	Specific risk	Impact (1-5)	Probability (1-3)	Risk rating (impact x probability)	Control measures	Control Owner	Alert Code [18]
		an ethics control system is met with internal resistance				training, establish a rotation mechanism for auditors	reporting department	
5.	Operational – technological and logistical	Risk that newly recruited staff leave due to lack of computers and office space	4	3	12	File emergency application with MoF and donors to request additional funding for equipment Obtain construction approval for new site Finalise agreements with Ministry of Regional Development to use their old building while construction is ongoing	Head of SAI SAI Planning and reporting department with input from financial officer Legal counsel	