ECOSAI CIRCULAR

SPRING ISSUE 2020

ECOSAI is regional forum of Supreme Audit Institutions encompassing countries from Europe, Caucuses and Central Asia, Middle East and South Asia

Founded in 1994, the ECOSAI aims to promote the public sector auditing profession in member countries through exchange of ideas, experiences and by holding seminars, conferences, workshops and training courses.

Natalya Godunova

President ECOSAI & Chairwoman, Accounts Committee for Control over Central Government Budget Execution, Republic of Kazakhstan (SAI Kazakhstan)

Javaid Jehangir

Secretary General ECOSAI & Auditor General of Pakistan (SAI Pakistan)

ECOSAI Governing Board Members

- SAI of the Islamic Republic of Afghanistan
- SAI of the Republic of Azerbaijan
- SAI of the Republic of Turkey

The terms of these three members will expire in 9th ECOSAI Assembly scheduled in 2022.

The publisher wishes to thank all the individuals and organizations who have contributed towards this publication.

The ECOSAI Circular is the official organ of ECOSAI and has the objective of providing member SAIs with the forum of sharing experiences in different areas of public sector auditing.

Terms of use and disclaimer

The ECOSAI Circular presents information that was compiled and collected by the ECOSAI Secretariat at the Department of the Auditor General of Pakistan.

Opinions and beliefs expressed are those of individual contributors and do not necessarily reflect the views and/or policies of the organization. The editor invites submission of articles, special reports, and news items, which should be sent to ECOSAI Secretariat at saipak@comsats.net.pk.

The Circular is distributed to ECOSAI members/observers and other interested parties at no cost. It is available electronically at www.ecosai.org.pk/www.agp.gov.pk

Editorial Team

Muhammad Afnan Alam

Director International Relations & Coordination (IR&C) Wing / Authorized Representative of Secretary General ECOSAI, Department of the Auditor General of Pakistan

Mrs. Shandana Nauman Khan

Dy. Director International Relations & Coordination (IR&C) Wing, Department of the Auditor General of Pakistan

ECOSAI Secretariat

Office of the Auditor General of Pakistan, Constitution Avenue, Islamabad, Pakistan
Phone : +92519219177
Facsimile +92519224052
E-mail : saipak@comsats.net.pk

We the Members of the

ECOSAI

Afghanistan

Tajikistan

Azerbaijan

Turkish Republic of Northern Cyprus

Iran

Turkmenistan

Kazakhstan

Turkey

Kyrgyz Republic

Uzbekistan

Pakistan

Observers

Kuwait

Qatar

Palestine

Belarus

CONTENTS

MESSAGE OF THE SECRETARY GENERAL ECOSAI

Only time will tell when the world starts recovering from the severe impact of the COVID-19 pandemic. Auditors, and in particular Supreme Audit Institutions (SAIs), will be able to provide insights on whether government systems were sound and prepared to tackle the crisis. Some SAIs are trying their best to mitigate these risks while others are observing how the situation unfolds, but all are eager to learn from previous experiences and help curb the pernicious effects of corruption.

Supreme Audit Institutions can play an important role in this crisis. ECOSAI Observer member SAI State Audit Bureau of Kuwait has undertaken a real-time audit of COVID-19 crisis. During the period from 12 March to 9 May 2020, State Audit Bureau of Kuwait has reviewed 496 financial cases, for a total value of approximately KD 686 million (USD 2212 million) and made savings on the budget of the treasury, i.e. about KD 4.1 million (USD 13.2 million). Some SAIs in the region are conducting international benchmarking exercises to compare the prices being paid nationally for procured medicines and protective clothing with international prices, helping reduce price gouging by local firms.

SAI Pakistan, is also undertaking an audit of “Whole of the Government approach” in COVID-19 including the unprecedented fiscal stimulus plan launched by the Government of Pakistan.

SAIs can help assure the public that the massive increases in expenditure are being managed well, which builds trust between citizens and their governments. SAIs have a vital role in efforts to ensure that rules aren’t bent in ways that fuel fraud and corruption. This is a critical contribution both during and after crises, even when they are operating in the most challenging contexts.

At the end, I would like to express my sincere thanks and appreciation to ECOSAI member and observer countries for their efforts and diligence during this challenging period. We are certain that our efforts exerted in facing the impacts of this crisis will be a success by virtue of the concerted efforts of everyone and their solidarity at all levels of the Organization. I also extend my special gratitude to all those who contributed towards the ECOSAI Spring Circular 2020 in challenging times.

Javaid Jehangir
Auditor General of Pakistan &
Secretary General of ECOSAI

News from Member SAIs

AFGHANISTAN

Mohammad Naiem Haqmal FCCA, Afghanistan's Auditor General

Afghanistan's Auditor General Mohammad Naiem Haqmal FCCA is pulling out all the stops to build a cadre of qualified professionals in a country that sorely needs them. Instability and economic uncertainty are the watchwords, but with the backing of international agencies, the Afghan government is moving to create a more sustainable, stable environment. Its initiatives include creating an accountancy profession within the country – the professional accountancy organisation CPA Afghanistan was set up two years ago – and the capacity to carry out audits of the financial activities of government bodies and organisations throughout the country.

A decade ago the Afghan capital Kabul, a city with a population of some four million inhabitants, had just a handful of qualified accountants. Mohammad Naiem Haqmal FCCA himself, who was appointed auditor general and head of the Supreme Audit Office (SAO) in March last year, only qualified as an ACCA in 2012 – one of just 30 or so, currently in Kabul.

Continuous learning

Haqmal's journey from Sar-e-Pol province in the north of the country to the role of auditor general in the capital has taken in a wide swathe of sectors – aid and development agencies, government ministries, private enterprise, financial services – and a degree in applied accountancy from Oxford Brookes University in the UK. Since June 2017 he has also been a member of the Ministry of Finance's Professional Qualifications Committee which is working to establish strong foundations for a sustainable accountancy profession in Afghanistan.

Throughout, Haqmal has been guided by a desire to keep learning, whether through the ACCA Qualification or professional experience, and to give back by helping others, gain an accountancy qualification.

Now, though, with the country awaiting the overdue result of the presidential election held in September, 39-year-old Haqmal is able to reflect on his career, the challenges he has faced, and his plans for the future as he looks to bolster the capacity of Afghanistan's SAO.

Rising to the challenge

In early 2018 He was appointed chairman of a special commission for Kabul Bank Receivership, seeking to recover nearly US$ 1 billion that had been embezzled from Kabul Bank, which had collapsed in 2010. 'This was a real challenge,' Haqmal recalls. 'I had to deal with so many people at so many different levels, both inside and outside government. Trying to recover the money was a complex task.'

After chairing the commission from March to December 2018, he was offered the position of deputy defence minister, a civil appointment, where he had responsibility for acquisition, logistics and support. 'This was also quite a challenge, though of a different sort,' says.

These were challenges that Haqmal rose to so effectively that in March last year he was appointed the country's auditor general and head of the SAO, Afghanistan's public spending watchdog. The job of overseeing a body that conducts audits, strengthens internal controls, promotes accountability and transparency, and fights corruption could have been made for him. 'This is my area, my profession, my interest,' he says. 'I have achieved a major ambition.'

He is in charge of public financial management, with the SAO's audit work providing assurance for the country's fiscal strategy, budgeting and accountability. Afghanistan's supreme audit institution celebrates its centenary in 2020 (it was set up under the name of the Control and Audit Office soon after the country gained independence in 1919) and is grappling with significant internal and external challenges.

'Internally, there is a real shortage of professionally certified staff, both in our SAO and throughout the country,' Haqmal says. 'This in turn affects our ability to fully apply and comply with international public sector auditing standards. Having low professional capacity limits what we can do.

'At the same time, our work on performance audits also requires professional capacity, but we have insufficient manpower to cover the full scope of financial audits for state-owned enterprises and corporations. We also have to audit grants that have been made, mostly through the World Bank.'

Perhaps unsurprisingly, Haqmal says security can sometimes affect accessibility for his auditors. But there are also challenges in attracting and retaining qualified staff. The lack of qualified staff becomes apparent in the quality of financial statements, he says. Organisations that are subject to audit do not have the capacity to produce appropriate accounts, and when weaknesses and deficiencies are identified, there may not be the capacity to address these areas.

Fraud is always a risk too. Haqmal says: 'Auditors are always skeptical, and as a result a large number of suspected fraud cases are referred to the attorney general.'

Professionalization initiative

To address these problems, he is pursuing a strategy of professionalization. Internal training courses have been run and, with the help of the World Bank, there is now a 20-strong team of qualified and part-qualified staff in the SAO, including ACCA members, finalists and affiliates.

Putting his experience as an audit lecturer at the American University of Afghanistan to good use, Haqmal has also established a professional training centre, developing a curriculum that covers auditing, accounting, international standards, public sector finance and IT, as well as Afghan business and administration law.

Other plans include the development of legislation to give his office independent power to carry out audits, 'although this will depend on the outcome of the political situation', Haqmal cautions – a reference to the as yet unknown outcome of the presidential elections.

'The president is committed to the SAO and wants to see professional accountants working for the office,' he says.

Haqmal is addressing the internal governance of his own office to ensure an appropriate level of transparency, and is currently looking to appoint an external audit firm to audit the office. 'We will publish annual performance reports,' he says, pointing out that he is required to report to a number of stakeholders, such as the president, the national assembly, the public, the World Bank and other development partners.

Haqmal is optimistic about the future of the public sector audit profession in his country, and the wider accountancy profession. It may take time but the establishment of CPA Afghanistan – currently the country's sole professional accountancy organisation – will help to address the capacity issues his office faces. 'The setting up of CPA Afghanistan has helped to create a good working environment for accountancy professionals,' he says.

There is still a long way to go, but the accountancy profession in Afghanistan has made considerable ground towards the ultimate destination of creating a financial service capacity suitable for a modern economy. The hope must be that it will be as successful as Haqmal's own journey has been, from Sar-e-Pol to the heart of government in Kabul.

Reform initiatives by the Supreme Audit Office - Afghanistan

The Supreme Audit office SAO, as a SAI of public audit and institution of public trust for transparent and accountable public financial management and governance in the country,works to improve the quality and effectiveness of the audits. SAO has been working to attract professional and competent staff and also seeks to match the expectations of our national and international stakeholders and strives to align its mandate and scope of audit with the requirements of the international best auditing practices, specifically envisaged and enunciated by the INTOSAI's ISSAIs framework.

Towards this end, the SAO took the following reform initiatives in 2019; the most important ones are:

- To revisit the SAO's Audit Law to assess gaps in the existing SAO Audit Law vis-à-vis the requirements of best practices legal mandate for an SAI as per the ISSAIs.

- To undertake functional review of the SAO to assess what processes and resource efficiencies and functional re-Organisation could be achieved.

The following are the reforms that took place in 2019:

Strengthening the legal basis of the SAO

For strengthening the legal base and independence of the SAO, we revised the SAO law (2012), the revised law is drafted based on the international best practices, ISSAI, PEFA, SAI-PMF, views of some International Organisations e.g. EU and WB. The drafted revised law was approved by H.E. President and become effective on 5 March 2020.

Organizational and Structural reforms

For strengthening the quality, effectiveness and efficiency of audit, we conducted the functional review and restructured the SAO based on international best practices. Based on that the SAO prepared the new organizational structure (Tashkeel) and is approved by the H.E the President of the country. Based on the new organizational structure (tashkeel), the SAO is well staffed and effectively streamlinedits activities, and strengthened the line of communication and coordination. By implementing the new organizational structure, the SAO can effectively manage its work and ensure the quality of audit process.

Professionalization and Capacity Development

In 2019, the SAO has put in place a capacity development and professionalization strategy and plan (currently for 2019-22), which, inter alia, focuses on the following approach and strategy –

- Capacity development and professionalization of the SAO staffs to align with the competency requirements for public sector auditors as envisaged by the INTOSAI-IDI and the INTOSAI Capacity Building Committee (CBC).

- A multi-pronged strategy of professionalization of the staffs, namely (i) regular in-house and external training as continuing professional education (CPE), (ii) setting up a SAO's Training and Professionalization Centre and conducting a certification course for newly recruited and existing staffs, (iii) encouraging staffs to obtain internationally recognised professional qualifications / certification, and (iv) recruiting already professionally qualified candidates.

SAO established Training and Professional Development Centre (SAO-TPC).The SAO-TPC has started annual professional course, at the end of which the successful candidates shall receive certified public auditor's certificate. At present 50 auditors are undergoing the training.

As well as an internship program for 20 candidates was conducted by SAO for 4 months for which stipend was provided under the Fiscal Improvement Support Project (FSP). Out of these candidates some of them have been recruited by the SAO through the Tashkeel based on their knowledge and exposure to the SAO.

Strengthening and improving the quality of audit through quality control and quality assurance and implementation of ISSAIs

Based on ISSAI implementation handbook, audit working papers/audit toolkits/guidelines for compliance audit, performance audit and financial audit have been prepared. They are being applied in performance audit and SOEs and SOCs audit. In compliance audit the toolkits were piloted in audit of three ministries in 2018 and they are being implemented in other ministries.

For effective implementation of toolkits/working papers and ISSAI standards, the SAO developed and implemented quality management system along with QA tools and quality assurance guideline.

Expanding Coverage of Performance Audit, IT/IS Audit and Financial Audit

SAO based on its strategic plan, expands the coverage of audits, in 2019 for the first time, SAO conducted financial audit of 3 SOEs and SOCs based on international best practices and standards and planned to audit 10 financial audits in 2020 out which five have been completed till date.

SAO priorities to expand coverage of performance audit. In 2019 the SAO conduct 7 and in 2020 it is expanded to 9 performance audits.

Furthermore, SAO is expanding coverage of IT and IS audits both integrated and as stand alone. In 2019 we conducted 4 audits as stand alone and 5 as integrated audit with compliance audit teams in the public sector. In 2020 we plan to cover 30 IT/IS audits in public sector.

Our vision for the future

The SAO as a supreme audit office and institution of public trust strive to be a model institution in the country by strengthening and improving the quality of audit, being so the SAO vision and plan for the future are as follow:

Automation of Audit Process

SAO is in the process of procuringAudit Management Information System (AMIS) in audit process. For achieving this target SAO did the followings:

- Procurement process of AMIS is in progress. The CAATs available with the AMIS shall be implemented and applied as part of the AMIS.

- Meanwhile the SAO is applying excel and IDEA for data extraction and analysis from the systems such as AFMIS, SIGTAS, ASYCUDA, HRMIS, etc. these are also used for sampling purposes.

Publishing the SAO's Annual Report for the year 2019

SAO, for the first time has taken the initiative to publish its annual report in 2020 which covers the activities and achievements of SAO along with the result of the audit of SAO for the year ended 2019. This report is adorned by the Message of H.E. the President and H.E. the Speaker of the Parliament.

Capacity development and professionalization

To have qualified and professional staff and strengthen the effectiveness and quality of audits, SAO established Training and Professional Development Centre (SAO-TPC), but for long term priority the SAO is planned to upgrade the SAO-TPC to Audit Institute.

PAKISTAN

Online training courses organized by the Department of the Auditor General of Pakistan during the COVID-19 Pandemic

Keeping in view the prevalent situation due to COVID-19 pandemic, the Department of the Auditor General of Pakistan made necessary arrangement for distance learning through online training courses. The Pakistan Audit & Accounts Academy (PAAA) which is the premier training establishment of the department has introduced and conducted a number of online training courses in the months of June and July 2020. More than 50 officials of different offices attended these online courses from all over the country. Some of the online courses delivered areas below:

- One day online training workshop for Achievement of DLR 6.1 of P *for* R Project
- Certification Audit CPD mandatory (05 days)
- Negotiation and Conflict Management (03 days)

The PAAA has also formulated a detailed Standard Operating Procedure for smooth running of the online courses. The steps taken for introducing online courses proved a great success and has resulted in continuation of the planned training activities of the department.

After successful conduct of the above online courses, the PAAA is now in the process of finalizing arrangements for delivering upcoming online training courses included in the Annual Training Plan (ATP) 2020-21 so as to ensure that the annual training plan of the department is executed smoothly during the COVID-19 pandemic.

PALESTINE

State Audit and Administrative Control Bureau of Palestine

H.E. Counselor / Iyad Tayem
President of State Audit and Administrative Control Bureau

Academic Qualifications:

- LLM in law , Duke University , North Carolina (2007)
- Master in Commercial Law, Birzeit University (2003)
- Bachelor Degree in Law, Al-Ahliyya Amman University,Jordan (1995)

Personal Experience:

- President, State Audit and Administrative Control Bureau (SAACB). Appointed by virtue of Presidential Decree January 2, 2015
- Deputy Minister of Justice, June11, 2014
- Head of the Corruption Crimes Court since September 2013
- An Appeal Judge and served at the Jerusalem Appeals Court in October 2012
- Head of Court in several districts
- A judge in the court of First Instance, 2007.
- A Conciliation Court judge in 2002
- He started his career in the prosecution in 1995
- A previous member of the Palestinian Judicial Institute Academic Committee

Attention to audit in Palestine started with the advent of Palestine National Authority together with the establishment of different institutions and entities. The presidential decree 22/1994 instated the General Audit Institution, followed by the decree law 17/1995 on the General Audit Institution. GCI commenced action in Gaza and Ramallah, human recruited were recruited and it kept operating until the State Audit and Administrative Control Bureau law 15/2004, based on the Palestinian Basic Law of 2003, was enacted.

Pursuant to article 96 of the Basic Law and once SAACB law was passed in 2005, SAACB has therefore, been deputized as the supreme audit institution of Palestine. It became a constitutional organization which actions are regulated by its own law, has a budget within the general budget of Palestine and has an independent legal personality and full legal capacity to assume tasks and powers prescribed in SAACB law and related laws/regulations.

SAACB aims at guaranteed soundness of financial/administrative actions and stability of Palestine's three authorities (Executive, Judiciary, Legislative), disclose all forms of financial/ administrative deviations, including misuse of public post, and ensure that public performance in Palestine is in agreement with provisions of effective laws, regulations, bylaws and instructions, and that is undertaken in reasonable, effective and efficient manner.

SAACB operates as per a strategic plan aims at an independent audit institution according to INTOSAI standards, excellent institutional system, efficient, timely and quality audits and improve relations with stakeholders.

News

SAACB is keen to improve with audited entities and stakeholders to other levels of professionalism and transparency, and in a way that assists quality of audits, improves performance and preserves public funds. SAACB is committed to development that is in line with INTOSAI standards and international audit standards. SAACB has a wide professional relation network with different institutions and counterparts, which helps support Palestine's presence in Arab and international arenas and develop professional capacity and output.

In addition to individual reports on audited entities, SAACB publishes quarterly and annual reports containing total actions undertaken. These reports are delivered to Mr. President of Palestine, the parliament and council of ministers, as said by law.

SAACB is headed at the moment by H.E. Counselor Eyad Tayyem who took office in early 2015. Jerusalem is the place of permanent headquarters, but the temporary HQ is located in Ramallah. SAACB has 150 staff members, with its Gaza HQ closed and deactivated since 2007.

SAACB has legal mandate that authorizes control actions at all audited entities, where financial and compliance audits are undertaken. SAACB has recently started conducting performance audit through a development program.

QATAR

The President of the State Audit Bureau Chairs the ARABOSAI GoverningBoard's Extraordinary Meeting

The extraordinary meeting of the Governing Board of the Arab Organization of Supreme Audit Institutions (ARABOSAI) held on Monday, the 20th of April 2020 via video conference, was chaired by H. E. Sheikh Bandar bin Mohammad bin Saoud Al Thani the President of the State Audit Bureau-Qatar, the President of ARABOSAI.

