

Strengthening public management transparency and control in Latin America and the Caribbean (LAC) RG-T2125

I. Basic Information for TC

- Country/Region: LAC Region
- TC Name: Strengthening public management transparency and control in Latin America and the Caribbean (LAC)
- TC Number: RG-T2125
- Associated Loan/Guarantee Name: EC-L1119. Program to improve management control function of Ecuador.
- Team Leader/Members: Maria José Jarquín (IFD/ICS), Team Leader; Deborah Sprietzer (VPC/FMP), Co-team Leader; Francisco Javier Urrea (ICS/CBR); Nicolas Dassen (IFD/ICS); Javier Reyes (ICS/CEC); Gilberto Moncada (ICS/CBO); Laurence Telson (ICS/CDR); Gustavo Palmerio (FMP/CEC); Santiago Schneider (FMP/CEC), Marlene Zoraida Arguello (FMP/CBO) Abel Cuba, (FMP/CBO), Vinicio Rodriguez (FMP/CDR) and Christian Contin, (FMP/CDR); Guillermo Eschoyez (LEG/SGO); and Melissa Gonzalez (IFD/ICS)
- Date of TC Abstract authorization: March 18, 2013
- Donors providing funding: Transparency Trust Fund (TTF)
- Beneficiary (countries or entities which are the recipient of the technical assistance): All Latin American and Caribbean borrowing country members
- Executing Agency and contact name: IDB
- IDB Funding Requested: US\$1.0 million
- Local counterpart funding, if any: N/A
- Execution period: 24 months
- Disbursement period: 30 months
- Required start date: June 1, 2013
- Types of consultants (firm or individual consultants): both
- Prepared by Unit: IFD/ICS and VPC/FMP
- Unit of Disbursement Responsibility : IFD/ICS
- TC Included in Country Strategy (y/n); TC included in CPD (y/n): Yes in CPD 2013 for activities preliminarily identified
- GCI-9 Sector Priority: Institutions for Growth and Social Welfare (GN-2587); and Strategy for Strengthening and Use of Country Systems (GN-2538)

II. Description of the Associated Loan/Guarantee

One of the interventions of this Technical Cooperation is related to an IDB loan project, Program to improve management control function of Ecuador (EC-L1119) which is currently under preparation. The objective of this loan is to support a program to improve the management control function of Ecuador which is expected to finance a comprehensive plan for the institutional reform of the Supreme Audit Institution (SAI) of the country, through organizational planning, strengthening the performance management function in relation to its programs, plans and sector projects, process management and Human Resources/Talent Management.

The Project Profile approval is planned for the end of May 2013 and Loan approval by the Board for the end of October 2013. During the Identification Mission (March 25th-26th 2013), the strengthening of internal processes for hiring and supervising private audit firms (i.e., outsourcing) was highlighted as a key priority, as it will enable the SAI to expand its audit coverage, increase its capacity, and better position the country and the SAI to audit future Bank-financed projects. Another relevant finding was the lack of statistics and other information to properly define baseline indicators to evaluate the progress and status of the SAI's capacity and performance in the future.

III. Objectives and Justification of the TC

Objective. The objective of this TC is to contribute to increased transparency, public accountability and efficiency, in the management of public funds and external financing by supporting member countries, in their

efforts to strengthen the national control and audit functions.¹ The specific objectives of the TC are to: i) improve internal audit and external control management capabilities through implementation of innovative control and audit approaches and mechanisms; and ii) identify, advance and disseminate knowledge generation and leverage the Bank's strategic dialogue.

In the case of the loan EC-L1119, this TC will assist in addressing the two priority issues identified during the Identification Mission. These include performing an assessment of the SAI's processes, and designing an integrated and modern audit firm management system to help effectively and efficiently implementing the project. Establishing a proper baseline will allow the project team to properly monitor not only the project's progress, but also the entire SAI's institutional reform program, as well as use the information as a key input for evaluating the project's impact.