The meeting was convened to discuss the repercussions of the outbreak of the coronavirus (COVID-19) on the work of the Organization and ways to ensure the continuity of its activities and to propose an action plan to enhance the capabilities of the member SAIs in dealing with this crisis, and promote their performance under the ongoing circumstances. The meeting was attended by their Excellencies the Heads of Supreme Audit Institutions that are members of the Organization's Governing Board.

H. E.Sheikh Bandar bin Mohammad bin Saoud Al-Thani stressed, in his openingremarksforthe meeting, that the crisis of the coronavirus outbreak is unprecedented in the history of humankind in terms of its extent and impact, and that the ARABOSAI and other organizations are not immune to the crisis repercussions.He pointed out that the call for the Organization's Governing Board to convene an extraordinary session, comes within the framework of seeking to curb the effects of the crisis on the Organization's activities and to develop perceptions that would ensure the Organization's continuation of its activities in order to enhance the capabilities of the Arab Supreme Audit Institutions and improve their performance.

The Board also discussed a number of proposals related to enhancing the contribution of the Supreme Audit Institutions in dealing with the repercussions of the current crisis and the role of ARABOSAI in supporting it through adopted plans and programs.

The meeting concluded with an invitation to the Organization's structures, including its committees and the General Secretariat, to study the implications of the current situation on the Organization's performance and develop an exceptional plan on the activities proposed to support the member-SAIs in their response to this pandemic.

TAJIKISTAN

Appointment of the new Deputy Chairman of the Accounts Chamber of Republic of Tajikistan

Ahmadzoda Faizaly

Deputy Chairman of the Accounts Chamber of Republic of Tajikistan In office since November, 2012. Born in 1970, Tajikistan.

According to legislation of the Republic of Tajikistan Supreme Audit Institution of Tajikistan (Accounts Chamber of the Republic of Tajikistan), which is a collegial body, consists of Chairman, Deputy chairman and 5 Chief auditors that are appointed by Majlisi Namoyandagon (lower branch) of Majlisi Oli of the Republic of Tajikistan (Parliament) upon the proposal of the President of the Republic of Tajikistan.

On June 24th, 2020 Majlisi Namoyandagon of Majlisi Oli of the Republic of Tajikistan appointed Ahmadzoda Faizaly as the new Deputy chairman of the Accounts Chamber of the Republic of Tajikistan.

Ahmadzoda Faizaly

Deputy Chairman of the Accounts Chamber of Republic of Tajikistan
In office since November, 2012.
Born in 1970, Tajikistan.

1993 – 2001, Ahmadzoda served as Senior Auditor-Controller Supreme Department for State control and financial audit in the Ministry of Finance of the Republic of Tajikistan.

2001 – 2007, he served at different posts such as the Leading specialist, head of department and deputy of the Head office of the Financial state control of Committeeof the Republic of Tajikistan.

2007 – 2012 years, Ahmadzoda also served at the post of senior specialist and deputy of the Head Office in Agency for State financial control and combating corruption of the Republic of Tajikistan.

On November, 2012 Majlisi Namoyandagon Majlisi Oli of Republic of Tajikistan (Parliament) appointed him to the post of the Chief auditorof the Accounts Chamber of Republic of Tajikistan, where he served up to 2020.

On June 24th, 2020 Majlisi Namoyandagon Majlisi Oli of Republic of Tajikistan (Parliament) appointed him to the post of the Deputy chairman of the Accounts Chamber of the Republic of Tajikistan.

Married – have 5 childreen.
Fluent in Russian language.

TURKEY

Workshop on Evaluation and Audit of Government Financial Statistics (GFS)

The workshop on the evaluation and audit of government financial statistics, which was held in Ankara on 13-17 January 2020, ended. Mr. Deon Florian Tanzer, GFS Short-Term Expert in South East Europe, Statistics Department, Mr. Dr. Henrick Tillmann-Zorn, Fiscal Expert on Public Sector Debt, and Mr. Roderick O'Mahony, Statistician in Government Accounts and the TCA auditors participated in the workshop.

During the workshop, public financial statistics framework, practices of different countries, auditing of financial statistics and other significant matters were discussed.

Conference on Certified Financial Analyst (CFA) Certification Process in the TCA

A conference on Certified Financial Analyst (CFA) Certification process was held in the headquarters of the Turkish Court of Accounts on 8 January 2020 in Ankara. CFA Istanbul Director Mrs. Ike TAKIMO LU HOMRIS made an introductory presentation to the participants in the TCA Conference Hall.

Visit of Beijing Municipal Audit Bureau to the Turkish Court of Accounts

A delegation from the Beijing Municipal Audit Bureau headed by Ms. Ma LANXIA, Director of the Bureau, paid a study visit to the Turkish Court of Accounts (TCA) on 10-11 December 2019.

In the study visit organized with the theme of performance audit, information was shared with the guests on performance audit practices and experience of the TCA.

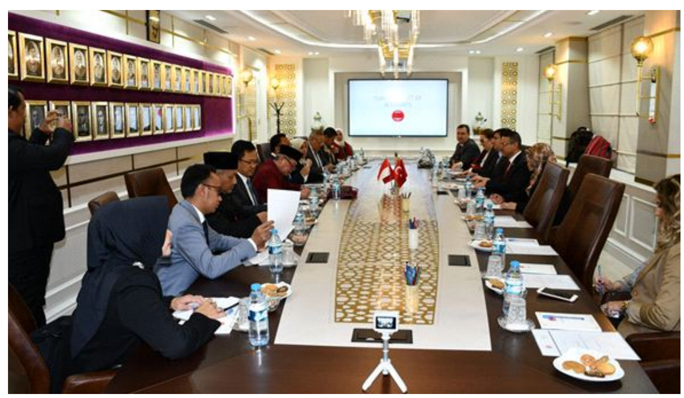
Before the start of the program, Mr. Seyit Ahmet BAŞ, President of the TCA, welcomed the visiting delegation in the VIP meeting room, gave information about the history and structure of the TCA and handed presents.

Visit of the Delegation from the Indonesian House of Representatives to the TCA

A 12-person delegation from the Indonesian House of Representatives, which was headed by Marwan Cik ASAN, Member of the Parliament from Democratic Party, paid a visit to our country to hold meetings with the Turkish Court of Accounts (TCA) and the Turkish Grand National Assembly Plan and Budget Committee. The delegation visited the TCA on 4 December 2019.

During the meeting in the TCA, the visiting delegation was provided information about the history and structure of the TCA, and the relations between the TCA and the parliament and the role of the TCA in monitoring the use of budget were explained.

In the meeting, friendly relations between the two countries were emphasized, and mutual wishes were expressed for the continuation of these relations and cooperation in international platforms.



Financial Audit Implementation Seminar held in Istanbul

Financial Audit Implementation Seminar, hosted by the Turkish Court of Accounts (TCA) with the participation of about 30 delegates from the SAIs of Belarus, Georgia, Iraq, Kosovo, Kuwait, Kyrgyzstan, Moldova, Mongolia, TRNC, Palestine, Qatar, Romania and Ukraine was held on 18-22 November 2019 in Istanbul, Turkey.

During the workshop, International Standards on Auditing and how they are implemented by the participant SAIs were discussed comparatively. Certificates of participation were presented to the moderators and participants at the end of the workshop.

Turkish Court of Accounts Chaired the International Public Audit on Energy Charter

Energy Charter Treaty is an international agreement, which includes the arrangements for the protection and promotion of energy investments, energy trade and energy transit, and our country is party to the Treaty. Upon the request of the contracting states, a decision was taken for the conduct of a Public Audit on the Secretariat of the Energy Charter by an international commission. The Audit Commission, which was chaired by an auditor from the Turkish Court of Accounts, consisted of 15 auditors from 10 countries/international organizations. The overall objective of the audit, which was carried out in the headquarter of the Secretariat in Brussels on 10-23 October 2019, was to provide the Energy Charter Conference with reasonable assurance on whether the Secretariat used the funds allocated in accordance with the principles determined by the contracting parties. The audit report prepared at the end of the public audit was submitted to the Strategy Group, one of the subsidiary boards of the Energy Charter, for final evaluation and provision of information to the Energy Charter Conference.

INTERNATIONAL ENERGY CHARTER

Visit of the UNHCR Delegation to the TCA

A delegation headed by Ms. Katharina LUMPP, Representative ofthe United Nations High Commissioner for Refugees (UNHCR) in Turkey, paid a visit to the TCA on 14 November 2019. Mr. Seyit Ahmet BA, President of the TCA, welcomed the delegation.

During the visit, the parties evaluated the activities conducted in line with the Memorandum of Understanding signed between the Turkish Court of Accounts (TCA) and UNHCR Turkey Country Office on the audit of UNHCR funds provided to government partners.

In addition, the audit reports prepared by the TCA on the use of UNHCR funds were presented to the UNHCR representative.

Information Technologies Audit Self-Assessment (ITASA) Workshop in Ankara

Mr. Seyit Ahmet BAŞ, President of the Turkish Court of Accounts (TCA), welcomed Pascale Stenne from the SAI of Belgium, Swiech Jasec from the SAI of Austria and Roland Mwesigwa from the SAI of Uganda, the representative for AFROSAI, who all attended the Information Technologies Audit Self-Assessment (ITASA) Workshop in the TCA.

The first ITASA Workshop was held in 2013, and the second one was held in the TCA on 6-7 November 2019. Mr. Zekeriya Tüysüz, Deputy President of the TCA, made the opening of the workshop. 18 TCA auditors attended the workshop, which was moderated by guest experts from three different country SAIs. In the 2-day long workshop, IT audit self-assessment was conducted for the TCA, and experience was shared on the problems faced by our colleagues in relation to IT audits and their solutions.

The Speech of Mr. Seyit Ahmet BAŞ at YES 2019

National Audit Office of the UK hosted the 4th YES Conference in London.

As the President of EUROSAI, Mr. Seyit Ahmet BAŞ delivered an opening speech on "Common Challenges for SAIs". Main difficulties President Baş emphasized in his speech included measuring audit quality, staying relevant and responding to emerging issues, IT audit and big data.

The other speakers at the opening session and their topics were as follows:

- Lord Michael Bichard, Chair of the UK NAO – Introduction to the conference
- Meg Hillier, MP, Chair of the Public Accounts Committee – What Parliament needs from an SAI

- Gareth Davies, UK Comptroller & Auditor General and Head of the UK NAO – Future challenges to public Audit

- David Hencke, (Journalist) - The importance of independence

- Nik Kirby, (Oxford University) - The importance of public trust

At the end of the opening session, Mr. BAŞ thanked Mr. Davies for hosting the YES Conference and for their kind hospitality.

President BAŞ presented Mr. Gareth Davies a plate named "aynalı yazı-kûfi hat" which was prepared to represent the Divan-ı İşraf, which is the auditing institution for the financial transactions of the state in the Karahan, Ghaznavid and Seljuk states.

Articles & Research Papers from Member SAIs

Problems in Implementation of PIFRA's New Accounting Model

Fahd Haider Buzdar

Director Finance, Pakistan Institute of Medical Sciences, SAI Pakistan

Abstract

Government of Pakistan, with the help of World Bank (WB) introduced project to improve financial reporting and Auditing (PIFRA) in 1996 to comply with the international accounting standards and as a part of it the New Accounting model (NAM) was introduced in order to cope with the pace of advancement in technology and bringing the rules, regulations and procedures in conformity with international best practices. In addition to that formal implementation of International Public Sector Accounting Standards (IPSAS) would facilitate the customization of the financial reporting formats as mentioned in NAM in conformity with relevant IPSAS requirements. Introduction of New Accounting Model, an essential component of PIFRA which provides a platform offering steps towards theoretical as well as practical changes across the country. The study aimed at understanding and assessing the extent to which NAM has been implemented in Pakistan with the introduction of PIFRA because the earlier system of classification and accounting was considered unsatisfactory due to number of technical omissions the modern accounting required.

Most of the structural reforms introduced by the government of Pakistan during the last decades can be seen as aspects of NAM, which, collectively, may be viewed as ways of improving accountability and control in the public sector. Often changes associated with NAM and its parallel systems in other countries like RA in UK are presented as technologies that can be implemented in an organized and coherent manner, resulting in knowledgeable managers making rational decisions based on maximizing the performance of their organization. This study, however, indicates a process of accounting change that is at odds with the seamless, decisive and low (or no) cost process that is articulated in the official Government literature related to NAM. Despite all odds the project brought significant reforms in the accounting system of Pakistan and keeping in view the scope and size of the project implementation of PIFRA and NAM seems to be miraculous in achieving its objectives in such a short span of time. Besides that, the implementation of accrual basis of accounting in various countries is also discussed in detail to assess the need, requirement and significance of accrual accounting in improving the financial reporting in government accounting.

The New Accounting Model sets the national standards of accounting and financial reporting is based on implementing modified cash basis of accounting and will gradually move towards the accrual basis. This requires use of skilled accounting staff to provide appropriate, relevant, and reliable financial information to support the fiscal and budget management, financial decision-making, and reporting processes.

Government of Pakistan with the help of World Bank (WB) introduced project to improve financial reporting and Auditing (PIFRA) in 1996 to comply with the above mentioned international standards and as a part of it the New Accounting model (NAM) was introduced in order to cope with the pace of advancement in technology and bringing the rules, regulations and procedures in conformity with international best practices. In addition to that formal implementation of International Public Sector Accounting Standards (IPSAS) would facilitate the customization of the financial reporting formats as mentioned in NAM in conformity with relevant IPSAS requirements.

PIFRA was part of greater reforms, highlighting the objective to increase the accuracy, completeness, reliability and timeliness of intra-year and year-end Government financial reports at the national, provincial and district levels. It also classified its intended outcomes in terms of internal and external stakeholders. The list of outcomes for internal stakeholders was: re-engineered business processes, prompt processing of claims, improved HR functionality, improved monitoring of budgets, accurate, timely and transparent reports, good governance, improved decision-making processes, cash forecasting systems, and an automated financial management system with greater internal controls, facilitating system-based audit, more visible audit trails, and a high level of accountability. Its impact for external stakeholders was: increased assurance, transparency and accountability in terms of public spending, compliance with international accounting standards, dissemination of information, confidence, reliability and trust for the public. This study will try to offer an insight into the context NAM and PIFRA by highlighting the ills rampant in the budgeting and accounting offices in the public sector of Pakistan.

Hence, PIFRA was offered as a solution to address the issues of the legacy system. The International Development Association (IDA) provided assistance to Pakistan Audit Department in addressing performance issues in three areas: Government financial management, computerization and training. The diagnostic study was part of this assistance. The same study was also mandated to recommend a long-term strategy to improve and integrate Government financial management at both federal and provincial levels. According to a brochure printed by the PIFRA Directorate (PIFRA brochure), the concept of Good Governance was seen as a basis for the entire framework of a deep-seated reform agenda. PIFRA was launched with the vision to “adopt and implement a modern accounting system designed according to recognized accounting principles and standards and based on modern information technology” (ibid). It was also meant to implement a governance structure and legal framework for an independent audit function. Improvement of the professional capacity among elements of the civil service responsible for fiscal management was also part of the vision, as was increased use of the private sector to supplement public sector resources, and the adoption of improved standards for private sector financial disclosure.

1.1. Linkage between PIFRA and NAM

Introduction of New Accounting Model, an essential component of PIFRA which provides a platform offering steps towards theoretical as well as practical changes across the country. It is also a fact that automation aspect of PIFRA was more emphasized and highlighted but NAM was actually there at the very heart of this entire implementation. NAM is in fact the process of shifting from cash basis of accounting to accrual basis of accounting. IFAC PSC defines accrual accounting in the following way in its Handbook of International Public Sector Accounting Pronouncements (IFAC, 2002): A basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses (p. 679).

The New Accounting Model is a compendium of 7 books: Accounting Principles Manual, Accounting Policies and Procedures Manual, Chart of Accounts, Accounting Guidelines, Accounting Procedures for Self-Accounting Entities, Book of Forms, and Financial Reporting Manual. Institutional and individual capacities in both the public sector financial management agencies, as well as the executive/service delivery formations were developed through implementation of a comprehensive capacity development program mainly sponsored by PIFRA.

1.2 The Conventional Accounting System

Before the introduction of NAM, the legacy system of accounting was in place that replicated by the new accounting model. A brief look at the legacy system in budgeting and accounting offices at all levels will enable us to appreciate the changes introduced by PIFRA. A study conducted by PricewaterhouseCoopers in 1992-93 (Diagnostic study) is a reliable source, providing ready reference, with which to begin. The PricewaterhouseCoopers study mentions that accounting reports 'failed to cater for the needs of users in terms of timeliness, reliability, completeness and presentation. Reliable financial information plays a pivotal role in the entire financial cycle, which includes planning, programming, budgeting, accounting and auditing.

According to the IMF' report of a diagnostic study on the Government of Pakistan's fiscal reporting system, the objectives of Government financial management should be aggregate control, cash and debt management, appropriation control and financial analysis. Lack of integration between budgeting and accounting data is another issue, as monthly civil accounts did not include budgetary data. Hence, a crucial comparison was missing, which should have been available for fund control and resource allocation. The report also highlighted the causes of this state of affairs: manual accounting operations were inadequate, considering the size and complexity of the Government's operations. Manual procedures led to extensive duplication, inefficiencies and delays in recording, processing and reporting reconciliation of financial information.

In addition to that, there existed a gap between the practical accounting and policies because important accounting data was missing due to absence of linkage with outside data. Besides that the internal control mechanism in the form of reconciliation were also missing. The financial responsibilities were also ambiguous and absence of management place, the financial roles and responsibilities of government were not clear thus lacking an effective reporting system. For instance, executive agencies were responsible for budget control but extensive pre-audit by the Pakistan Audit Department had undermined this responsibility. Effective internal controls over the accounting system were also missing. The focus of functional staff was on the maintenance of records, with over-control in minor transactions instead of systematic and effective control of key issues to ensure integrity of financial records and timely accounting of significant transactions. The department of AGP also lacked computerization to respond to the needs of the organization. Hence, the strategy suggested by the study revolved around long-term comprehensive and integrated computerization. Another critical area mentioned in the report on the diagnostic study was training, all aspects of which were questioned.

A pilot project for automation of various accounting organizations was initiated in 1988 and as a result one Accountant General's (AG) office and four District Accounts Offices (DAOs) were computerized to varying degrees, but this automation had certain drawbacks which were pointed out by the diagnostic study. These were: automation of the accounting function developed with no strategic plan, and the information needs of PAD were not kept in view; very few offices were even partly automated, and there was absolutely no question of integration; there was a lack of standardization, as different IT platforms were used and there were issues over interfacing with each other; there were difficulties in ad hoc reporting and insufficient audit trails; software maintenance was a major issue as the system's was outmoded and inflexible; and a comprehensive set of standards for developing, implementing and maintaining the computerized system was missing. Resultantly, except for few DAOs no timely financial information was available and offices space was wasted with huge stocks of registers and files. Some of the offices were automated for payroll purposes only leaving the rest of the payments and receipts un synchronized resulting in to frequent fraudulent payments. No reliable and timely periodic reports were produced hampering the financial decision making.[1]F

2. Literature Review

The idea behind introducing accrual-based accounting system is the preparation and use of new financial information for efficient and effective decision making at decision maker's level and to increase efficiency at the operational level besides improved accountability. There is a growing trend worldwide that government accounting is moving from cash basis of accounting to accrual-based accounting. This shift in the financial reporting structure was initiated in the later part of 1980s in Australia and New Zealand. The main focus of this accounting system is producing the departmental resource accounts based on main financial reports and to provide a chain of interconnected statements highlighting the resources, financing requirements, financial status and the aims and objectives of departments (Connolly).

Introduction of accrual accounting in accounting system of Pakistan takes precedence from countries like UK and Australia and this is discussed in the literature review. The government accounting system is based on cash based book keeping system instead of commercial system of book keeping. The main reason behind that is nature and scope of the work that include the sovereign functions and description of revenues and expenditures in the budget statements and not just the preparation of profit and loss account (Al-Mashari, 2002). Accrual accounting is the process of recording the expenditure as incurred income as earned during an accounting period which is contrary to the cash accounting system where cash payments and receipts are recorded when received. The accrual accounting principally emphasizes on the use and recording of capital assets. The accrual accounting was introduced in various countries world over like in UK this system was introduced in mid-nineteenth century. However, major reforms were introduced in early years of 1990 in various public sector organizations with the label of resource accounting (RA) in public sector in UK. (Sharma et al, 1999).

The accrual accounting system was also introduced in Sweden both at the local government and central government levels. Initially accrual-based accounting was introduced in various agencies of federal government but subsequently it was decided that a consolidated financial statement will be prepared for whole federal government organizations apart from state owned enterprises. This system was

Information by Javed Khan. AO, AGPR.

introduced in Swedish government as a part of reform agenda to support and improve performance management system. There are many flaws in the cash based accounting considering its relevance for value-for-money. (Paulson)

The need for shift towards accrual accounting was necessitated as a result of Enron corporation failure and as a result Sarbanes-Oxley Act was introduced to overcome the short comings of ledger accounting and to deal with the issues involved with accrual accounting like identification and valuation of assets held by governments. (George et al, 2006).

However, this system is well in use in private sector because there is a strong need for information for financial decision making and provides entity's financial performance which is purely a domain of accrual accounting. On the other hand, in government sector the working and performance is not evaluated on the basis of profit and loss, rather on service delivery, so there seems to be no need for financial information for investment decisions. Thus, the only requirement for financial information in government systems is to ensure accountability and performance evaluation and this feature are common for all governments (Saleh et al, 2006).

This budget focused accounting system is the specific feature in government accounting and in countries like Australia follow single entry accounting standards both in government and commercial entities. However, adherence to institutional standards is the essential for the public sector accounting framework besides use of qualified and competent accounting staff for the provision of accurate, timely and reliable accounting information that is required for efficient fiscal and budget management. PIFRA was introduced by the Auditor General of Pakistan, having the constitutional mandate to prescribe the rules and methods of account in the federation of Pakistan, for computerization of accounts for enabling the New Accounting Model and to bridge the gaps in Pakistan accounting system and to strengthen the public sector accounting to enhance the efficiency and effectiveness of financial decision making (Dawn, 2008). The PIFRA project is supporting the implementation of the New Accounting Model. Institutional and individual capacities in both the public sector financial management agencies, as well as the executive/service delivery formations are being developed through implementation of a comprehensive capacity development program mainly sponsored by PIFRA. The project was introduced in two stages first one was the design stage and second stage included change management. This was done through creation of demand and subsequently implementing it. The demand was created through awareness campaigns signifying the need and importance of a revised system of accounting and auditing along with capacity building of staff. The project was implemented at three levels i.e Federal, Provincial and Tehsil levels and separate servers were installed in the provinces and district accounts offices were integrated with these provincial servers. SAP was introduced as part of PIFRA and to meet the technical needs was a big challenge for Auditor General of Pakistan having a three-tier hierarchy the IDC officers, recruited through CSS, DC officers that include AOs and AAOs and auditors recruited through different procedures. So to train the people belonging to different cadres especially the third one being the actual implementing and operational level was a daunting task and to meet these demand SAP certifications were introduced. SAP has two modules the FI and HR based on the work role performed by the AG offices that include processing of bills and HR related role like preparing LPCs, processing pension cases and maintaining GP fund records. Bill tracking systems were introduced to track the pendency and status of bills.

3. Research Methodology

The primary objective of this research is to know the impact of PIFRA in improving the accounting standards in Pakistan besides knowing the problems in implementation of NAM. The research method for this study is qualitative research which will draw its data both from the literature review of the previous researches done in this field and interviews to be conducted from the concerned persons. The sampling technique in qualitative research focuses on purposive sampling with the aim to select the most productive sample to answer research question. In addition to, that journal articles will be reviewed because they are more precise and focus on a more narrowed down scope of analysis, compared to textbooks. Although textbooks are more general, they tend to be more diverse and provide detailed information on more than one topic area, and so in that regard, they help to turn this dissertation into a more critical piece of work. . Another generally used source to achieve research objectives is through the use of studies conducted by the major organizations like World Bank, IMF, Asian Development Bank and planning commission of Pakistan. Studies conducted by these esteemed institutions are useful, particularly for providing statistical information. They are highly trusted sources of information but a limitation of such studies is that when using information from there, it should not be taken at face value as the results arrived at are heavily dependent upon the methodology used. So, when using their findings, the methods used to arrive there should be questioned and considered. The fourth source of information used in this research is the internet. The benefits related to the internet are rather important, and a couple of its major advantages are; expediency and rapidity. Therefore, the information needed for an in-depth analysis on almost any topic, is easily available. Despite its ever-increasing attractiveness in the modern world, it is imperative to be vigilant and to question the reliability of the information sources online before embedding it into an analysis.

Therefore, not-very-well-known sites are avoided in this dissertation. Another key restraint behind these research methods is that some data may not be relevant due to an ever-changing working environment and economic conditions prevailing in a country. This makes the Data rather irrelevant, having a negative impact on the conclusions. Consequently, to attain the objectives of this research effectively, research is approached with great focus so that only the most relevant, reliant and up-to-date information is selected for analysis. The data used in this study is a mix of primary and secondary data mainly coming from interviews and study of a number of journals; namely the Journal of International Financial Management and Accounting, Journal of Accounting Research, Journal of Accounting and Economics, Journal of Accounting, Auditing and Finance, and so on. Morris (2003)has defined secondary data which is not tailored to suit an individual's particular needs, but 'obtained from published sources.

The topic of this dissertation can be referred to as a theoretical analysis of PIFRA and its impact on Pakistan's economy and its institutions through implementation of NAM; it has the benefit of not relying on external parties to determine the outcome of the study. However, constructing this paper on secondary data analysis has immense benefit as it is considered a lot more independent and reliable than relying on primary data. Another benefit of secondary data is that it is already published and available, meaning that in most cases, it is easily available.

4.1.1. New Accounting Model

PIFRA is supporting the implementation of the New Accounting Model through the implementation of computer accounting hardware and software application to all district accounts offices. This is known as the change management which is explained as follows: “It is essential in the project to have employees supportive to change, therefore it is intended to employ external support of behavioral scientists in this area to improve our communication with the staff, to understand their fears and their expectation in an objective manner, so that the Auditor General of Pakistan (AGP) and his staff make a well-knit team. Consultancies would be needed in this regard to achieve the following: preparing a detailed manpower plan and then reviewing it; preparing job descriptions; developing quantitative performance standards; developing a quantifiable, transparent, output-oriented performance evaluation system and an MIS for HRM functions; preparing a statistical database model for manpower planning to enable the AGP and the field offices to recruit, train, place and promote employees in a proper manner; preparing a 'change model' for the organization, keeping in sight the totality of the project, the changes contemplated and the utilization of available resources”.

The new accounting model (NAM) was introduced in 2000 through an approval by the Auditor General of Pakistan and the Chief Executive of Pakistan. It was initiated by the government of Pakistan with the help of World Bank funded project PIFRA to improve the traditional government accounting system by bringing in a shift towards modified cash basis of accounting, double entry book keeping, commitment accounting and fixed asset accounting as well as accrual accounting of debt and opening of separate bank accounts of public accounts and confidential funds in the SBP. The key objective of NAM was to help produce timely, reliable, relevant, accurate and comprehensive financial report for the decision making to enable effective accountability, better financial governance and cash forecasting, cash management. To achieve the above-mentioned objectives a multidimensional Chart of Accounts along with six books was issued by the AGP. The SAP ERP system was selected to implement the project.

4.1.2. Achievements

All the government receipts and payments under jurisdiction of AGPR/ DAO/ TOs are recorded in the SAP data base system as per COA along with comprehensive additional details. The budgetary management, financial control, cash forecasting, trend analysis and accounts reconciliation and reporting has improved a lot to the extent of AGPR/ AG/ DAO/ TO using SAP system. Online access has been made available to the field audit, CGA and some of the ministries/ divisions/ departments. The salient features of NAM are as follows:

4.1.3. Modified Cash Basis of Accounting

This is a system of accounting using element of both the cash basis and accrual basis of accounting .In the cash basis of accounting a transaction is recognized when there is either incoming cash or outgoing cash resultantly receipt of cash from a customer trigger the recordation of revenue and the supplier payment triggers the recording of an asset or expense. While expenses recorded when the incur disregarding the changes in cash. This modified system of cash basis of accounting establishes a position between the cash and accrual basis having following features:

i. Records short-term items when cash levels change (the cash basis). This means that nearly all elements of the income statement are recorded using the cash basis, and that accounts receivable and inventory are not recorded in the balance sheet.

ii. Records longer-term balance sheet items with accruals (the accrual basis). This means that fixed assets and long-term debt are recorded on the balance sheet, and depreciation and amortization in the income statement.

The modified cash basis of accounting provides more relevant financial information at a generally lesser cost than required to maintain a set of full accrual accounting records compared the cash basis. So, it can be a cost-effective approach to book keeping. This is in fact a double entry accounting system so that the resulting transactions can be used to construct a complete set of financial statement. It is not possible to have a modified cash basis of accounting using single entry system.

4.1.4. Commitment Accounting

Commitment accounting is defined as an obligation for future payment. It arises when an entity issues a purchase order having legal binding. It is pertinent to mention here that only commitments having significant values need to be recorded. The commitments are booked against available funds in any budgeting and accounting system to ensure that the funds are not spent for the purpose not specified. The commitments relating to a particular year will e reversed in order to be scrutinized by the AG offices and Ministry of Finance (MoF). The provision will then be made available in next year appropriation for reinstating commitments valid in the next financial year. There are multiple ways to show commitments like adding cash expenditures or to be shown separately. The expenditure needs to be reported in the main body on cash basis to be adjusted subsequently. Commitment is recognized only when there is a proper authorized obligation to make a payment against the schedule of authorized expenditure.

4.1.5. Fixed Asset Accounting

Another important component introduced by NAM is recording of fixed asset which would help in effective maintenance of assets and monitoring. The availability of list of fixed assets along with their value would be of greater help in assigning responsibility for care and maintenance of assets.

4.1.6. New Charts of Accounts

A new chart of accounts in the form of a manual was introduced providing a detailed coding structure and various elements of chart of accounts replacing the existing chart of classification of the federal and provincial government's receipts and disbursements. This manual provides the means to record details of transactions and supplements the Accounting Policies and procedural Manual (APPM), Financial Reporting Manula (FRM) and Manual of Accounting Principles (MAP). The manual has two sections. The first part deals with explanation of the structure, concepts underpinning the chart of accounts, and guide on usage of the chart of accounts. The second part, being the appendices, shows the detailed account codes.

4.1.7. Asset register

Recording of fixed assets and liabilities is another important feature of NAM or modified cash basis of accounting having much significance for decision making and necessary disclosures in the financial statements. The New Accounting Model (NAM) originally proposed in the PC-I of PIFRA talked about overhauling the entire structure; this was discussed in detail in the fourth aide-Memoire. It was considered that it would be good technical progress towards achieving the main aims of the project, which was to offer an integrated comprehensive accounting system on the basis of fiscal reporting and financial management. The then system of budget classification and accounting has been declared unsatisfactory by a number of technical assistance missions of the IMF and World Bank. According to them, budget classification mixed various classification concepts in a way that did not allow easy fiscal analysis; as it did not integrate the different elements of budget activity in a systematic way. Moreover, the new accounting framework would maintain all technical distinctions between different elements of Government accounting and budget activity, and would allow multiple analytical views covering all dimensions of Government finances. The logic behind its adoption was that it would be a major step forward, bringing the system in line with emerging international standards for Government accounting and fiscal reporting. It would also be consistent with important aspects of the IMF's code of good practices on fiscal transparency and would be easier for the Government to implement GFS (Government Finance Statistics) standards (Tajammal, 2014).

5. Findings and Discussion

Most of the structural reforms introduced by the government of Pakistan during the last decades can be seen as aspects of NAM, which, collectively, may be viewed as ways of improving accountability and control in the public sector. Often changes associated with NAM and its parallel systems in other countries like RA in UK are presented as technologies that can be implemented in an organized and coherent manner, resulting in knowledgeable managers making rational decisions based on maximizing the performance of their organization. This study, however, indicates a process of accounting change that is at odds with the seamless, decisive and low (or no) cost process that is articulated in the official Government literature related to NAM. The real benefits of NAM can be achieved when lower-level managers understand and use such information like the drawing and disbursing officers who either have no access to NAM or not trained to use this system properly. However, “Operational Accountant” participants indicated that this was certainly not yet happening and pointed to recurring problems understanding the NAM information, which was perceived as being difficult to prepare, understand and use. Some participants believed that this complexity merely served to undermine any potential that NAM had to deliver its key objective of improving decision making in, and accountability by, the public sector. In the few situations where mention was made of NAM use, it was alluded to in the context of high-level discussions in departments, rather than in terms of operational managers utilizing it to influence day-to-day decisions. This problem is anticipated by many writers like Aldwani (2001) &Bancraft (1999) who stressed a potential tendency for changes in the public sector to occur at a fairly high level and not impact on lower levels.

It was the inherent concern that by introducing NAM will to lead to increased costs (despite official denials), and that any benefits were likely to be slow to emerge, perhaps this "uncertainty" was seen as necessary by those patronizing this change, although an approach at odds with a rational approach to accounting change. Indeed, it was opinioned that the production of accurate cost information as part of an ex-post evaluation was unlikely to be welcomed by those promoting NAM. This implies a process of understatement, official denial and obfuscation of cost had developed (perhaps deliberately), and this has possibly served to reduce both transparency and informed debate regarding the appropriateness of NAM. For example, Rubin (2000), while commenting on budget reforms, argues that often the only way reformers get proposals accepted is to make exaggerated claims. She is of the opinion that government often use a wide variety of strategies to get reforms accepted, and that some of these strategies include producing difficult-to-substantiate arguments that there is a need for the change which will have future economic benefits. Indeed, Rubin suggests that this can result in the presentation of figures of dubious accuracy and the construction of arguments that is vague rather than elucidating the key decisions. As a result, she argues that the appraisal of any change should possibly be made against the status quo rather than the overstated claims made by the supporters of the change.

These conditions meant that the timetable for implementing NAM was always likely to present challenges to departments; and this proved subsequently. The interviews provided evidence that a number of departments were thriving to meet the elicit points due to, lack of resources, lack of needed information and lack of understanding of the concepts. Besides that, the departments with little accounting system infrastructure prior to devolution were mainly ill prepared to implement NAM. The study of the project revealed following issues in the implementation of the project:

i. Since inception of the project and implementation phase PIFRA has faced many issues and challenges. The first and foremost issue was its vast implementation instead of initially focusing on pilot projects and observing their workings. This was a major shift from legacy system of accounting commonly known as ledger accounting, which was in conflict with the individual interests accustomed with the older systems. This was not just an issue of negative intent but lack of technical expertise and capacity was also a major cause so the implementation faced major resistance at all levels until some technical expertise were developed and several training sessions and workshops were conducted to allay the fares and confusions. Secondly, the software was not in accordance with the needs and requirements of accounting system in Pakistan. So even after having so many SAP certified personnel we have not attained the targets and desired results. [2]

ii. The second most important issue that remained unanswered is self-accounting entities were neither brought in the ambit of PIFRA nor included even after the completion of the project. These self-accounting entities include the Military Accounts department, Railways, Ministry of Foreign Affairs, Pakistan PWD and authorities like ERRA being the largest spending units are not under the domain of PIFRA. [3]

iii. Project accounting is another important issue that remained unanswered and unresolved under PIFRA. Project accounting involves creating of project accounts, maintaining record relating to projects like contracts and change orders,

[2] Information by DR. Attique
[3] Information by Munawar Hussain.

access to project accounts including details regarding transfer of expenses, time management, overhead charges, and review accounts related to projects assets and expenses and variance reports to the management.

iv. Succession planning is also another issue that remained unresolved under PIFRA resulting in to monopolies of consultant firms and making some people indispensable. Absence of succession planning is also a major cause for failure of projects due to lack of project management skills, poor leadership skills and inadequate training in project management. This improper managerial succession not only hinders the proper resource management but also leads to project failure. [4]

v. Asset accounting is also an important issue not covered by PIFRA. Asset accounting is a tool used in many countries to keep record of assets owned covering entire life from issuance of purchase order to its retirement. This helps the financial managers for allocation of resources but this important area remains missing or unutilized under PIFRA.

vi. The chart of accounts introduced under NAM still contains outdated codes, duplications; errors and does not fully meet the needs to obtain desired results.

vii. The line departments have not adopted the COA in true spirit. The transactions of billions of rupees remain unclassified with the title miscellaneous "or "other". Thus, reliable and relevant information is still missing.

viii. The commitment accounting and asset accounting (the main theme of NAM) are yet to be implemented.

ix. The Pakistan Railways, Pakistan Post Office, National saving centers, Defense services are still outside the preview of NAM. These organizations are maintaining their accounts manually using outdated accounting procedure of British Era commonly known as the legacy system.

The New Accounting Model aimed at overhauling the entire accounting structure in Pakistan considering it a means towards technical advancement and to achieve an integrated comprehensive accounting system for fiscal reporting and financial management.

6. Conclusion

The study aims at understanding and assessing the extent to which NAM has been implemented in Pakistan with the introduction of PIFRA because the earlier system of classification and accounting was considered unsatisfactory due to number of technical omissions the modern accounting required. As discussed earlier the project was envisioned by the World Bank and IMF it was proposed that this new accounting model will ensure the distinction between government accounting and budgeting activities encompassing various facets of government financial systems. Various aspects have been discussed starting from the need for PIFRA, the shifting from traditional accounting to accrual basis of accounting, benefits of accrual accounting and the missing areas which the project failed to implement. The implementation remained slow initially due to resistance put by various segments of the stakeholders involved either due to technical or personal reasons because it is human nature that they are averse to change. Consequently, a number of best practices proposed by the project were not accepted by the project users due to their insistence on maintaining old routines which were bound to change as a result of automation at all organizational level. Then absence of trained staff to run this system efficiently and effectively was another factor that culminated in to poor implementation of the project and despite having a large number of SAP certified personnel the desire results of the project could not have been achieved. There is another view prevailing among the researchers that one possible reason for this failure is excessive certification and over emphasis on higher qualification rather than having necessary technical expertise because this has an adverse effect on the working of the staff resulting due to peculiar working conditions and job structure in government services. This argument gains substance from the aide-memoires of the project as well which stated that in future the induction in the Pakistan Audit and Accounts service will focus on specialized technical requirements besides improving the minimum technical requirements for induction of staff at all levels. Another aspect that needs to be considered is the role of host organization in the implementation of a project. Though World Bank played a significant role in introducing and implementing the project but to lead the project and have proper ownership was the responsibility of management of Auditor General of Pakistan for its continuity and reforms. Despite all odds the project brought significant reforms in the accounting system of Pakistan and keeping in view the scope and size of the project implementation of PIFRA and NAM seems to be miraculous in achieving its objectives in such a short span of time. Besides that, the implementation of accrual basis of accounting in various countries is also discussed in detail to assess the need, requirement and significance of accrual accounting in improving the financial reporting in government accounting.