Justification. In Latin America, the core of the control system has traditionally focused on legal and procedural aspects of public management.² In the last 15 to 20 years, the region has made progress in strengthening public management systems, which has presented new challenges and opportunities in the area of control and auditing. Audit and control entities must be able to comply with their legal mandates as well as provide added value to the overall public governance framework. In order to do so, they must adopt innovative practices such as performance audit and modern audit techniques such as the use of computer assisted audit techniques (CAATs) to identify possible data anomalies in a more efficient and effective manner.

At the same time, there has been limited development in strengthening internal audit and control, thus diminishing the margins for preventing corruption and for assessing institutional risk that could affect public management objectives. Strengthening internal control may assist governments in the early identification of irregularities that may be stopped, deterred or even prevented before they constitute corruption. Please refer to Table I for other common challenges that both internal and external control and audit institutions face.

Table I: Main Challenges for External and Internal Audit and Control Entities in LAC	
✓	Lack of independence
✓	Outdated legal frameworks, which often do not include frontier practices to meet demands for further contribution to the overall governance in the public sector
✓	Lack of long-term strategies, detailed action plans, and tools to improve control and audit
	Insufficient resources (budgets, skilled staff and technical resources)
✓	Limited innovation and incorporation of technology to gather analyze and share information online
✓	Low levels of coordination and effective cross-fertilization and learning between control entities and government offices; and between external and internal control duties
✓	Lack of indicators and common methodologies for measuring government performance
✓	Limited culture of disclosure and citizen participation for accountability

Strengthening external and internal control and audit entities can occur at two levels: internal and external. The **internal level** refers to the institutionalization criteria of the effectiveness, efficiency, quality and transparency within these entities. Control agencies in LAC are making increasingly significant efforts to strengthen their institutional capacity, including the creation of strategic plans; professional training of auditors, definition of strategies and action plans, and the design and definition of key performance indicators and databases. The **external level** refers as to how internal and external control and audit entities add value to the overall public governance framework. Debates around this issue are becoming increasingly important in LAC countries. Major topics include how to do a risk analysis in constantly changing public management schemes, and development of methodologies for measuring the cost, quality and impact of the results of the control and audit functions.

Strengthening the capacity of these institutions to produce, analyze and disseminate sufficient, timely, useful and high quality reports on a government's management and use of public resources is recognized as a powerful tool for: i) increased transparency and accountability, helping to prevent and deter corruption and foster access to information and civil society participation; ii) improved quality of public expenditure systems,

¹ This objective is aligned with the Operational Guidelines of the Transparency Fund (see <http://www.iadb.org/en/publications/publication-detail,7101.html>). Furthermore audit and control is one of the strategic areas for the period 2013-2015.

² Santiso, Carlos. Auditing for Accountability? Political economy of government auditing and budget oversight in emerging economies. April 2007 and OECD. Good Practices in Supporting Supreme Audit Institutions. 2011.

better use of public resources, client service orientation and results-oriented management; iii) augmented use of Country Systems for auditing IDB-financed projects; and iv) increased outreach and partnerships among internal and external audit institutions in the region, through international bodies such as the International Organization of Supreme Audit Institutions (INTOSAI) and its regional bodies.³

The Bank recognizes the important role of control institutions in the region, as stated in the Report on the Ninth General Increase in the Resources of the IDB (AB-2764), as well as other related Bank strategies.⁴ It has also been identified as a sector priority in the 2013 Country Programming Documents (CPD) of Bolivia, Chile, Dominican Republic, Ecuador, Paraguay and other LAC countries. The Bank received a formal request for support from Ecuador (annex I). The Government of Bolivia and the Bank agreed to include support from this Project in a Biannual Operations Programming Aide Memoir (Annex II). In the case of Dominican Republic, the Government has indicated the need of technical support to strengthening the country's internal and external control systems, which will be assessed and eventually formalized during the implementation of this TC.

IV. Description of activities/components and budget

This TC will provide a package of support to contribute in solving challenges at both the internal and external levels through the three following components:

Component 1. Assessments and modernization strategies (US\$195,000). This component is intended to gain a better understanding of the needs of control and audit entities and address these needs through the: i) analysis of mandates, approaches, practices and performance; ii) definition of strategies and action plans to improve the efficiency and transparency of the control and auditing functions; and iii) design of key performance indicators and databases⁵ for measuring and monitoring costs, quality and impact.