7. Recommendations

Since the inception of the project, it was emphasized that in order to achieve maximum benefits from implementation of NAM a technical cadre must be there to operate the system. The donor was assured many times by the finance ministry that a technical cadre will be established having a special pay structure but no practical steps were taken showing lack of will and intent on the part of government to properly implement the system and proved to be time consuming tactics merely. Keeping in view certain recommendations are made for future projects:

i. Training need analysis was missing which should have been there to make training more effective tool to implement a mega change in the practices and routines of the Government.

ii. Training in budgeting offices and accounting offices have different dimensions which must be enforced. Moreover, it should be an ongoing activity to make users comfortable with the new system and become agents of change.

iii. Change Management at all tiers of the Government including accounting offices was hardly effective. To derive the maximum boons of the new system, this area needs to be reinforced.

iv. The shortcomings in NAM need to be addressed. For instance, commitment accounting as a concept was introduced but it could never be implemented. The asset register is another area which should have been maintained but it is still not in vogue a strategy needs to be devised to deal with this issue.

v. Financial reporting manual is still not in use by the stakeholders which should be reinforced as the legacy reports cannot be ultimate format for all times to come.

vi. Ownership by the Government at its all levels was non-existent as the entire project was dubbed as the project of the Auditor General. This misperception needs to be dispelled. Hence, this alienation by the Government was a bad omen for the project.

Interviews with:

- Interview with Information by Javed Khan. AO, AGPR.
- Interview with Dr. Attique, Director, Asian Center for organization development.
- Interview with Mr. Munawar Hussain, DG, IT, O/O AGP.

Aladwani, M. A. (2001) 'Change management strategies for successful ERP implementation', Business Process Management Journal,7 (3), 266–275.

Al-Mashari, M. (2002) 'Implementing ERP through SAP R/3: A process change management (PCM) perspective', King Saud University Journal-Computer & Information Sciences Division,14, 25–37.

Arnaboldi, M., and Azzone, G. (2004) 'Benchmarking University Activities: An Italian Case Study', Finan cial Accountability & Management, 20(2), 205-220.

Bancroft, N.H., Henning, S., and Sprengel, A. (1997) Implementing SAP R/3: How to introduce a large system into a large organization, Greenwich, CT: Manning Publications Co.

Bingi, P., Sharma, M., Godla, J. (1999) 'Critical issues affecting an ERP implementation', Information Systems Management, 7-14.

Booth, P., Matolscy, Z., and Wieder, B. (2000) 'The impact of enterprise Resource Planning systems on Accounting practice-The Australian Experience', The Australian Accounting Review, 10(3), 4-18.

Boudette, N. E. (1999) 'Europe's SAP scrambles to stem big glitches',The Wall street Journal, November 4.

Bromwich, M., and Lapsley, I. (1997) 'Decentralisation and Management Accounting in Central Government: Recycling Old Ideas', Financial Accountability & Management, 13(2), 181-201.

https://www.dawn.com/news/838853/upgrading-government-financial-reporting. Accessed on 15, (September, 2018)

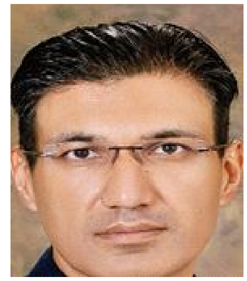
GEORGE J. BENSTON, MICHAEL BROMWICH ANDALFRED WAGENHOFER (2006). Principles-Versus Rules-Based Accounting Standards: The FASB's Standard Setting Strategy. ABACUS, Vol. 42, No. 2.

http://www.pifra.gov.pk/nam.html. (Accessed on 10, September, 2018)
Rubin, I.S. (2000), The Politics of Public Budgeting: Getting and Spending, Borrowing and Balancing, 4th ed., Chatham House Publishers Inc., Chatham, NJ.

TajammalIllahe.(2014). University of Essex.A thesis submitted for Doctor of Philosophy.

ZAKIAH SALEH & MAURICE W. PENDLEBURY (2006), Accruals Accounting in Government – Developments in Malaysia. Asia Pacific Business Review. Vol. 12, No. 4, 421–435.

Maintenance of Public Integrity for effective COVID-19 Response and Recovery

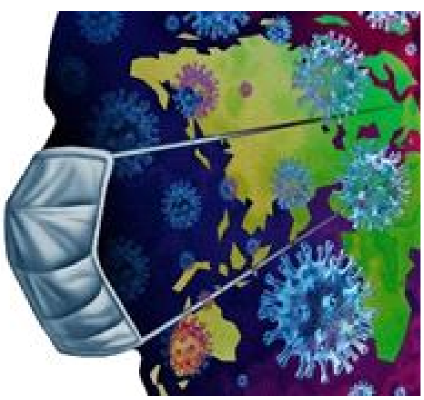


Muhammad Afnan Alam

Director International Relations & Coordination, SAI Pakistan

The COVID-19 crisis is obliging governments to make quick decisions and implement drastic measures to protect communities at risk and limit the economic consequences that will follow. Past crises have shown that emergencies and subsequent rapid responses create opportunities for integrity violations, most notably fraud and Corruption, severely weakening the effectiveness of government action. Although fraud and Corruption are not new phenomena, early evidence shows that they are occurring during the current crisis. At the same time, experience suggests that their effects will likely be intensified in the near future.

For example, there are instances of contracts for personal protective equipment being awarded to dubious companies; price gouging of essential medication and healthcare equipment; doctors stockpiling treatments for friends and family; or various types of online fraud, amongst others. (Delić and Zwitter, 2020; Babinec, 2020)



Also, as governments transition from addressing the immediate crisis to focusing on economic recovery, integrity violations may continue to rise and undermine recovery efforts. It is therefore imperative that fundamental safeguards of integrity, including transparency and accountability of the public finances, are not weakened or disregarded in both the immediate response as well as the longer-term recovery from COVID-19.

The following three issues deserve particular attention, as they have a high impact on the success or failure of current and future government interventions:

- Integrity challenges in public procurement.
- Accountability, control and oversight of the economic stimulus packages.
- Increased risks of integrity violations in public organizations.

1. Integrity challenges in public procurement

Fraud, Corruption, price gouging, and managing suppliers

The COVID-19 crisis has created three main integrity challenges for governments in the area of public procurement. First, governments urgently procured large quantities of goods and services, such as hospital equipment, medical ventilators, hand sanitizers, face masks, and health services, to meet the immediate needs of the health sector and affected communities.

To address this, many governments enacted or reinforced their emergency procurement procedures, using provisions that authorize and specify special procedures for emergencies. These provisions allowed to procure necessary supplies directly from or via a pre-approved list of suppliers, without going through the standard, albeit lengthy, procurement processes.

This increases the integrity risks of procuring services and goods that do not meet quality standards and/or that are procured through corrupt means. While risks of fraud and Corruption are always present in public procurement, they are elevated in emergency procurement processes. Past health and humanitarian crises, such as Hurricane Katrina in 2005 or the Ebola outbreak in 2014-16, have shown how these processes can be abused at the expense of those most in need of said goods and services (Schultz and Søreide, 2008). Without the proper integrity and transparency safeguards in place, such emergency processes are vulnerable to abuse.

A second integrity consideration emerging from the COVID-19 crisis is the lack of stockpile preparedness across many countries, leading to increased competition for necessary supplies globally. In this situation, the mechanics and bargaining powers of the public and the private sectors are reversed. Thousands of contracting authorities and private institutions scoured the market for the same products that are produced by only a small number of suppliers. Furthermore, production in some of these companies was suspended or severely affected by the lockdown measures.

This exacerbates competition among public agencies and introduces haphazard practices in what is being described as an extremely chaotic market (Tanfani and Horwitz, 2020). Additionally, many countries introduced export curbs to satisfy their national needs, which affects product availability on a global scale.

Given market dominance, many transactions took place off-book, and price volatility is extreme, with often significant advance payments required by vendors (Folliot Lalliot, 2020). This could contribute to a paradigm shift in corrupt schemes, as buyers could now corrupt sellers to receive essential goods and services -- the reverse of what typically happens. Further, this risk could diffuse throughout the supply chain, since many of the supplies needed to rely on scarce raw materials.

Finally, besides the procurement of goods and services required to address the current COVID-19 crisis directly, governments also had to manage ongoing public contracts. They must identify those particularly at risk and provide adequate responses for suppliers severely affected by the crisis and its impact on economic development.

Governments, alongside their contracting authorities, must ensure that the suppliers most at risk are in a position to resume normal contract delivery once the Outbreak is contained.

Public procurement legislation often provides exceptional measures for paying ongoing contracts in emergencies, for example, allowing specific advance payments or exempting suppliers from penalties for the deficient performance of contracts. Such derogations to established practices that govern contractual relationships could open the door to corrupt practices, should those derogations not be subject to transparent guidelines communicated to all contracting authorities.

Some governments developed strategies, regulations and guidelines in place to help their contracting authorities manage their supplier's portfolio, and making sure that fair, transparent and equitable mechanisms continue to govern contractual relationships. For example, the central purchasing body of Ireland, the Office of Government Procurement, developed an information note on good practices for contracting authorities during the COVID-19 Outbreak (Office of Government Procurement, 2020).

Similarly, the Ministry of Internal Affairs and Communications of Japan issued "Measures to be taken for public procurement by local governments in response to COVID-19" (Ministry of Internal Affairs and Communications of Japan, 2020). In the United Kingdom, the Cabinet Office issued a procurement policy note on "Supplier relief due to COVID-19" (Cabinet Office, 2020). To ensure business and service continuity, the policy note provides that contracting authorities should pay all suppliers as quickly as possible to maintain cash flow and protect jobs. The note also emphasizes that contracting authorities and suppliers should work collaboratively to ensure there is transparency during this period. Suppliers in receipt of public funds on this basis and during this period must agree to operate according to an 'open book' policy. This means they are required to make any data, including from ledgers, cash-flow forecasts, balance sheets, and profit and loss accounts, available to the contracting authority as requested, to demonstrate that payments have been made to the supplier under contract in the manner intended. Similarly, France and Italy also developed and implemented new emergency procurement laws or guidance that dealt specifically with the COVID-19 crisis (Dentons, 2020; Brenot, Billery and Feroldi, 2020).

1.1 Short-term measures to ensure integrity in ongoing procurement processes

The current crisis required governments to take several measures to ensure integrity in public procurement processes. These include:

i. **Maintaining and retaining documentation of procurement processes:** Basic documentation and record-keeping requirements should apply, including the recording of information about procurement proceedings, any departures from or modifications of standard procurement procedures, the solicitation and submission of bids, recording of the grounds for any use of non-competitive procedures, information on bidders, evaluation of bids and contract awards.

ii. **Developing detailed guidelines on procurement strategies under a crisis,** which deal not only with the procurement of emergency products but also with good practices to document the management of ongoing contracts or procedures.

iii. **Putting further emphasis on contract management** so that established procedures are applied to reinforce accountability and transparency.

iv. **Favouring existing collaborative procurement instruments such as framework agreements** whenever possible to avoid awarding contracts without any competition and conduct emergency procurement within an already established contractual framework.

v. **Ensuring maximum openness of information, including open data,** as well as full disclosure of the measures used and their destination, stored in an accessible location.

vi. **Setting up a central price and supplier tracking system for critical products and services** that helps with identifying red flags, collusion, price gouging, counterfeits and other misbehaviors.

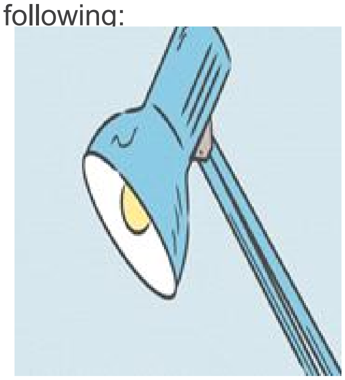
vii. **Subjecting all emergency procurement processes to audit and oversight.**

viii. **Adapting audit and oversight strategies,** as well as analyses of potential corrupt patterns to the COVID-19 situation, where bargaining powers of the public and the private sectors are drastically reversed, including effects on competition.

ix. **Respecting the sunset clauses** in place for the emergency procurement rules and extending only after applicable approvals (e.g. parliamentary oversight).

1.2 Long-term measures to improve emergency preparedness in public procurement processes

The COVID-19 crisis is already revealing gaps in existing emergency procurement plans, with some countries lacking the ability to respond quickly. Governments have had to rush to prepare legislation and policies to ensure they can secure the required goods. Similarly, the lack of available stockpiles shows a vulnerability in preparedness. These issues present multi-faceted challenges, including those related to integrity and transparency. To address integrity challenges in the long term, once the immediate emergency is over, governments can consider the following:



i. **Reviewing existing emergency procurement legislation** to ensure that it is relevant for future global health emergencies, thereby avoiding the need to create new legislation or guidelines under tight time frames.

ii. **Using or expanding existing e-procurement platforms** to record transactional information on the procurement of emergency items. A database could be created to analyse bidding patterns and identify potential red flags, signalling risks posed to integrity.

iii. **Allowing remote access by auditors and oversight bodies** to all procurement records, to ensure that audits can continue despite restrictions on carrying out physical inspections and paper-based reviews.

iv. **Ensuring an appropriate cadre of trained public officials** who have the skills to carry out an emergency procurement procedure.

v. **Preparing mechanisms to address future supply-chain disruptions for critical goods or services** that are becoming evident in the crisis, for example, the provision of personal protection equipment, since a shortage in supply is creating more potential for Corruption. The European Union has already decided to develop a stockpile of emergency medical equipment in this regard (European Commission, 2020).

vi. **Creating digital and easily accessible tools to allow the public to track all emergency purchases** undertaken in line with emergency procurement measures (Salazar, 2020).

1. Accountability, control and oversight of the economic stimulus packages

High risks and low controls

To mitigate the economic recession caused by COVID-19, governments are developing significant economic stimulus packages. Previous experiences with economic stimulus packages, most notably the one following the 2008 global financial crisis, show that the breadth and scope of such measures offer opportunities for and high risks of Corruption, fraud, waste and abuse (Zagorin, 2020; Office of the Auditor General, 2010). Paradoxically, governments are relaxing controls to urgently spend funds, further amplifying these as well as strategic and operational risks, which can undermine the effectiveness and efficiency of such programmes.

This context puts pressure on public financial management systems and more specifically, internal control systems within public organisations. For instance, the pace of implementation of the economic stimulus packages requires adapting or relaxing routine control measures and ex-ante due diligence. This can also involve simplifying requirements, such as limiting or delaying reporting, to allow managers time to focus on delivering services to the public.

Moreover, this situation was exacerbated by disruptions to the institutions that are typically responsible for accountability and oversight in government. These include internal audit functions, supreme audit institutions and parliamentary oversight committees.

For example, in some cases, parliamentary oversight committees were suspended, due to public health concerns or concerns over expediency. Many supreme audit institutions (SAIs) were also facing difficulties conducting audits and postponed the publication of audit reports.

Despite the pressures facing internal control, internal audit and oversight functions within government, it is vital to recall that these actors play a critical role in ensuring that public integrity is not compromised in the management of the economic stimulus packages and that these, in turn, produce the intended economic benefits. For example:

i. Internal auditors can act as backstops to address any temporary control gaps and flag risks to management as controls and requirements change, and can provide real-time assurance on the validity of transactions as a result of emergency measures, using data matching and other analytical methods.

ii. SAIs can keep abreast of the modifications made to the public financial management systems and identify potential risk areas (Gurazada et al., 2020) and, where necessary, adapt their routine end-of-year report audit activities, due to the volume of additional demands on the SAI's audit capacity.

iii. Internal audit functions, SAIs and other oversight bodies can help promote transparency and high-quality open data to enlist the public in holding government officials accountable. The 2008 financial crisis and the subsequent recession offer useful examples for the current circumstances, demonstrating the mutual dependencies of transparency and accountability. In the United States, the Recovery Accountability and Transparency Board, which coordinated the work of the inspectors general monitoring the implementation of the American Recovery and Reinvestment Act of 2009, created an analytical platform that could identify recipient anomalies and then tasked the inspector general for the particular programme to address issues. This had the dual benefit of preventing both fraud and Corruption, while also building the capacity of the inspector general functions within the line ministries (Zagorin, 2020). The public platform, Recovery.gov, allowed journalists and citizens to track their taxpayer money and see how the government was spending it.

Both internal and external auditors are also well placed to support governments in managing risks in the short term. For instance, they can provide useful insights to decision-makers on the integrity risks associated with emergency measures, such as cash outflows to businesses and individuals.

2.1 Short-term measures to ensure accountability, control, and oversight in the management of economic stimulus packages

To ensure that the internal control, internal audit and oversight functions can exercise effective accountability and supervision of the economic stimulus packages, several measures could be taken immediately. These include:

i. **Ensuring that SAIs and internal audit functions have the resources they need:** For instance, the United States' stimulus package also allocates funding to the Government Accountability Office (GAO), the SAI, enabling it to assist Congress in conducting oversight of overspending concerning the current crisis. As such, governments can allocate, where necessary, the appropriate funding to ensure the required resources for conducting real-time audits of the economic stimulus packages.

ii. **Establishing or leveraging existing legislative committees:** For example, in New Zealand, a bipartisan parliamentary oversight committee has been developed and given the task of overseeing the government's response to the current crisis, including the economic stimulus package. The Committee meets remotely via video conferencing platform and publishes these meetings online to ensure transparency.

iii. **Establishing specialized oversight bodies, while ensuring they have a clear and coherent mandate relative to existing accountability actors:** For instance, the Pandemic Response Accountability Committee was established to provide oversight of the economic stimulus package in the United States. To avoid duplication and draw on existing capacities, the Committee will be made up of independent Inspectors General with responsibilities for conducting and coordinating audits and investigations to provide accountability and identify waste, fraud, and abuse in crisis-related spending (Committee on Oversight and Reform, 2020).

iv. **Articulating clear responsibilities and lines of communication to ensure that all public officials are accountable for their actions (NSW ICAC, 2020):** As noted, the COVID-19 crisis and economic downturn creates risks for the public financial management system and the standard policies and processes for internal control and risk management. While some controls may be relaxed to meet immediate needs, and the work environment has temporarily changed due to social distancing measures, managers remain a critical "first line" of assurance. Programme management can reinforce this individual responsibility and at the same time, communicate the expectations to all staff of the need for continued vigilance over public funds.

v. **Ensuring that the appropriate integrity risk assessments are carried out:** Given the rapid pace at which these programmes are required to be rolled out, it may not be feasible to conduct a comprehensive integrity risk assessment. Public officials can, at the very minimum, be encouraged to document and report any obstacles and workarounds as they arise (NSW ICAC, 2020). This can include documenting changes to control activities to accommodate short-term objectives.

2.2 Long-term measures to leverage the role of external oversight to prepare for the recovery

External oversight bodies can be a key partner for governments as they transition from the immediate crisis and prepare for the long-term repercussions. In particular, auditors can highlight the potential for emerging integrity risks associated with longer-term recovery measures. For instance, auditors can report to decision-makers on ex-post lessons learned to improve policy-making, especially on preparedness for future crises. Performance audits can give a broader perspective than just the financial and compliance aspects, and provide insights about the effectiveness, efficiency and economy of the programme, thus fulfilling their obligation to be "a credible source of independent and objective insight and guidance to support beneficial change in the public sector" (INTOSAI, 2013[26]).

SAIs can also adopt a risk-based and data-centred approach while going beyond oversight to offer insights and foresight for better managing both the crisis and its aftermath. In particular, SAIs can support the centre of government and other public organizations, to identify and interpret evidence that can shape policies and improve the government's capacity to act in real-time in the face of evolving issues and risks.

3. Increased risks of integrity violations in public organisations

Economic downturns lead to more Corruption and occupational fraud

While the majority of public sector employees have high standards of integrity, evidence from past recessions has shown that economic downturns lead to increased occupational fraud, embezzlement, bribery of public officials, and other integrity violations (Association of Certified Fraud Examiners, 2016; Ivlevs and Hinks, 2015; Gugiu and Gugiu, 2016). Such risks increase when the following three factors are at play, which is particularly the case in sudden economic downturns: financial pressure, opportunity and rationalization (ACFE).

As an immediate and longer-term consequence of the COVID-19, many individuals and especially small and medium enterprises will be facing increased financial shortcomings which may trigger corrupt behaviour or fraud. At the same time, mass redundancies that are especially pervasive during a recession create gaps in organizations' internal control and audit systems, leaving them more vulnerable to internal fraud and corrupt practices. Given the pressures, individuals may also rationalize wrongdoing through justification such as "everybody does it" or "if I don't take the opportunity, others will" (OECD, 2018).

Emerging corruption cases and scandals may also negatively impact on citizens' perceptions of Corruption and thereby undermining support for government measures and reform. In the worst case, they also provide a further rationalization for wrongdoing (Corbacho et al., 2016). In turn, an increased level of Corruption at various levels and areas raises the transaction costs of doing business. It will have a negative impact on the resilience of economies after the crisis and be an obstacle to economic recovery (Ormerod, 2016).

3.1 Short- and long- term measures to strengthen integrity in the public sector

In anticipation of this, public sector organisations can proactively improve controls that would prevent and detect Corruption and occupational fraud during the recession. This could include:

i. **Review and strengthen existing public integrity systems in public organisations.** In the post-COVID-19 economic recession, this will require a risk-based approach to identify which public organization employees may be at higher risk and identify targeted mitigation measures. The OECD Recommendation of the Council on Public Integrity provides ample guidance on how to apply a systematic approach to fraud and Corruption, building a culture of integrity and ensuring effective accountability (OECD, 2017).

ii. **Ensuring core internal controls,** such as management certification of financial statements, anti-fraud policies, surprise audits, and job rotations are in place, fit-for-purpose, and communicated to employees (ACFE, 2018).

iii. **Leveraging and improving digital tools to promote integrity and accountability,** primarily by ensuring that relevant government data is available in an open and re-usable way allowing for social control or by providing the effectiveness of online reporting mechanisms.

iv. **Establishing or supporting employee counselling or financial assistance programmes,** to help employees in addressing the increased financial pressures and feelings of helplessness that stem from economic crises (ACFE, 2018).

v. **Raising awareness of integrity standards,** to ensure that all staff continue to abide by the rules and uphold public sector values to a high standard.

References

ACFE (2018), Report to the Nations: 2018 Global Study on Occupational Fraud and Abuse, https://www.acfe.com/uploadedFiles/ACFE_Website/Content/rttn/2018/RTTN-Government- Edition.pdf.

ACFE (n.d.), Occupational Fraud: A Study of the Impact of an Economic Recession, https://www.acfe.com/uploadedFiles/ACFE_Website/Content/documents/occupational- fraud.pdf (accessed on 14 August 2020).

Association of Certified Fraud Examiners (2016), Report to the Nations on Occupational Fraud And Abuse: 2016 Global Fraud Study, https://www.acfe.com/rttn2016/docs/2016-report-to-the- nations.pdf (accessed on 21 August 2020).

Babinec, A. (2020), Kyiv Cancels $2.2 million Deal for Thermal Cameras, OCCRP, https://www.occrp.org/en/daily/12097-kyiv-cancels-2-2-million-deal-for-thermal-cameras (accessed on 19 August2020).

Brenot, V., H. Billery and B. Feroldi (2020), COVID-19: Adjustment of the Rules of Public Procurement, https://www.august-debouzy.com/fr/blog/1465-coronavirus-and-public- procurement-flash-2 (accessed on 14 August 2020).

Cabinet Office (2020), Procurement Policy Note - Supplier relief due to COVID-19, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/874178/PPN_02_20_Supplier_Relief_due_to_Covid19.pdf.

Committee on Oversight and Reform (2020), Coronavirus Package Includes Oversight and Accountability Measures, https://oversight.house.gov/news/press-releases/coronavirus- package-includes-oversight-and-accountability-measures (accessed on 10 August 2020).

Corbacho, A. et al. (2016), "Corruption as a Self-Fulfilling Prophecy: Evidence from a Survey Experiment in Costa Rica", American Journal of Political Science, Vol. 60/4, pp. 1077-1092, http://dx.doi.org/10.1111/ajps.12244.

Cray, C. (2005), "Disaster Profiteering: The Flood of Crony Contracting Following Hurricane Katrina", Multinational Monitor, Vol. 26/9.

Delić, A. and M. Zwitter (2020), Opaque Coronavirus Procurement Deal Hands Millions to Slovenian Gambling Mogul, OCCRP, https://www.occrp.org/en/coronavirus/opaque-coronavirus-procurement-deal-hands-millions-to-slovenian-gambling-mogul (accessed on 19 August2020).

Dentons (2020), "Italy's "Cura Italia" decree introduces new public procurement measures", Official Gazette 70, https://www.dentons.com/en/insights/articles/2020/march/19/italys-cura- italia-decree-introduces-new-public-procurement-measures (accessed on 10 August 2020).

European Commission (2020), COVID-19: Commission creates first ever rescEU stockpile of medical equipment, https://ec.europa.eu/commission/presscorner/detail/en/ip_20_476 (accessed on 10 August2020).

Folliot Lalliot, L. (2020), La concurrence entre États sur l'achat de matériel médical et sanitaire aggrave le problème, Le Monde, https://www.lemonde.fr/idees/article/2020/03/30/la-concurrence-entre-etats-dans-les-chaines-d-approvisionnement-public-aggrave-la-crise-sanitaire_6034848_3232.html (accessed on 10 August 2020).

Fyfe, W. (2020), "Coronavirus:' Unprecedented' number of scams linked to virus", BBC News, https://www.bbc.com/news/uk-wales-52296936 (accessed on 19 August 2020).

Gabler, E. (2020), "States Say Some Doctors Stockpile Trial Coronavirus Drugs, for Themselves", The New York Times, https://www.nytimes.com/2020/03/24/business/doctors-buying- coronavirus-drugs.html (accessed on 19 August 2020).

Glencorse, B. (2020), Why Tackling Corruption Is Crucial to the Global Coronavirus Response, WPR, https://www.worldpoliticsreview.com/articles/28689/why-tackling-corruption-is-crucial-to- the-global-coronavirus-response (accessed on 19 August 2020).

Gugiu, M. and C. Gugiu (2016), "Economic Crisis and Corruption in the European Union", Journal of Methods and Measurement in the Social Sciences, Vol. 7/1, pp. 1-23.

Gurazada, S. et al. (2020), "Getting government financial management systems COVID-19 ready", World Bank Blogs, https://blogs.worldbank.org/governance/getting-government-financial- management-systems-covid-19-ready (accessed on 10 August 2020).

INTOSAI (2013), ISSAI 12 - Value and Benefits of SAIs - making a difference to the life of citizens, https://www.issai.org/pronouncements/intosai-p-12-the-value-and-benefits-of-supreme-audit-institutions-making-a-difference-to-the-lives-of-citizens/ (accessed on 11 September 2018).

Ivlevs, A. and T. Hinks (2015), "Global economic crisis and corruption", Public Choice, Vol. 162/3- 4, http://dx.doi.org/10.1007/s11127-014-0220-0.

Kupperman Thorp, T. (2020), "To Defeat the Coronavirus, Stop Corruption", FP News, https://foreignpolicy.com/2020/04/06/defeat-coronavirus-stop-corruption-humanitarian-crisis-disaster-response-emergency-medical-supplies/ (accessed on 19 August 2020).

LaFraniere, S. and C. Hamby (2020), "Another Thing to Fear Out There: Coronavirus Scammers", The New York Times, https://www.nytimes.com/2020/04/05/us/politics/coronavirus-scams- fraud-price-gouging.html (accessed on 19 August 2020).

Ministry of Internal Affairs and Communications of Japan (2020), Measures To Be Taken for Public Procurement by Local Governments in Response to Covid-19, https://www.soumu.go.jp/main_content/000673056.pdf (accessed on 10 August 2020).

NSW ICAC (2020), Managing Corrupt Conduct During the COVID-19 Outbreak, https://www.icac.nsw.gov.au/prevention/corruption-prevention-publications/latest-corruption-prevention-publications (accessed on 14 August 2020).

OECD (2018), Behavioural Insights for Public Integrity: Harnessing the Human Factor to Counter Corruption, OECD Public Governance Reviews, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264297067-en.

OECD (2017), OECD Recommendation of the Council on Public Integrity, OECD, Paris, http://www.oecd.org/gov/ethics/OECD-Recommendation-Public-Integrity.pdf.

Office of Government Procurement (2020), Information Note – Covid-19 (Coronavirus) and Public Procurement, https://ogp.gov.ie/information-note-covid-19-coronavirus-and-public- procurement/ (accessed on 10 August 2020).

Office of the Auditor General (2010), 2010 Fall Report of the Auditor General of Canada, https://www.oag-bvg.gc.ca/internet/English/parl_oag_201010_01_e_34284.html (accessed on 14 August 2020).

Ormerod, P. (2016), "Corruption and economic resilience: recovery from the financial crisis in western economies", Economic Affairs, Vol. 36/3, pp. 348-355, https://doi.org/10.1111/ecaf.12198.

Salazar, C. (2020), "Monitoring COVID-19 emergency procurement with data", Open Contracting Partnership Blog, Open Contracting Partnership, https://www.open-contracting.org/2020/03/25/monitoring-covid-19-emergency-procurement-with-data/ (accessed on 14 August 2020).

Schultz, J. and T. Søreide (2008), "Corruption in emergency procurement", Disasters, Vol. 32/4, pp. 516-536, http://dx.doi.org/10.1111/j.1467-7717.2008.01053.x.

Steingrüber, S. et al. (2020), Corruption in the time of COVID-19: A double-threat for low income countries, U4 Anti-Corruption Resource Centre, Chr. Michelsen Institute, https://www.u4.no/publications/corruption-in-the-time-of-covid-19-a-double-threat-for-low-income-countries (accessed on 19 August 2020).

Tanfani, J. and J. Horwitz (2020), "Special Report: The Mask Middlemen - How pop-up brokers seek big paydays in a frenzied market", Reuters, https://www.reuters.com/article/us-health-coronavirus-masks-specialrepor/special-report-the-mask-middlemen-how-pop-up-brokers- seek-big-paydays-in-a-frenzied-market-idUSKBN21I32E (accessed on 10 August 2020).

Vittori, J. (2020), Corruption Vulnerabilities in the U.S. Response to the Coronavirus, CARNEGIE, https://carnegieendowment.org/2020/03/20/corruption-vulnerabilities-in-u.s.-response-to- coronavirus-pub-81336 (accessed on 19 August 2020).

Zagorin, A. (2020), "He Oversaw $787 Billion in Stimulus Spending. Here Are His Lessons on Spending Coronavirus Recovery Effectively", POGO, https://www.pogo.org/analysis/2020/04/he-oversaw-787-billion-in-stimulus-spending-heres-his-lessons-on-spending-coronavirus-recovery-effectively/ (accessed on 19 August 2020).

Quality of Audit and Professional Development – SAI Pakistan's Experience

Mrs Raheela Saad

Director General HRM, SAI Pakistan

Supreme Audit Institutes as per their mandate supervise the implementation of government budgets and evaluate the use of administrative resources to ensure that public funds are used wisely, economically, and effectively. Quality government audit involves reviewing policies according to local and international standards and provides insight, predictions, and warnings to related organizations. The feedback of governmental auditing services not only reflects how the government functions but also influences how people view the government and its executive branches. Thus, ensuring audit quality becomes a critical approach to enhance the value of resources, stimulate economic development and give direction to development.

SAIs audit quality also plays an essential role in improving the quality of public sector governance and public service for the benefits of their citizens. Therefore, in today's dynamic and demanding economic environment, professional auditors need to maintain competence and knowledge of current developments alongside auditing skills to enable them to act with due skill and care in providing this feedback.

Professional Development is a learning process that can promote personal growth, improve auditing skills, revolutionize working procedures, and increase audit report quality as the same depends on the quality of auditor judgments during all stages and processes of the audit. The maintenance of professional judgment and hence competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. It is no longer about learning of audit techniques but also industry specialization, which has become an element to not only enhance audit quality but also maintain competitiveness. An organization can promote long-term efficacy and survival development through proper knowledge management as knowledge is essential for maintaining competence.

Auditors can advance their Professional Development through continuous learning to increase their knowledge, open-mindedness, sensitivity to fraud detection, to set career goals, and to promote peer learning. Continuing Professional Development (CPD) enables an experienced auditor to develop and maintain the capabilities to perform competently within the professional environment.

The Department of the Auditor General of Pakistan (DAGP) - the Supreme Audit Institution (SAI) of Pakistan- is entrusted under Constitutional provisions, with the audit of all the revenues, receipts and expenditures of Federal and Provincial Government departments, autonomous bodies, corporations, institutions, etc., financed by or working under their administrative control. The Reports of the AGP are discussed/deliberated upon by the respective Public Accounts Committees.

To honour these responsibilities in a befitting manner, the DAGP has been striving to upgrade its capabilities, improve quality of audit and maintain competence in line with challenging demands of accountability and expanding governance environment. In 2012-14, SAI Pakistan undertook a comprehensive review exercise in the backdrop of these challenges coming from the ever-changing complex governance environment and growing reliance on information and communication technologies (ICTs) employed in the public sector. Also emerging areas such as privatization, public debt management, disaster management, energy management, gender issues, public-private partnerships, enhanced accountability demands, etc. needed to be considered for the meaningful audit. The review was conducted following the INTOSAI's Strategic Planning Handbook framework that suggested needs assessment by a Supreme Audit Institution (SAI) before strategic planning.

The DAGP completed needs assessment, according to the detailed road map given in INTOSAI's Capacity Building Needs Assessment (CBNA) 2009. This included taking stock of the prevailing situation and identification of gaps with the involvement and participation of all tiers of DAGP. The CBNA identified performance gaps that served as the baseline for the first Strategic Plan 2015, which is being implemented presently. Goal 2 of the plan focuses on the development of professional and institutional capacity.

The critical activities planned under the Goal 2 included building capacity and competency in current, emerging and future issue areas in public governance and audit methodologies; training in the use of existing audit manuals, guidelines, Code of Ethics; and developing capacities in IS auditing. Professional Development and training is a cross-cutting activity, also appeared under Goal 3: Developing communication and cooperation with internal and external stakeholders, and Goal 4: Use of modern audit techniques and technologies.

To promote long-term efficacy, competency and survival concerted efforts were made towards proper knowledge management. The natural outcome of this reform was Development and implementation of continuous professional development (CPD) program, focusing on understanding which an SAI's staff needed skills and experiences, what skills and knowledge they already had and what needed to be done to build on current capability and bridge any gaps. The program included professionalization not just of audit staff but all staff in an SAI.

The portfolio CPD program represents the entire gamut of the SAIs operations across present and future challenges. Besides supporting the SAIs in core audit disciplines and computer-related skillsets, the program covers areas like Strategic and Operational Planning, Management and Leadership Development, Human resources, ethics etc. The proposed CPD Program is divided into three parts, namely:

(a) Mandatory CPD Training
(b) Training for bridging skill gaps
(c) Training in emerging audit areas

Auditing Covid-19 Expenditure

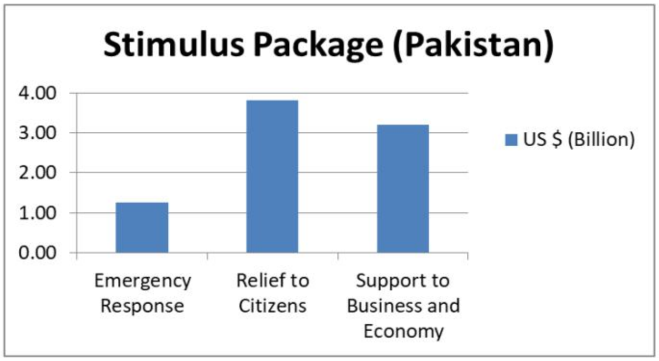
Muhammad Kashif

Director to Auditor General of Pakistan, SAI Pakistan

Pandemic Covid-19 started in December 2019 from China and grappled the whole world shortly. It brought social and economic life to a stand-still across the globe. Health sector, one of the two major components of human capital development, attracted major attention of the world community. The policies of all governments revolved around protecting their masses from health hazards of pandemic and provide them financial relief. The countries announced hefty stimulus packages to respond to the pandemic, to revive economies and provide relief to the citizens. Though spending of huge amounts within very short period of time transparently, economically, efficiently and effectively is a challenging task for the governments, it provides to the SAIs, at the same time, an opportunity for re-aligning its priorities of risk-based auditing.

The stimulus packages varied from country to country covering various areas of economy including, subsidies, cash disbursement, tax relief, tariff reduction, establishment of quarantine centers, provision of medical equipment and health facilities etc. The SAIs can diversify their audit activity in these areas, identify major audit issues and contribute to promoting accountability and transparency into the governance structure of the government.

The government of Pakistan announced a hefty stimulus package of Rs 1.24 trillion (USD 8 billion) to fight pandemic covid-19. It covered three major areas i.e. Emergency Response, Relief to Citizens and Support to Business and Economy. Emergency Response comprises budget for procurement of medicines and medical equipment, providing incentives to medical workers, establishment of relief fund and tax relief on food and health items. Budgetary allocation under Relief to Citizens was made for providing relief to vulnerable families, daily wage workers, power and gas subsidy and relief on petrol & diesel. Similarly, allocation was made to provide relief to Small & Medium Enterprises and Agriculture, farmers and exporters under Stimulus Package component of Support to Business and Economy. Various institutions from federal to local government levels were involved to carry out the relief and support activities.



SAI Pakistan, under the vibrant leadership of Mr. Javaid Jehangir, Auditor General of Pakistan, took cognizance of the financial management environment in the context of Covid-19 since its beginning and set it one of the highest prioritized audit areas in line with the expectations of the Parliament, media and other stakeholders. The High risk areas were identified and included in current audit plan. Presently, number of field audit offices comprising Social Safety Net Audit, Climate Change & Environment Audit, Commercial Audit, Federal, Provincial and Local Government Audit are conducting audit of all three components of covid expenditure i.e. emergency response, relief to citizens and support to business and economy. All audit teams are supported with data analyst and experts of relevant field to produce quality reports.

Pandemic Covid-19 not only reshaped the landscape of financial management in public sector entities involving relief pakage/expenditure on one hand, it posed the challenges to auditing as well on other hand. Though some legal provisions grant exemption from some aspect(s) of the procurement process (exemption from advertisement in case of emergency), they form a high risk area to be examined by the audit team. The auditor needs to ascertain the fact that the procurement process also comprises various other aspects including need assessment, transparency, payments, pricing, quantity, quality, consumption and distribution of goods and services. The auditor may also examine level of preparedness of the institutions responsible for dealing with the natural disasters.

The audit of Pandemic Covid-19 expenditure provides to the SAIs great opportunity for keeping themselves relevant with the contemporary changing external environment. SAIs can play their effective role through their recommendations in promoting accountability, transparency and good governance in the use of public resources in situations of emergency.