Component 2. Regulatory reforms and capacity building (US\$615,000). This component is intended to build the capacity of control and audit entities to report on risks and highlight opportunities for improvement in the way public resources are being managed through the following activities: i) capacity building for risk analysis in public management;⁶ ii) draft legal and regulatory reviews to update and harmonize national legislation in accordance with international standards and best practices; iii) technical assistance to enhance cooperation between control and audit agencies themselves and with civil society organizations; iv) development of information technology and communication tools;⁷ and v) training of auditors.

Component 3. Policy dialogue, south-south cooperation and knowledge generation and dissemination (US\$155,000). The program aims to further develop the capacity of the Bank⁸ and its country members by engaging in strategic and policy dialogue amongst themselves, as well as with key international/regional partners such as INTOSAI, CAROSAI, OLACEFS, and OCCEFS. For doing so, the TC will finance: i) case studies of innovative efforts on control reforms, modernization and strengthening; ii) south-south cooperation for best practices in control and auditing; and iii) knowledge generation and dissemination through regional seminars and workshops.

Main products and expected outcomes are summarized in Table II.

³ Latin American and Caribbean Organization of Supreme Audit Institutions (OLACEFS), the Caribbean Organization of Supreme Audit Institutions (CAROSAI), and the Organization of Central American Supreme Audit Institutions (OCCEFS).

⁴ The Sector Strategy Institutions for Growth and Social Welfare (GN-2587-2), the Action Plan to Support the Countries in their Efforts to Fight Corruption and Foster Transparency (GN-2540), and the Strategy for Strengthening and Use of Country Systems (GN-2538) which encourages the Bank to use national audit institutions, when deemed to be acceptable.

⁵ The audit databases to be designed will take into account the overall information chain of audit processes.

⁶ The team will assess, during the implementation of the TC, activities to help identify red-flags and raise awareness to enhance integrity.

⁷ For example, in Bolivia, a new TIC system could improve the timely oversight of and support for the Internal Audit Units by the SAI.

⁸ These workshops could include modules or sessions presenting IDB's policies and mechanisms to ensure that financed activities are free of prohibited practices.

Table II. Indicative Results Matrix

Overall impact: national control and audit functions of LAC countries strengthened		Comments: Given the diversity of specific challenges that will be address at the country level and that there is no single index that can capture, at the impact level, the contribution obtained from legal and institutional improvements as expected from the TC; but the 'increased number of IDB projects audited using national systems' is relevant for the Bank's policies.	
Components	Products	Suggested Indicators (Outcome)	Means of Verification
Component I. Assessments and modernization strategies	Two (2) country analyses of SAI key processes developed, at least one related to the problems to be addressed by the loan EC-L1119	<ul style="list-style-type: none"> Better design of the loan EC-1119, with updated analysis SAI modernization strategies defined using updated analysis 	<ul style="list-style-type: none"> Study reports
	Inclusion in two (2) control and audit country strategies and/or action plans to improve efficiency and transparency of control and auditing functions designed and developed	<ul style="list-style-type: none"> Work plans aligned to a coherent strategy 	<ul style="list-style-type: none"> Strategy and Action Plan documents Progress reports
	At least two (2) SAIs provided baseline and databases built with quality information and indicators	<ul style="list-style-type: none"> Reforms' progress and impact properly monitored and evaluated Provision of information to citizens leveraged 	<ul style="list-style-type: none"> Baseline Progress reports Impact evaluation reports
Component II. Regulatory reforms and capacity building	At least two (2) country assessments of its regulatory framework performed	<ul style="list-style-type: none"> Gaps identified and required regulatory reforms promoted 	<ul style="list-style-type: none"> Assessments' reports Regulatory reforms proposals and/or publish notice
	At least one (1) country action plan for performing innovative audit mechanisms such as performance audit designed and applied in at least two (2) sectors	<ul style="list-style-type: none"> Audit and control functions contributed to wider public management in two key sectors 	<ul style="list-style-type: none"> Performance Audit reports
	At least two (2) SAIs key processes reengineered based on analysis performed under component I of this TC	<ul style="list-style-type: none"> Efficiency of audit and control functions' improved measured by the increased # of audit reports/year 	<ul style="list-style-type: none"> SAI statistics
	At least one (1) country access to information activity developed	<ul style="list-style-type: none"> Improved citizen understanding of SAIs work 	<ul style="list-style-type: none"> Communication products Information portals
	At least two (2) ITC applications for leveraging key processes for internal and external control developed	<ul style="list-style-type: none"> Efficiency of audit and control functions' improved measured by the increased # of audit reports/year and 	<ul style="list-style-type: none"> internal/external audit systems developed System reports
	At least three (3) country training workshops for auditors, both external and internal, from public sector and private firms	<ul style="list-style-type: none"> Increased number of qualified human resources 	<ul style="list-style-type: none"> Training programs Training materials Lists of participants
Component III. Policy dialogue, south-south cooperation and knowledge generation and dissemination	Two (2) studies on innovative best practices	<ul style="list-style-type: none"> Informed regional dialogue Partnership with INTOSAI/CAROSAI/OLACEFS strengthened 	<ul style="list-style-type: none"> Studies
	One (1) coordinated audit report, including at least two countries	<ul style="list-style-type: none"> Standardized and comparative information available Strengthened collaboration among countries Partnership with INTOSAI/CAROSAI/OLACEFS strengthened 	<ul style="list-style-type: none"> Audit report
	One (1) SAI-PMF report	<ul style="list-style-type: none"> Standardized and comparative information available Better informed SAI's institutional strengthening plans Partnership with INTOSAI/CAROSAI/OLACEFS strengthened 	<ul style="list-style-type: none"> SAI-PMF report
	At least one (1) regional workshop on latest, innovative methods and international standards and best practices	<ul style="list-style-type: none"> Increased number of qualified human resources Reduced learning breach Informed regional dialogue Partnership with INTOSAI/CAROSAI/OLACEFS strengthened 	<ul style="list-style-type: none"> Training programs Training materials Presentations Lists of participants

The total amount of funding needed to achieve the expected outputs is **US\$1.0 million** according to detailed budget in Table III. No local counterpart is planned.

Table III. Indicative Budget

Components/Activities	Description	Consultant	Travel	Other	Total Funding
Component I. Assessments and modernization strategies		195,000	0.00	0	195,000
(i) Analysis of mandates, approaches, practices and performance	Analysis of SAI's key processes and performance in at least 2 LAC countries	60,000			60,000
(ii) Definition of strategies, action plans	Design and development of control and audit systems to improve efficiency and transparency of these functions in at least 2 LAC countries	50,000			50,000
(iii) Design key performance indicators and database	Definition of internal and external audit performance indicators, development of databases and establishment of a line base for measuring and monitoring progress and impact for at least 2 LAC countries	85,000			85,000
Component II. Regulatory reforms and capacity building		595,000	8,000	12,000	615,000
(i) Capacity building for risk analysis	Draft and implementation of action plan for carrying out performance auditing in at least 2 sectors at country level (at least 1 LAC country)	105,000			105,000
	Reengineering of key processes assessed for improved performance in at least 2 LAC countries.	100,000			100,000
(ii) Draft legal and regulatory reforms	Assessment of current legal/regulatory control and audit framework, identification of breaches, and up-dating needs when compared to national legislation and international regulations/standards/principles (i.e. INTOSAI) in at least 2 LAC countries	100,000			100,000
(iii) Enhance cooperation	Different activities to reach out civil society and gain cooperation and promote accountability. For example: implementation of social communication strategies and targeted transparency portals, among others	25,000			25,000
(iv) Development of Information Technology and Communication tools	Design and development of a modern and integrated system which will enhance the efficiency of key processes in at least 2 LAC countries	250,000			250,000
(v) Training	Design and deliver a training program for public sector and private firm auditors on internal audit and control (workshops and internships) in at least 2 LAC country	15,000	8,000	12,000	35,000
Component III. Policy dialogue, south-south cooperation and knowledge generation and dissemination		100,000	28,000	27,000	155,000
(i) Case studies of innovative efforts	Development of two studies on best practices of innovative efforts on control to better inform regional policy dialogue. These will report on both country specific and sector cases.	25,000		5,000	30,000
(ii) south-south cooperation for best practices	At least one "coordinated audit" exercise among two or more countries	25,000	8,000	2,000	35,000
(iii) knowledge generation and dissemination	Piloting of the SAI Performance Measurement Framework in at least 1 LAC country ⁹ ; regional workshops on external and internal audit, including frontier methods of external audit as performance and risk auditing, and international standards/practices; and other policy dialogue activities in partnership with key stakeholders through active participation in INTOSAI/CAROSAI/OLACEFS events	50,000	20,000	20,000	90,000
Sub/total		890,000	36,000	39,000	965,000
External Evaluation					35,000
TOTAL program costs (US\$)					1,000,000