Blockchains of Government Services; Application & Auditing Challenges

Khadim Hussain Mirani

Deputy Director Audit Petroleum & Natural Resources,
SAI Pakistan

Introduction

The traditional mode of providing services is no longer sustainable in view of rapid digitization. The digital realm has dramatically leveraged public services by bringing efficiency, effectiveness, and transparency in the governmental business processes. In the same way, Blockchain Technology offers myriads of prospects not only to commercial businesses but also to the governments where digital transformation may eliminate hurdles in dispensing public services. Since the introduction of Bitcoin, virtual currency, and one of the products of Blockchain, has reinforced the confidence of technology experts with regards to its applications specifically in financial services, healthcare, education, and e-voting. To reap the benefits of underlying technology many countries like Estonia, South Korea, Britain, Japan, China, and the USA are in process of implementing it, in a way to strengthening transparency and accountability in the public sector. The governments are also, however, faced with new challenges emerging in the domains of policy, auditing and cyber-security. Blockchains with its associated risks are reshaping and determining a new role for public auditor which necessitates a sound knowledge base and skillsets to ensure trust and confidence in the Supreme Audit institutions.

Nuts & Bolts of Blockchain

Before a profound discussion on the prospects of Blockchains, it is better to understand the principles and mechanisms on which technology is built upon. Blockchain, in simple words, is a distributed ledger with peer to peer integrated technology based on cryptographic functions. In an environment of a distributed ledger as opposed to a traditional single ledger where each user validates and authenticates through a consensus mechanism and while some specialized experts called miners may apply mathematical calculations for validity checks. The processed transactions are stored in the stream of information in the form of blocks locked with private keys thus, it is named Blockchain. This innovative technology has defining features in terms of the peer-to-peer network, data immutability, and encryption. The characteristics of the peer-to-peer network let the operations continue without interruption in case a single node failure occurred and eliminates the role of central authority. The feature of immutability ensures data integrity by accepting no trace for duplication. The technology is further classified into permissioned (private) and permissionless (public) platforms applied based on business nature.

In this digital age, many venture capitals have been investing huge funds in developing various platforms. So far there are three known platforms namely Bitcoin, Ethereum and Hyperledger. Bitcoin is a euphemism for virtual currency which is a public platform being used for internet-based payments. Ethereum has got an added advantage of Smart

[1] Blockchain and FinTech: Basics, Applications, and Limitations at University of Hongkong : an online course (edx) attended by the author.

Contracts deployed on Blockchains whereby business firms could make transactions employing automated agreements with minimal human interaction reducing settlement times and operational errors. While Hyperledger is an advanced private platform with sophisticated encryption qualities specifically designed for private businesses.

Blockchain is a useful technology for the organizations where the customer is keenly interested in knowing the chain of custody of the products before its use. It eliminates intermediaries reducing costs involved in processing transactions like banking charges in international trade and builds direct links with buyers and sellers in an effective manner.

Applications

In the government sector, Blockchain technology can be used in managing efficient recordkeeping, making payments, processing tenders, and casting votes transparently with lesser costs. So far many countries especially Europeans have taken substantial steps in initiating pilot projects to explore the prospects of underlying technology while few countries are harvesting its fruits as a consequence of its implementation. According to research published in Oxford University at Centre for Technology & Global Affairs, Blockchain has been integrated into key government registers in Estonia which include the business registry, property registry, succession registry, and documentation of legal and official announcements underpinning various e-services in the public and private sector. As per another study, Estonians save 1400 working hours and 2% of their GDP annually through its digitized services. The Oxford University research paper also highlights the efforts of the Department of Works & Pensions, UK government to make payments utilizing distributed ledger technology which would drastically reduce the loss of public money at an astonishing level. The Authorities in Sweden have begun exploring the use of underlying by having partnerships with private firms in a way to increased transparency and efficiency of overall processes. In 2017, the Ministry of Internal Affairs and Communications, Japan released a statement that they plan to test a Blockchain-based system for processing government tenders and issuing tax payment certificates. Within a year, Japan has switched to e-voting, seamless trade, and land and property registration using Blockchains. Similarly, the United States of America and China has been evaluating options for integrating Financial Technology (Fintech) for public services.

While Global efforts are underway weighing the benefits of Blockchain, Pakistan too needs to consider the options exploring the ways and means for automating its essential government services by using underlying technology with the same vigor and determination as it was done in the past while implementing SAP in public financial management matters.

Auditing Challenges

Subsequent implementation of Blockchain Technology especially in the public sector would require Supreme Audit Institutions (SAI) and other assurance professions to have new capacities in a way to meet the anticipated demands of users. The transformative pressures may certainly demand to have a sound understanding of innovative processes and controls for addressing the technical as well as adaptive challenges. The SAI may need to develop the knowledge base and skillsets by encouraging learning new technologies because underlying technology has the potential to impact on the traditional way of accounting and auditing. In one of the research papers published in 2017 by Deloitte UK in collaboration with CPA Canada & AICPA, the researchers foresee the massive impact of Blockchains on the traditional approach of auditing and recommend auditors to be well-conversant by working with experts to audit the complex technical risks associated with it. Following table shows transformative changes to traditional auditing approach.

[3] Blochchains for Government Services: Design Principles, Applications, and Case Studies at Centre for Technology & Global Affairs, University of Oxford.

[4] Estonia-the digital republic secured by Blockchain(2019) by Pricewaterhousecoopers (pwc).

[5] Blockchains in Japan (page 49) by Marta Gonza'lez, Tokayo (2018) at European-Japan centre for Industrial Cooperation.

[6] Blockchain Technology and its Potential Impact on the Audit & Assurance Profession by Chartered Professional Accountants Canada (CPA) & American Institute of Certified Public Accountants (AICPA), 2017.

S.No	Traditional Auditing	Blockchains Auditing
1	**Bookkeeping:** The record is normally maintained in a single stand-alone manual or systemic ledger followed by appropriate approvals and authorizations based on accounting principles.	The record is developed through a peer-to-peer network called distributed ledgers after the validation process.
2	**Audit Evidence:** The audit evidence is easily obtained from the record which is necessarily required with attributes like Reliability, relevance, objectivity, accuracy, and verifiability in support of auditing assertions.	Extracting audit evidence may not be easy. Auditors may need CAAT, software, machine learning capabilities for its determination which may necessarily fulfill all required attributes.
3	**Central Trusted Authority:** The central trusted authority is the custodian of all databases ensuring data integrity and accessibility to its user departments. The single node failure may disrupt business continuation.	No central authority needed due to its distributed nature. Multiple nodes allow continuous business operations in case the single node fails. Auditors may need professional judgment to determine the reliability of the sample extracted from the shared network.
4	**Reporting & Accounting:** The reporting is made while adopting international accounting standards (IAS) and General Accepted Accounting Standards (GAAP).	The existing policies fail to fully address the management accounting for digital assets and liabilities. In the absence of policies, the professional judgment could be applied keeping in view the business objectives and resilience of technology sustaining business activities.
5	**Cryptographic Functions:** The minimum skills as regards to public-private keys and hash functions are required to build opinions for data confidentiality and reliability.	Besides cryptographic functions, hard-core skills like technical program language may be needed for building opinions regarding key functionalities like Smart Contracts.
6	**Regulatory/Compliance Authority:** The organizations/corporations/industries work under the regulatory framework and report compliance.	There exists no regulatory mechanism as evident from the business of Bitcoin so risks of manipulations and frauds are many.

Conclusion

For the governments, sustainable public service is not possible without using emerging technologies like Blockchain subject to the condition that appropriate actions are taken to subjugate risks and vulnerabilities. The audit profession in this regard could play a vital role in the face of challenges if new capacities and technological learnings are promoted. By doing so, public auditors could contribute to assuring the businesses and governments on the widely adopted technologies and also could establish new avenues of trust to be further rested on the Supreme Audit Institutions.

Good Governance and its Impact on Internal Audit

Ms. Flavia Meachiel

Senior Auditor Audit, SAI Pakistan

Internal Audit:

Internal Audit is a dynamic profession involved in helping organizations, to achieve their objectives through the systematic and disciplined approach to evaluate the effectiveness of risk management, control, and governance processes. Internal auditing today is essential and demanded by stakeholders to be applied as a tool of adhering to sound risk management and as a demonstration to the public that they are in control of their organizations. Internal auditors work across all the areas of the entities/organizations including tangible and intangible aspects ranging from the entity's supply chain or system to its culture /ethics.

What is Good Governance?

Good Governance can be defined as the structures and processes for the control of entities. It's a relationship between the management and board of directors. This proves that internal audit is now a matter of both private and public accountability for efficiency and accountability. A scrutiny from within the organizations is no longer an additional function but a very crucial fundamental foundation on which an organization is built.

Internal Audit's Role in Bolstering Good Governance in Public Sectors:

The role of internal audit in the public sector has changed over recent years. Good governance, in theory, is relatively easy to implement. Practically however, it can be challenging. There are various reasons for this in the public sector, including:

- The availability and diversity of key skills and experience.
- The availability of timely risk and performance data.
- A clear understanding of roles and responsibilities as they relate to key governance activities, including differentiating between “managing” and “overseeing”.
- Given these challenges, internal audit can provide timely and valued assurance and advisory services to support good governance.

Role of Internal Audit in Assessing or Advising on Governance Committes:

Good governance helps ensure that an organization or entity has oversight of its objectives and stays on track to achieve them, for instance: whether a system or major initiative is on track to be implemented on time, within budget, and to specification.

In all of these areas, audit can a vital role in considerations:

- Are roles and responsibilities documented and clearly understood? Audit support in this area can range from assessments and interviews with key stakeholders.

- Are plans and strategies clear and do they align with key objectives? Auditors can assess whether the right stakeholders have been involved in the development and approval of these plans; whether key milestones and risks are identified, regularly monitored by senior management/ governance committees.

- Is the right information (including both financial and non-financial) being reported to monitor progress against objectives and provide early warning indicator of key risks to management and committees. Auditors can further, assess this information with stated plans and the extent to which the information is leveraged to support timely corrective action.

Successful governance requires a culture where key stakeholders should have open discussions around risks and even failures. Embedding internal audit into various governance activities as an advisor can help ensure these open discussions are taking place.

Internal Audit's Role In Governance of Major Projects/ Initiatives:

Public Sector Organizations seem to be undertaking more organizational change, including major capital and IT projects, than ever before. The speed of technological change and aging public infrastructure has seen unprecedented demands on resources. With this comes increased risk in relation to cost overruns or delays or often both.

One of the important questions that are asked include, “Why do major projects have such remarkable challenges?” One way to answer that question is to consider it from governance and risk perspective (i.e. risks not being adequately identified or effectively managed).

This provides an opportunity for internal audit to provide assurance that there is effective governance around how risks are being managed and overseen. While internal auditors may not be subject matter experts in the particular capital project or IT implementation, there could be an opportunity to be involved in facilitating risk assessment or assisting in documenting the risks. Some of the considerations posed under how internal audit can support governance committees are equally relevant to the role internal audit can play in assessing governance over major projects. For instance, are the right people involved from a governance perspective, and is relevant and timely information being reported on the progress of the project or not.

Hence the need for internal audit for effective governance far outweighs the concern for the relationship if an organization/entity is to survive the economic competition and globalization and presents an opportunity for internal audit to be at the front line of an organization/ entity, giving assurance that risks are being managed effectively and major projects/tasks are on track for completion.

Importance of Physical Verification in Public Auditing

Mr. Shaifq-ur-Rehman

Deputy Director Audit, SAI Pakistan

Physical verification is reasonable assurance regarding reconciliation of assets, stock and inventory with mentioned financial statements. It also provides information to all stake holders whether financial statements provide true and fair picture. Audit trail mechanism should be employed while conducting physical verification process of public assets. Further, it is also process of confirmation of actual existence, location and quality of assets. Physical verification is of immense importance in public auditing in order to prevent frauds, misappropriation and misuse of public assets. All SAI's must frame policies to ensure effective utilization of physical verification of public assets for promoting transparency during execution of compliance/regularity audit. It is also strongly recommended to conduct physical verification of public assets biannually in order to ensure accountability process in public entities. Reasonable human and financial resources be allocated by respective SAI's to ensure effective utilization of this auditing tool. Public auditors should lay great stress on onsite physical verification which is far more important than offsite verification, which is carried out through checking of public documents only.

Purpose of Physical Verification

- Ensure transparency in public business operations
- Reasonable assurance is provided to all stakeholders that assets and stock as mentioned in financial statements does not mismatch from actual existence of assets and stock to be physically verified.
- Prevention of prevalence of frauds, misappropriation and errors.
- To find out that there are adequate internal controls regarding acquisition, utilization and disposal of public assets.
- To verify arithmetic accuracy of accounts as mentioned in financial statements of public entities.

What Physical Verification Includes

- Physical existence of assets and counterchecking them on site
- Checking ownership of public assets and seeing all relevant documents pertaining to asset.
- Ensuring correct valuation and quality of assets.

Workable Recommendations for SAI’s Regarding Enhancing Role of Physical Verification in Public Auditing

1. At the start of financial year circular may be issued through SAI of respective countries to all public entities coming under their jurisdiction regarding existing assets, stocks, inventory present in public entities. In this connection, list of existing assets may be provided to respective SAI.

2. After six months audit teams from respective field audit office should visit public entities regarding actual status of physically existing assets.. These assets must be crosschecked with the list of assets submitted six months earlier to SAI. This will promote transparency, accountability and efficiency in operation of public entities. Each SAI must allocate sufficient human and financial resources for materialization of this.

Conclusion:

Physical verification in public auditing is of immense importance for effective accountability,transparency and efficiency in public entities. Onsite Physical verification will reduce loss, theft and misuse of public assets to great extent.

Public Sector Financial Accountability: The Role of Public Accounts Committee in Pakistan

Faisal Saeed Cheema

Director General Audit, SAI Pakistan

1. INTRODUCTION

Public Sector Financial Management (PFM) is aimed at an effective resource mobilization and an efficient expenditure management. The strong PFM helps the government to achieve its strategic objective by optimal utilization of its resources. The importance of effective PFM is manifold particularly in the developing countries where most of the expenditure is being incurred by the Public sector and it sets the policy environment for the rest of the economy.[1] The need for Public sector financial management accountability framework is essential to have overall fiscal discipline, promoting strategic economic and social priorities and value guarantee for money. Public sector financial accountability frameworks have been developed by many organizations around the globe such as Open Budget Index, the International Monetary Fund and the World Economic Forum. However, the most comprehensive assessment of public sector financial accountability is developed by the organization of Public Expenditure and Financial Accountability Framework (PEFA). PEFA has defined seven pillars of PFM which includes budget reliability, transparency of public finances, management of assets and liabilities, policy based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting and, external scrutiny and audit.[2] PEFA uses these seven pillars to assess the status of PFM in a country.

The legislatures perform three functions namely representative, legislative and, oversight.[3] In representative system the politicians are answerable to the voters whereas in legislative functions, the legislature perform the function of legislation. In the oversight function, the legislatures hold the executive accountable for use of public funds and this function is performed by one of the standing committees of the Parliament that is called Public Accounts Committee (PAC). The PAC varies in terms of its structure and procedures in different countries around the globe. In Common Wealth countries, there is a strong correlation between the Auditor General and PAC's. The Auditor General conducts audit of the public funds and submits his audit reports to the parliament, which are scrutinized by the PAC. There is also a variation in different countries in relationship between the legislature and Supreme Audit Institutions (SAI).[4] In this context there are broadly three models namely Westminster model, Courts of Audit Model and, Board or the collegiate model.[5] In Westminster model, there is Uni-model audit agency headed by the Auditor General (India, Pakistan) whereas in Courts Model, the audit agencies have quasi-judicial powers and act as administrative tribunals (France, Turkey). The Board or the collegiate model has

[1] W. Owalla, S. Luanga, “Integrating Quality Management System in the Public Sector Financial Reporting Framework: A Developing Country's Nightmare”, IOSR Journal of Business and Management, Vol.16, No.3 (2014), pp. 43-53

[2] Public Expenditure and Financial Accountability Framework, www.pefa.org (accessed on March 22, 2018)

[3] Richard Pelizzo, , Rick Stapenhurst, and David Olson (ed.), Trends in Parliamentary Oversight, (Washington DC : World Bank Institute, 2004), pp.3-5

[4] The term Supreme Audit Institution (SAI) is used interchangeably for supreme audit agency in a country. In some countries, SAI is the institution of Auditor General while in other countries court of accounts or administrative tribunals are called SAI. SAIs are known for public sector auditing.

[5] Carlos Santios, “Why Budget Accountability Fail? The Elusive Link Between Parliaments and Audit Agencies in the Oversight of Budget”, Brazilian Journal of Political Economy, Vol.35, NO.3 (July/September 2015), pp. 601-621

similarities to Westminster model except an audit board or boards produces audit reports and submit these to the parliament (Indonesia, Japan, Germany). All these models have one thing in common and that is independence from the executive.

2. PAC IN PAKISTAN: INSTITUTIONAL FRAMEWORK[6]

In Pakistan, Parliament performs the Public sector financial accountability function through PAC. The Parliament approves the national budget and authorizes the expenditure to the executive. The Controller General of Accounts compiles the annual accounts, which are audited by the Auditor General of Pakistan (AGP). The AGP under article 170 of the constitution submits his annual audit reports to the President who causes it be laid before the parliament under article 171 of the Constitution. The Parliament of Pakistan refers the annual audit reports to PAC for scrutiny. Rule 203 to rule 205 of Rules of Procedures and Conduct of Business in National Assembly 2007 define the composition, powers and functions of PAC. Broadly, the AGP submits three kinds of reports to the parliament. In Financial attest audit reports, audit opinion is given on the financial statements and state of internal controls of various ministries. Compliance with authority audit reports mentions the level of compliance with rule, procedures and regulations. In performance audit, report of the economy, efficiency and effectiveness of public money spending is expressed. The important issues highlighted in these audit reports include weak internal controls, noncompliance with rules and regulations, over spending,

violation of Public Procurement Rules (PPRA), non-recovery of government dues and, tax evasion. PAC secretariat is headed by additional secretary and have two sections namely PAC section and monitoring and evaluation section. The chairman of Public Accounts Committee is the leader of opposition in National Assembly. The Current PAC in Pakistan (14th) was constituted in August 2013 and held its first meeting in December 2013. It has 29 members and three sub-committees to assist the main committee. There are many issues and challenges, which have affected the performance of PAC. In the analysis part of the report, it has been examined that why the current PAC in Pakistan has not been able to effectively perform legislative oversight function of the executive for public financial accountability. In the last part, few recommendations have been proposed to improve the performance of PAC.