⁹ Ecuador has expressed its interest in being considered for this exercise.

TC supervision. An Advisory Group will be established to follow up and provide critical guidance on the execution of this TC. The heads of the Institutional Capacity of the State Division (IFD/ICS) and the Operations Financial Management and Procurement Services Office (VPC/FMP) will chair the advisory group. The designated focal points within these two areas of the Bank will be the Team Leader and co-Team Leader of this TC and will jointly supervise the development and implementation of this TC, including the coordination of related initiatives within their respective divisions and corresponding COFs. The chairs of the Advisory Group will meet at least twice per year to provide strategic guidance on the execution of the TC. This supervision will be supplemented by the technical expertise of the ICS and FMP Specialists within the COFs in participating countries.

Monitoring arrangements. The Team Leader and Co-Team Leader of this project will coordinate monitoring activities with the corresponding COF, including: (1) performing semi-annual assessments of the results matrix; and (2) producing an annual report of the general development and status of the project, in accordance with the results matrix. No specific financing source is foreseen for this task. Consistent with the practice of the TTF, the team will seek inputs from the donor and the Technical Secretariat during the evaluation process; as well as the OII when considered appropriate for addressing integrity issues.

Audit and evaluation reports. The project will be evaluated externally, in accordance with the Bank's policies, at the end of execution. This evaluation will focus on the results and impact of the TC activities outlined in the results matrix. Resources from the TC have been budgeted for this evaluation as reported in the Indicative Budget (Table III). No financial audit will be required, since this TC will be executed by the Bank.

V. Executing agency and execution structure

This TC will be self-executed by the Bank, through IFD/ICS. The project team is co-led by IFD/ICS and VPC/FMP, who will jointly supervise the TC components. The Bank has solid experience¹⁰ and a number of institutional framework policies¹¹ supporting work in this area.

VI. Major issues (estimated length: 1 page)

Internal Coordination. IDB's knowledge and expertise related to these issues crosses technical and functional boundaries and requires active cross-sector collaboration and a platform for consolidating expertise, taking advantage of a wide presence from ICS and FMP in the COFs. This regional TC will provide an internal focal point for the development of technical assistance, focused on strengthening the national control and audit functions, as well as complementing this assistance with related issues, such as results oriented management and transparency.

¹⁰ With regards to internal and external control systems, the expected IDB interventions focus on the provision of financing and technical assistance to be managed through IFD/ICS, ensuring consistency of the operation designs and the action plans for strengthening the external auditing and control systems developed under leadership of FMP. Between 2005 and March 2013, the Bank, through ICS in collaboration with FMP, has succeeded in contributing to the region's efforts with a significant portfolio of 14 operations that add up to a little more than US\$ 75.0 million: 4 loans (US\$ 70.8 million) and 10 technical cooperations (US\$ 4.3 million); 3 of them funded by the TTF. By end-2013, the Bank foresees an increased portfolio by US\$ 41.5 million with two loan operations (US\$ 40.0 million) and 2 technical cooperations (US\$ 1.5 million) –one of these being this TC. This portfolio benefits OLACEFS and twelve countries, namely: Bolivia, Brazil, Chile, Ecuador, Guyana, Jamaica, Nicaragua, Paraguay, Peru, the Dominican Republic, Trinidad and Tobago and Uruguay.