3. ISSUES AND CHALLENGES

In this section, the study discusses in detail the issues and challenges faced by the PAC in Pakistan. To begin with, PAC scrutinizes inputs and compliance audits rather than outputs and performance audits. The compliance of rules, regulations and processes is discussed in PAC, which is very limited field of public financial management. It is not questioned that how effectively the expenditure has been incurred. Secondly, there is a huge backlog of audit reports and PAC spends most of its time in discussing the previous year's reports. In 2013, when the 14th PAC was constituted, there was a backlog of 8 years annual audit reports, 14930 outstanding audit findings, 7 annual appropriation accounts reports, and 1006 outstanding annual appropriation accounts of various ministries and divisions. Thirdly, there is no clarity on the role and responsibilities of the Secretaries and the Ministers in public financial accountability system. The secretary of a division is declared as Principal Accounting Officer (PAO) under new system of Financial Control and Budgeting, 2000 and is responsible for exercising propriety in public spending. However, the major policy decisions are taken by the ministers who are not generally held accountable by the PAC for their decisions. Fourthly, the government officials some time uses

[6] The institutional framework for functioning of PAC in Pakistan is provided in the Constitution of Islamic Republic of Pakistan and "Rules of Procedure and Conduct of Business in the National Assembly of Pakistan, 2007 define the role, composition and functions of PAC. www.na.gov.pk

[7] Auditor General of Pakistan Annual Report (2015-16) and Annual Audit Report (2016-17), www.agp.gov.pk

[8] Public Accounts Committee Secretariat, National Assembly of Pakistan, www.pac.na.gov.pk

[9] Ibid.

government officials exploit the organizational interest while justifying their decision in public interest. Fifthly, PAC does not have any institutional mechanism to implement its directives. The recommendatory nature of PAC directives is not taken seriously by government officials. Sixthly, PAC in Pakistan only performs ex-post oversight of the executive and does not have Parliamentary Budget Office[10] to conduct ex-ante oversight of the executive. Seventh, the political economy of PAC membership also influences the accountability mechanism. Most of the time, the treasury benches members of PAC are not keen to hold their government accountable by the legislature. Last but not the least, as the members of PAC are politicians and do not have enough knowledge of technical issues, which makes it difficult for them to understand the real issues. The technical capacity issues of PAC members and the department of Auditor General affect the process of public financial accountability.[11]

4. ANALYSIS

In this section, the study analyses the performance of 14th PAC and examines that how far it has been successful to enforce public sector financial accountability. A comparison of Pakistan PAC has been given with an IDEAL[12] PAC requirements in terms of its structure and processes. In terms of structure, Ideal PAC requires 5 to 11 members whereas in Pakistan, PAC has 29 members, which is probably the highest in any Commonwealth Countries. In ideal PAC requirement, the Chair of PAC is from opposition. PAC in Pakistan has opposition leader in national assembly as chairman PAC. Ideal PAC requires adequate staff whereas PAC in Pakistan does not have qualified staff. The meetings of Public accounts committee in Pakistan are not held in public and have limited participation. The transcripts of PAC meetings are not made publically available. Furthermore, there is no consistency in having annual parliamentary debate on the work of PAC performance reports in Pakistan. It is astonishing that the current main PAC has not submitted a single annual report to the parliament for discussion. The PAC in Pakistan also lacks systematic monitoring mechanism, which results in repetitive nature of audit observations. In a nutshell, PAC in Pakistan lacks structural and procedural requirement of an ideal PAC.

The careful examination of the performance of current PAC in Pakistan reveals that it has not produced the desired results in terms of public sector financial accountability. The main PAC headed by leader of opposition inherited 8 annual audit reports of various years out which not a single audit report has been finalized. However, the sub-committees have finalized audit reports of audit year 1998-99, 2003-03, 2007-08 and 1996-97 which have been approved by the main committee and presented report in the National Assembly in 2016-17.[13]The PAC has recovered Rs. 312,582.81 (Millions) in four and half years of its functioning.[14] There has been considerable number of meeting of the main and sub-committees but without any significant results. The PAC has also inquired and disposed of number of complaints of public interest. There are many reasons which have affected the performance of PAC such as repetitive nature of audit observations, lack of ownership of audit reports by the executive and indifference to PAC directives and, absence of effective role of Chief Finance and Accounts Officers in various ministries and division.[15]

[10]In many countries, the legislature performs ex-ante function which enhances its effectiveness in the resource planning and budgeting stage of Public Financial Management. For example UK has established Office for Budget Responsibility (OBR) which helps the legislature in scrutinizing the public expenditure. For details please visit, www.obr.uk

[11]David McGee has argued that capacity building of PAC members and the Auditor General is essential for effective public financial accountability. For details David McGee, The Overseer--Public Accounts Committees and Public Spending, (London: Pluto Press, 2002).

[12]IDEAL PAC requirements has been framed by the World Bank Institute after having interviews with more than 60 heads of PACs in various countries. The results are based on the scorecard given to each question in the survey. For details, Rick Stapenhurst, Vinod B. Sahgal and Riccardo Pelizzo, "Scrutinizing Public Expenditures Assessing The Performance Of Public Accounts Committees", SSRN Electronic Journal (2005). P.31

[13]PAC Secretariat and FAO wing of AGP Office, Islamabad

[14]Data provided by the Accounts Section of PAC Secretariat, National Assembly, Islamabad

5. RECOMMENDATIONS

i. PAC in Pakistan needs to broaden its scope and should also discuss the outputs of budgetary allocations and performance of the executive along with compliance to rules and regulation. The AGP can play effective role in this regard by submitting performance reports on all audit entities to the PAC.

ii. Since the audit backlog of previous years is a major factor in poor performance of PAC, there is a need to devise mechanism to clear this backlog. The Departmental Accounts Committees (DACs) and Sub-committees of the PAC can play effective role in this regard.

iii. The role of the secretary and minister also needs to be clearly defined. Presently, only secretary of the concerned division is held accountable whereas ministers are not called in PAC meetings. Practically, the decisions making involves both the minister and the secretary.

iv. There is need to ensure the autonomy of the AGP. Under the constitution, the AGP is a constitutional post but under rules of business its attached department of the Ministry of Finance which indirectly makes it part of the executive.

v. The Principal Accounting Officers (PAOs) also needs to play an effective role by convening more frequent Departmental Accounts Committees meetings, by clearing the PAC directives and, by ensuring that repetitive nature of issues are not presented before the PAC.

vi. The technical and professional capacity building of Parliamentarians, PAC secretariat and the AGP department is sin qua non for effective public management accountability. Capacity building courses in advance auditing techniques can help in improving the technical and professional expertise.

vii. Last but not the least, PAC can establish Parliamentary Budget Office on the analogy of the developed countries to ensure ex-ante oversight of the PFM process. The ex-ante oversight will help the PAC to perform its effective role in the resource mobilization process of the Public Financial Management.

BIBLIOGRAPHY

Auditor General of Pakistan. Annual Reports. Islamabad: Auditor General Department. 1990-91, 1999-2000, 2002-03.

Auditor General of Pakistan. Annual Report. Islamabad: Department of the Auditor General of Pakistan. 2015-16

Auditor General of Pakistan. Annual Report. Islamabad: Department of the Auditor General of Pakistan. 2016-17

Carlos, Santios, "Why Budget Accountability Fail? The Elusive Link between Parliaments and Audit Agencies in the Oversight of Budget". Brazilian Journal of Political Economy. Vol.35, No.3 (July/September 2015)

McGee, David. The Overseer--Public Accounts Committees and Public Spending. London: Pluto Press, 2002

Ministry of Finance, "The New System of Financial Control and Budgeting". Islamabad: Ministry of Finance, 2000

National Assembly of Pakistan. Annual Report. Islamabad: National Assembly of Pakistan, 2016-17

National Assembly of Pakistan. Annual Report. Islamabad: National Assembly of Pakistan, 2013-14

Owalla, W. and S. Luanga. "Integrating Quality Management System in the Public Sector Financial Reporting Framework: A Developing Country's Nightmare". IOSR Journal of Business and Management. Vol.16, No.3 (2014)

Pelizzo, Richard, Rick Stapenhurst, and David Olson (ed.), Trends in Parliamentary Oversight. Washington DC: World Bank Institute, 2004
Public Accounts Committee Secretariat, National Assembly of Pakistan <http://www.pac.na.gov.pk>

Public Expenditure and Financial Accountability Framework, www.pefa.org

Stapenhurst, Rick, Vinod B. Sahgal and Riccardo Pelizzo, "Scrutinizing Public Expenditures Assessing the Performance of Public Accounts Committees", SSRN Electronic Journal (2005)

Developing Effective Resource Management Techniques at SAIs

Hasan Masud

Director General, SAI Pakistan

Effective resource management is one of the key issues facing Supreme Audit Institutions (SAIs) around the world. As the key organization responsible for public sector accountability, SAIs are under constant scrutiny on in-house resource management and utilization. For an SAI managing resources, identifying impediments to audit processes, responding to scope creep are key challenges resulting in increased engagement time and costs.

Resources are the key building blocks of an Audit engagement. People, equipment, finances, human skills are all examples. The discipline of Project Management has been using Resource Management techniques for ensuring efficiency and effectiveness in projects. Resource Management is the efficient and effective utilization of Audit organization's resources when and where they are needed. These project management tools can be used in the managing the resources during audit engagements by SAIs. The resource management process involves:

- Identifying team members
- Clearly defining roles and responsibilities
- Creation of an appropriate reward systems
- Incentivizing improved performance by individual team members
- Track team and individual performance
- Control physical resources and ensure effective utilization

Thus, Resource Management Process involves planning, estimating and acquiring resources, developing and managing people, and controlling physical resources. Using Resource Management tools and techniques is a key component of the auditing skill set in SAIs as it would help in improving efficiency of audit teams, which in turn would result in better quality assured reports. This requires as a first step, clear identification of roles and responsibilities of management, team members, and other stakeholders working on the audit engagement. Important aspects of audit resource management are:

- Resource estimation
- Collection of data
- Resource planning
- Schedule development
- Negotiation for resources

Given below are the key areas of resource management processes that an audit manager would need to work on for each unique engagement:

(i). Resource Allocation

Resource Allocation is at the heart of the resource management process in an audit engagement. Based on team members' skills and capacity, resource allocation is the process of tackling audits using the resources one has at their disposal in the most efficient manner possible.

(ii).Resource Leveling

Another important area of resource management is resource leveling. This technique aims to discover underused or inefficiently used resources within the audit organization and work them to an Audit Manger's advantage.

(iii).Resource Forecasting

Having a resource management plan is critical to optimizing people, materials, and budget efficiency. Resource forecasting allows an Audit Manager predict optimal future resource requirements (people, materials, and budget) before an audit begins.

Each Audit is unique in terms of its scope, cost and time duration. Resource Management processes have to be adjusted for each audit. Various tools are used to measure the adjustments needed for each unique project. To make these accurate predictions and assessments, project managers may use Project management software to have level of visibility. The adjustments for each unique audit could best be made based on these tools and techniques.

Another key tool which can be used to make the adjustments for each audit is the resource breakdown structure (RBS). It can be used to manage planning and controlling audit work. Often described as a work breakdown structure for resources, RBS is a list of the resources needed to execute a project. The list is broken down by function and type, and covers the people needed to complete a project. It includes people, project management tools, equipment, and materials. RBS is a hierarchical chart used to help project managers organize resources and find the interrelationships. It helps better organize resources and clearly align these resources with the overall goals and objectives of the project. By using it resource management processes can be adjusted for each unique audit. An Audit Manager can also use various tools to determine how to adjust to shifting demands of resource management of each engagement.

To sum up, the key challenge for an Audit Manager is to utilize resources efficiently, effectively and economically to the ever-changing demands of each unique engagement. Resource management is the key to effective utilization of scarce resources by SAIs. A word of caution in the end, however, that it is not always a straight-line progress from project management to auditing, but still armed with the resource management tools an audit supervisor in an SAI can better manage the audit process, providing assurance about quality of the final product i.e., the audit report.

Smart Mandatory Audits Analyzing Impact of Controls' Effectiveness on Audit Efficiency and Economy

Aamir Fayyaz

Director HRM, SAI Pakistan

It is said that what counts is not the hours you put in your work but the work that you put in the hours.[1] SAI auditors are expected to be cost and quality conscious and audits they perform have to be efficient and effective.[2] How can auditors fulfil these expectations? They are advised to channelize their energies on the essential and necessary work only and ward off the tendency of having too much on their platter. That makes sense and serves as strong base to efficient audits-ones that typically use minimum resources to achieve their objectives. The pre-requisite to this approach is that audit management at all levels is sensitized about the cost of audit and of the need to keep this to minimum. There is a need to instill in the workforce pride to work more using minimum financial, human, time and other resources. In the long run it will improve the cost-benefit ratio of the SAI and would fulfil basic expectations from SAIs to manage their "operations economically, efficiently, effectively and in accordance with applicable laws and regulations, and report publicly on these matters, as appropriate."[3] A SAI therefore needs to be appreciative of the cost of audit at all stages of audit work. SAI Pakistan conducts several types of audits. Among these, only financial audits are categorized 'mandatory' audits. Financial audits are a type of regularity audits. The applicable law requires these audits to be performed and reported every year.[4] The rest are all 'discretionary' audits and the SAI has considerable leverage in determining the frequency of these audits on the basis of their perceived relative importance. Audit planning guidelines require that, on annual basis, we assess our resources and, as a first step, make allocations for mandatory audits. Discretionary audits will have to be managed from left-over resources.[5] That vindicates our case for smart and efficient mandatory audits as resources saved from these could be utilized to audit high-risk and high-profile issues of broader public importance where there are strong perceptions about non-compliance and/or serious compromises on the VFM front. There are additional benefits in terms of keeping audit deterrence at its optimum level, increasing the frequency of discretionary audits and facilitating client entities by having them wait no longer than necessary for audit to find time and do its job. Conversely, ignoring the issues that are in public debate and are of high risk and materiality coupled with absence of audits for considerable time period may pose or increase reputation risk of the SAI and also cause laxity in client entities in maintaining record for audit, taking action on previously identified deviations, errors and irregularities. How can we make our mandatory audits smart and efficient? One very workable and practical way to do that is by considering the overall sources of assurance available to the SAI auditors when performing mandatory audits. There are three main sources of assurance: assurance from inherent organizational environment, assurance from the internal controls

[1] https://www.amazon.com/Its-Not-Hours-What-Ewing/dp/B004YKUTBC
[2] ISSA-100/48-Fundamental-Principles-of-Public-Sector-Auditing
[3] INTOSAI-P-12/8- The Value and Benefits of Supreme Audit Institutions – making a difference to the lives of citizens
[4] Section 7 (Auditor General's ordinance, 2001)
[5] Para 2.3.6 (d)(7), Financial Audit Manual, Department of Auditor-General of Pakistan, 2012

and assurance from substantive testing by the auditor. The last one typically depends on the first two sources. Inherent environment is given and we do not have much leverage in that. The applicable guidelines bind SAI Pakistan not to seek assurance from inherent environment beyond 60%. This limit is basically the maximum and, on a realistic level, inherent assurance may be in the range of 30-50%. That leads us to look towards internal controls and if they have adequately plugged the areas where inherent risks were on the higher side, then there is some hope that we may derive some assurance from the internal controls and thus burden the limited and finite resources of the SAI to the minimum. However, this is not possible unless we audit the internal controls. In other words, let us make our substantive audit work dependent on our evaluation of internal controls. Sometimes auditors prefer not to test the efficacy of internal controls and assume that control risk is maximum (100%) in view of their knowledge of the entity and on the basis of previous audit findings and their follow up. They accordingly go on to perform substantive testing directly. While this approach may lead to reduction of risks for the auditors as they operate with the maximum sample size, in all likelihood, it may unnecessarily increase the workload of the auditors and consume more resources of the SAI on consistent basis contributing to inefficiencies in audit planning, performance and reporting. What should be equally worrisome for us is that entity management and stakeholders with oversight responsibilities may well be deprived of critical audit input on entity risk assessment and control systems and strengthen the traditional view of audit as a destructive villain and not as a partner and helper to the management in finding ways to achieve good governance. Therefore, it would be in the interest of audit as well as of management that auditors perform a formal assessment of internal controls and on the basis of conclusions drawn, determine the quantum of substantive audit. This is one way to make smart the mandatory audits. Auditors may arguably question the utility of testing controls when the result is already known: non-existent, inadequate and not reliable controls. They would say that being regular auditors, they have developed an adequate level of understanding of the client entity and know exactly the condition of controls in these entities. Testing controls and then performing substantive testing would increase cost and not decrease it, they would conclude. While we may not reject this thinking and approach outright, we should contend that this scenario may hold true for a year or two but ultimately, in the medium to long term, extent of substantive testing by audit would decrease drastically as management will now have specific audit findings, conclusions and recommendations on their control systems and with auditors pushing on the implementation of new controls or strengthening of existing ones, the overall control environment would see improvement. To implement our recommended strategy, we need an understanding of the controls, their objectives and motivations for the management to invest on controls. Why would the management need internal controls? What is the motivation behind investment on internal controls? What is the process of establishing internal controls? How are the internal controls reviewed by the auditors? How do the SAI auditors audit the internal controls? How to draw a representative sample for testing internal controls as well as for evaluating their effectiveness using Audit Command Language (a type of CAATs)? How is substantive testing influenced by effectiveness of internal controls? The process whereby we answer these questions will lead us to perform smart audits. Let us recall that internal controls are established to ensure that assets of the organization are safeguarded, reliable financial information is produced and laws are respected. It is the responsibility of the management to establish, maintain, review and continuously improve the internal controls so as to help achieve objectives.

BOX-I

Now a days we see that clothing outlets have small anti-theft tags attached to their individual pieces (assets). These starts making beep sounds whenever an attempt is made to take the item outside a pre-defined radius. When the customer makes the payments at the cash counter, these are removed. This is an internal control put in place to safeguard assets of the clothing outlet. This control is the result of risk assessment that indicated likelihood of clothes being stolen or misplaced from the shop causing loss to the business. Some control was therefore needed. In addition to other controls, this control was established and has made its acceptance across the clothing outlets. However, the control needs to be checked for continued efficacy so that the search remains open for better, more effective and more economical controls.