¹¹ The Strategy for strengthening and use of country systems (GN-2538) defines the way in which the Bank supports the strengthening of national fiduciary and non-fiduciary systems of the client countries with the aim that they be used in the design, implementation and evaluation of the operations financed by the IDB. Fiduciary systems encompass internal and external control systems. The TTF's Concept Note for Strategy 2013-2015 defines the Fund's support to Targeted Transparency (TT) projects at the sector level as set forth in its Operational Guidelines, including the generation, dissemination and use of specific information to prevent and control corruption in high risk policy areas and the design and implementation of institutional mechanisms (such as policies, legal frameworks, and information management tools) to ensure sustainability of the transparency intervention. It defines the strengthening of control and audit functions as a priority area to be addressed through umbrella projects which will support LAC countries in their efforts to enhance audit and control practices for a better more open government.

Specific Technical Expertise. In addition to internal expertise that will be strengthened from work on this regional TC, the technical team has started to prepare the Terms of Reference for key consultancies and has identified a preliminary pool of external consultants as well as a relevant network of contacts within INTOSAI, OLACEFS and the World Bank. Additionally, this TC will create an advisory group and a set of publications that together will provide a source of technical expertise on these topics.

Risks and Government Buy-In. The team identifies no significant risks associated with the implementation of this TC. All activities proposed in this project are consistent with the role of the Bank in supporting countries' efforts to prevent and combat corruption and strengthen national systems. Technical support at the country level will require a letter of request or a non-objection letter from the Government, as appropriate. Requests have already been received from Ecuador and agreed with Bolivia, as previously highlighted. This TC will also seek to provide assistance to the Dominican Republic, taking advantage of the opportunities offered by the on-going country dialogue, closely coordinated with the World Bank.

Multilateral Coordination. The Bank coordinates closely at the global, regional, and country levels with other multilateral and bilateral donors (i.e., the World Bank, USAID, GIZ), standards setters (i.e., International Federation of Accountants), and SAI organizations (i.e., INTOSAI, CAROSAI, OLACEFS). At the global level, the Bank actively participates in the INTOSAI-Donor Steering Committee, which works to coordinate donor efforts in relation to the strengthening of SAIs, and is in the process of developing a Performance Measurement Framework to evaluate the performance of an SAI (SAI PMF). Together with INTOSAI and the SAIs of Mexico, Chile, Brazil, Peru, Ecuador, and Barbados, the Bank is conducting regional workshops and pilots in relation to the new SAI PMF. This new diagnostic will be used by SAIs and donors to determine the "use of the country system" to audit Bank-financed projects and also develop action plans for strengthening. The Bank is also working with CAROSAI and OLACEFS at the regional level to support coordinated financial and performance audits of common areas (i.e., extractive industries, rainforest) across countries, which should result in potential cost savings to all SAIs involved. Finally, the Bank signed an MOU in 2011 and is working with the International Federations of Accountants and other donors to coordinate efforts to strengthen the accounting and auditing profession in the LAC Region, in order to promote better transparency and accountability within the region.

Sustainability of the Project. This Regional TC will not be able to fulfill all the demands associated with this issue in the LAC Region. Additional sources of financing will be identified to provide a constant flow of advisory services and technical assistance for the strengthening of internal and external control systems. The implementation of this TC will seek partnership in areas that require the combined strengths of multiple actors. In this regard, ORP/ORP involvement from the onset is important.

VII. Exceptions to Bank policy

No exceptions are expected.

VIII. Environmental and Social Strategy

Environmental and Social Classification (ESG) of this TC is "C", since there are no environmental or social impacts associated with this TC activities ([IDBDOCS-#37388750](#)).

Required Annexes:

- Annex I. Letter sent to IDB from Ecuador - "*Contraloría General del Estado de la República de Ecuador*"
- Annex II. "*Ayuda Memoria Programa Operativo bi-anual 2012-2013*" agreed by the IDB with the Government of Bolivia
- Annex III. Indicative Procurement Plan
- Annex IV. Draft Terms of Reference for consultancies to be procured