Several controls exist in government departments. Controls in one government department may vary in nature as well as in intensity depending on the overall control environment and management's attitudes or the tone at the top. Some of the common types of controls target the budgeting process, exercise of financial powers by the government functionaries, procurements, accounting, financial reporting, record keeping etc. Cash books and asset registers, for instance, are two very basic controls that are supposed to exist in all government entities. The use of technology in the field of internal controls is benefitting the corporate and public entities alike. For instance, making payments using bio-metric controls does add credibility to the process. Auditors must take advantage of the entity controls and after evaluating their efficacy make calculated reliance on these. Controls cost money and money spent by government on establishing these controls could at least be compensated by the SAI when it relies on these and accordingly reduces its extent of audit that in turn saves the public resources at the disposal of the SAI. Box-I illustrates the extent to which electronic controls are helping safeguard the assets. The process of establishing internal controls is a bit complex. As a first step, management needs to understand risks pertaining to achievement of objectives. This understanding comes from periodic as well as on-going risk assessments that help the managers assess where controls need to intervene. Risk assessment therefore precedes establishment of internal controls. Risk assessment of internal controls starts with two questions. What can go wrong and what would be the impact if it does go wrong? This is the assessment of inherent risk. While determining the inherent risks, we enter into a hypothetical environment where there are no internal controls and then assess the risks to assets, tasks, transactions and events in the bare environment. Imagine you are in far off area away from the noise of city life and suddenly you find that there is a USD 100 note right on the road. What would you do? There are several possibilities. For simplicity let us stick with these two. You ignore it and move ahead or you pick it up and keep in your pocket. Remember that there are no internal controls here and you do not have any consequences to face. Take this example to your organization. The cash chest is always open and is unguarded and daily you see the money carefully staked. What would you do. Again, imagine there are no controls in place. No cashier. No CCTV. No lock and keys. No restricted access. Your organization trusts its people and has not established any internal controls over cash. You decide one day to appropriate a USD 100 note and you get away with it. But this act of yours alerts the management and make them realize that gone were the times when they could trust the intrinsic values of the human beings and therefore, they decide to put the cash under lock and key, put a CCTV camera focused right on the cash chest and appoint a person to physically control access to the room as well as record all cash in and out. This is how controls are conceived. This would cost a lot of money but management considers it necessary weighing the benefit-cost ratio. Conclusion. Risk assessment or understanding of the inherent risks lead the management to establish internal controls in the areas where risk of loss, misappropriation, theft, non-compliance and defective reporting is on the higher side and the impact is very high. Controls are not needed everywhere but only in those areas where there is high likelihood and significant impact of non-achievement of objectives. Where there is low likelihood and low impact, then internal controls are either not established or established if cost-effective. SAI auditors should be wary of excessive internal controls and should watch that management is not spending a pound to save a penny! Sufficiency or adequacy of controls is also required to be determined. Having said that, it remains a fact that internal controls may minimize chances of loss, defective financial reporting and non-adherence to the regulatory regimes but these cannot eliminate it. Internal controls may prevent some of the errors some time but they will not be able to prevent or detect all of the errors all the time. Consider a typical procurement episode. It is considered a high-risk event. Therefore, management need to put action controls over it. They separate ordering, approving, sanctioning and payment authorities and introduce team-based decision making by constituting a procurement committee which is different from inspection committee and both these have nothing to do with the payment authorities. What is the utility of these 'internal' controls for the 'external' auditors? The presence of these controls may considerably minimize the risks pertaining to mis-procurement, however these would not eliminate it collusion among those approving, ordering, processing, receiving, paying and receiving the procured goods and services cannot be ruled out. Internal controls therefore would be giving SAI auditors reasonable assurance only and they should feel contented with it. In fact, they know this and that's why do not plan their audits to obtain all the assurance from the internal controls. If controls in a specific component are assessed to be good in Year 1, external auditors can place reliance on these as appropriate. If these get better in Year 2, they can increase their reliance and if these prove to be best in year 3, they can place maximum reliance on the controls. However, despite this high dependence offered by the internal controls, the external auditors are not authorized to obtain all their assurance from the controls even if these have been assessed to be excellent (up to 80% control assurance is admissible). Reasons are so many. Collusiveness as explained above could be one factor. Auditors taking a sample to test the effectiveness of controls could be another reason. On the other hand, if controls are found to be bad and get from worse to worst, auditors place limited or no reliance on these. The latter would increase cost of audit as now more assurance will have to be provided by auditors through substantive testing which is a method to gain direct assurance by the auditor instead of indirect assurance provided by controls. Remember audits have to be efficient. Auditors therefore, would take pains to identify the gaps in the functioning of controls and make suggestions about establishing new controls as well as making more effective the existing controls so that next year when he/she comes to perform audit, control structure is found to be significantly improved and achieving management achieve organizational objectives. This improved state would impact the allocation of resources for the substantive testing especially for

Box-II

SAI auditors are performing financial audit of entity ABC. They have decided to place high reliance on the procurement related internal controls. The reason is that in the government procurement is generally considered a high-risk activity and hence normally controls are established in this critical area. Auditors therefore want to rely on these controls. Auditing standards require them to check the efficacy of controls through compliance testing or audit of internal controls. This is meant to help them determine precise assurance from these controls. Auditors however can test only a sample of procurement related transactions. Let us help auditors select an appropriate sample size using ACL (Record Sample). The sample size is determined by several factors:

a. Confidence level: How much assurance the auditors wish to obtain from their tests of controls. Since auditors have decided to place high reliance on procurement controls, they need to set confidence level at 95%.

b Population size: Total number of procurement related transactions. In this case consider, 30,000 procurement transactions.

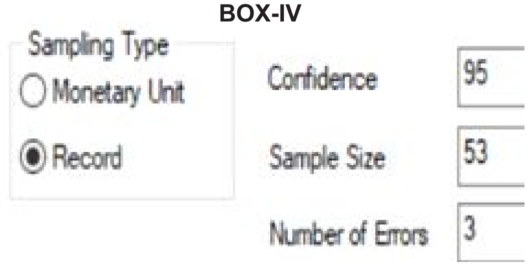
c. Tolerable Deviation Rate: It is equivalent to the concept of materiality. Internal control deviations found above TDR may well produce errors exceeding materiality amount. In that eventuality, auditors would have to reduce the reliance on procurement controls. Consider TDR to be 9%.

d. Expected Deviation Rate: Normally a conservative level of 1% is used.

The sample size will be determined using ACL as in Box-III:

BOX-III

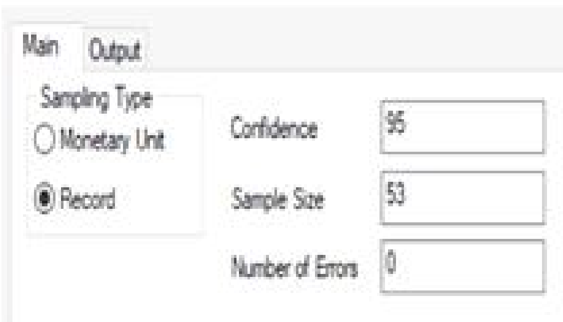
BOX-IV



ACL calculates 14.64% as the maximum possible deviation rate.

the tests of details. How do the SAI auditors evaluate the effectiveness of internal controls? There are several methods available including use of observation and walk throughs. However, the preferred method is to audit the internal controls

BOX-V



ACL calculates 5.66% as the maximum possible deviation rate.

using a sample of transactions especially when we intend high reliance on the controls and in this case we do. The process is explained in Box-II&III. After the auditor has audited the selected sample, he/she can interpret the results. Suppose, auditor found that out of 53 procurement transactions, 3 were not approved by the assigned delegated authority rather these were processed by a lower authority. Auditor would use ACL to interpret the results (Box-IV). Since the TDR[6] (materiality level of controls) was 9%, the upper error limit of 14.64% would tell the auditors that high reliance on internal controls over procurement is not possible and therefore the auditor would increase the extent of substantive testing. Conversely if the auditors did not find any deviation in the selected sample then the results would be as in Box-V. Now the auditor can place high reliance on the internal controls and this would help decrease the extent of audit and achieve our objectives of doing only the necessary work and thereby performing a smart audit with reduced costs. Even in case of undesirable results (as in Box-IV) and auditor not being able to place any or limited reliance on internal controls, the effort to audit internal controls is not wasted and will prove to be worthwhile in later years. The SAI, being the regular and legal auditor of the entity ABC will make sure that gaps in expectations from internal controls highlighted by it in year 1 are followed up with management and those tasked with the governance of the entity with the objective that from year 2 onwards, with controls in place in the deficient areas, maintained and monitored for continuous improvement, SAI would be all set to reap tangible benefits in all future audit engagements.

[6]TDR=(Materiality*multiplier)/population value

Zakat: The Best Tool of Social Safety and Poverty Alleviation

Sharifullah Khan Dawar

Director Audit, SAI Pakistan

Whenever one speaks of social protection and poverty alleviation, spontaneously it comes to mind why Islam has enjoined upon the rich believers to pay Zakat so that their wealth may be purified and the impoverished among them may be helped to sustain poverty. But again it haunts one's mind why Zakat has been neglected by the successive governments in Pakistan to be used as tool of poverty alleviation, though the preamble of the Constitution states that no law repugnant to the teachings of Islam will be enacted. The successive governments have overburdened the public with excessive taxation and exorbitant tax rates but have never thought of the religious obligation that can help the government reduced poverty in the country.

Abject poverty in Pakistan has struck at the cooking pot of every Pakistani citizen. Millions of Pakistanis live below poverty line. Millions of children are out of schools as their parents cannot afford to educate them due to poverty. Millions of people are shelter-less. The government of Pakistan has adopted multiple measures to provide income support to the poor and reduce poverty such as BISP, the Pakistan Poverty Alleviation Fund (PPAF) and the Rural Support Programs Network (RSPN) in addition to the well established organizations of Baitul Maal and Zakat etc. The income support programs under BISP have effectively provided refuge against hunger to millions of Pakistani but they have failed to mitigate poverty in the country. The current Zakat and Ushr fund facility has little economic utility to assuage the agonies of the poor. Notwithstanding poverty alleviation projects and social safety nets, the miseries of the have-nots didn't wither away. The provision and extension of the medium and small enterprises loan facility and initiation of rural support and livelihood programs have been victims of excessive corruption and corrupt practices. The funds of Baitul Maal are being used as the maal (wealth) of the fiefdom rather than maal of the poor orphans. The Zakat collected has no adequate mechanism of disbursement among the deserving people. The utility of Zakat fund is dismal in the sense that it's being used for social safety only. A meager amount of Zakat is paid to the payee that doesn't cater for his/her needs. In fact, the Zakat collected doesn't contribute to poverty alleviation and socio-economic development of the country.

In the early days of Islam, Zakat was payable on gold, silver, live stock, minerals, merchandise and agriculture produce. Now the Islamic Jurists are agreed that Zakat is also payable on accumulation of currency beyond prescribed limit and other financial assets such as shares, bank deposits, deposit certificates and securities etc. However, there is difference of opinion among jurists about Zakat on fixed assets. The Zakat ratio as prescribed by the Holy Prophet is 2.5% on almost all financial instruments mentioned above. The imposition of Zakat on the prescribed invariant nisab and rate has the potential to mobilize substantial resources in Pakistan for social safety and poverty reduction because the nisab might be low but its base of the levy is so wide that it encompasses every believer except those who deserve for Zakat themselves.

It's so unfortunate that only Rs.17.748 billions have been collected by the Zakat deducting agencies under Zakat & Ushr Ordinance 1980 during 2015-2018. The reasons are obvious. The said Ordinance has permitted individuals in the Second Schedule to pay Zakat themselves on their nisab on the prescribed rate. In the First Schedule, companies deduct Zakat on the paid up value or market value, based on the closing rate whichever is low on the valuation date, at the time of payment of dividends. If dividends are paid after five years, Zakat is deducted a single time on the total paid up or market value, whichever is low, calculated on the valuation date. The condition of 'whichever low' and payment of dividends at irregular intervals make the Zakat deduction more vulnerable as paid up value, by and large, remains low. Similarly, in insurance companies, Zakat is deducted on maturity of the insurance policy, i.e. if a policy runs for a period of ten years, the Zakat is deducted after ten years when the insurance policy gets matured and the policy holder draws the principal amount along with profit earned. The same process goes in all other instruments such as provident funds, mutual funds and securities etc.

The incumbent government in Pakistan believes in the governance principles and practices of the State of Medina; therefore, it is imperative to look into the loopholes and anomalies of the Zakat & Ushr Ordinance 1980 and the malpractices in collection and disbursement of Zakat. If a true Zakat collection system is devised, I am sure, an amount equal to the Public Sector Development Program (PSDP) of the federal government can be collected that can be utilized for the welfare of the impoverished segment of the society in the so-called State of Medina. Only in Saving Certificates institutions, there exist seven million investors with investment portfolios of Rs. 3.4 trillion. If Zakat is levied on these investment portfolios annually, the government can earn Rs.85 billion annually. Zakat has a true legitimacy among the believers being religious obligation. It also comes under the ambit of direct tax that doesn't affect the end users; rather it can assuage, in return, the burden of indirect tax on the end users.

In this regard it is proposed that a vibrant and sate of the art system of Zakat may be established to overcome the issues of less collection of Zakat and plug the loopholes in the existing system. The Schedule II of the Zakat & Ushr Ordinance should be omitted and the state should shoulder the responsibility of Zakat collection as was undertaken by the first caliph, Hazrat Abu Bakr. All public and private companies should be liable to pay Zakat on its assets reflected in their balance sheets annually. The insurance companies must be bound to deduct Zakat on the annual subscriptions and profit earned of the policy holders instead of amount paid to on maturity of the policy. Same policy should be adopted in provident and mutual funds, debentures and saving certificates etc.

Disaster Management through Robust Financial Governance

Safwanullah Khan

Assistant Auditor General, SAI Pakistan

Pakistan has been suffering most from climate change especially since last decade. However, the realization of it by governments (both at federal and provincial levels) has been a bit slow and apparently serious and concrete efforts to address this started just few years back. The focus is now on dedicated organizations dealing specifically with disaster and performing the whole range of functions whether it is management, response, rehabilitation preparedness, policy making, or disaster risk reduction. Simultaneously focus is being shifted to generation of required resources to finance as well as ensuring optimum utilization of scarce resources through better financial management and thus visibly enhancing performance and achieving targets with efficiency rather than wasting the money already acquired through much hassle. Prior to this whole system there was just a system of on spot response whenever a disaster struck, which lead to sheers waste of resources both in cash and kind as no coordination/mechanism for distribution of response (cash/kind), among affected existed. Even no mechanism for need assessment existed and thus a trigger chain reaction occurred which ultimately lead to poor target achievement despite spending huge available resources. Further sufferings of community did not reduce, rather these increased when another disaster struck the same community as there was no preparedness and no lessons learnt. With this background and keeping in view the constrained economy, organizations involved in disaster management or financial institutions providing support and coverage to disaster domain need to focus on two strategies. These two strategies are: a) Generation of resources for Disaster Management/Resilience/Preparedness with long term policies and plans and b) better financial management of these resources.

We will discuss in detail these strategies one by one as these are extremely important for organizations/Government with disaster management spectrum, particularly those which are aiming to be better prepared as disaster managing entity. First let us discuss why focus should be on generation/capture/tapping of resources for funding for long term/short term policies, plans and preparation for disaster management system and cycle. In developing countries like Pakistan where public exchequer is already burdened due to limited resources and where there even for basic human needs like Health, Education, Nutrition resources are scarce. Even for these basic needs Government has to borrow both internally and externally. Then after these areas focus has just recently shifted to infrastructural development after a decade of terrorism. These two priorities and above-mentioned priorities gulp more than 2/3rd of the country's budgetary resources (regardless from where these resources are being generated). With such a complicated and complex background, it is really difficult for Government to allocate resources for Disaster management cycle with special focus on preparation and resilience. As the country now fall into the category of most disaster-prone countries so now there is a paradigm shift in country's policy. Since 2005, the country shifted its focus to Disaster Management/Preparedness/Resilience after having facing disasters (both natural and man-made) and subsequent losses (both in cash/resources). After being struck by one major disaster after another Government has now realized that no progress can be made and no investment in education, health, human development, infrastructure development can be sustained when resilience towards disasters is not there to support country activity, as well as efficient disaster management system with key focus on early warning and preparedness at each level of disaster management cycle.

The purpose of all this discussion is just to remind how important is disaster management and preparedness and how important is resilience against disasters for a country and more so for Pakistan which is now among the top countries suffering from climate change and also how resource deficient our country is. So in order to survive from this threating climate change fear, we needed to build disaster resilience for which we needed organizations having focus on preparation for managing the whole disaster cycle and also for this we needed resources, be these financial resources, human resources and/or infrastructural/logistic resources. Governments, however, lack resources and public exchequer is also burdened and constrained and thus the need of the hour is to generate resources. These resources can be generated from public funds, through private funds, through public-private partnerships, foreign aid (Government to Government, NGO's to Government or Agencies to Government or Agencies to private sector). For example, if we talk about public funds then to think about such revenues/resources dedicated for disaster management, preparedness and resilience such as taxation/levy for generation of such fund, pooling funds through general appeals to the public at large or pooling funds through private parties/investors or civic society organizations or through collaboration of public sector with private organizations. Further investment of available private funds in the financial markets and utilization of profit for disaster preparedness management and policy making/response. Moreover, for further resources multinational corporations working in the country can be engaged for their corporate social responsibility factor. Similarly, NGO's working inside the country for climate change policies /programme can be of best help for both HR and Financial resources. Additionally, foreign governments, NGO's based abroad and donor agencies of international repute can be approached for financial resources. Moreover, dedicated programs in universities and colleges are needed to develop human pool trained in understanding of Disaster Management Cycle and techniques for disaster resilience and preparedness and this will result in generation of huge pool of resource and will be expected to contribute immensely in all future needs. The development of both financial and human resources will definitely lead to positive and concrete steps towards disaster management, preparedness and resilience. After acquiring/generating resources, particularly the financial one (which will be of course limited however broad the spectrum of resources is), the next humongous task is management and sustenance of these resources. For a government/organization, investing in these resources, for purpose of disaster management/preparedness/response (after acquiring these resources), considerations with respect to the 3 Es i.e. economy, efficiency and effectiveness are a must and in fact a huge responsibility. Governments/ organizations striving for disaster resilience/preparedness are expected to efficiently utilize available financial resources using multiple techniques like investment of available funds in the financial market and earning of profit and utilizing the profit for disaster management activities. Efforts need to be put in for using available financial resources for sustainable, self-sufficient and self-productive technologies such as renewable resources that involves one-time cost but have benefits of minimum or no recurring cost. Moreover, financial management should be made such that more funds are diverted to the target achievement with minimum required establishment cost. In case a disaster is struck, better coordination, affected areas management and stock management will lead to effective financial management that will in turn reduces both establishment and operational cost while achieving the results nevertheless. Effective financial management, however, will be dependent on preparedness, disaster forecast and risk reduction policy put in place by the responsible.

In conclusion we can say that generation of resources for disaster management and resilience and efficient financial management of available resources complement each other and hence these should be of prime concern for any government, organization, or entity working for disaster management, preparedness and resilience and without these two above mentioned strategies, any efforts made will lead to sheer waste of resources, exhaustion, poor target achievement and entrapment into a vicious cycle of disaster and more losses and thus poor sustainability of the country; adversely affecting the growth and progress.

SAI Audit for Sustainable Development Goals

Necip BİLGİN

Principal Auditor
Turkish Court of Accounts

Sustainable Development Goals

United Nations (UN) Member States committed to strive for a better future for everyone and not to "leave anyone behind" by accepting "Transforming our World: the 2030 Agenda for a Sustainable Development" in 2015. This global agenda contains 17 sustainable development goals (SDGs) for reviving state activities in all UN Member States until the end of 2030 as well as 169 targets and 232 global indicators related to these goals. SDGs generally cover issues such as eradication of poverty, fight against inequality and injustice, economic growth, energy, sustainable production and consumption, industrialisation and climate change.

SDGs emerged as the success achieved in the implementation of Millennium Development Goals, which were put into practice from 2000 to 2015 and mainly aimed at eradicating extreme poverty, encouraged countries to work jointly for goals that are more comprehensive. On the other hand, while Millennium Development Goals only aimed at eradicating poverty, Sustainable Development Goals pay attention to both human development and environmental sustainability.

It is stated in the preamble of the 2030 Agenda that fundamental principles of SDGs are people, planet, prosperity, partnership and peace (5Ps). It is envisaged that these five principles are always taken into consideration in the fulfilment of these goals, and the goals are achieved in compliance with these five principles.

SDGs are not legally binding, but the UN expects governments to embrace the goals and establish national frameworks for the achievement of these 17 goals. One of the most critical aspects emphasized in the 2030 Agenda is the maximum participation of different parts of the society in the efforts for sustainable development.

The progress achieved with respect to the 2030 Agenda is monitored through two different mechanisms. First, countries present their national review reports in relation to their own progress in the High Level Political Forum organized at the level of UN General Assembly every year. Also, UN specialised agencies prepare and submit progress reports for global development indicators determined jointly by the countries.

SAI Contribution to the 2030 Agenda

The Declaration presented at the end of the INTOSAI (International Organisation of Supreme Audit Institutions) Congress held in Abu Dhabi in 2016 emphasizes that INTOSAI aims to support distinctive contributions of Supreme Audit Institutions (SAIs) to the success of the 2030 Agenda, and in this way, to improve the lives of citizens throughout the world.

INTOSAI included in its 2017-2022 Strategic Plan certain targets for SAIs such as contributing to the monitoring and review of SDGs and assessing the preparedness of their countries in relation to the implementation and monitoring of SDGs as well as reporting the progress achieved. In this respect, INTOSAI conducted capacity-building works with the contributions of the INTOSAI Development Initiative (IDI) and SAIs of certain countries, and as a result, developed methodologies and manuals for the conduct of audits on SDGs. INTOSAI recommends that SAIs first audit the preparation processes for the realisation of SDGs in their respective countries and then conduct audits with respect to implementation. In this context, INTOSAI organisations conducted guiding works for the determination of methodology to be used in the audit of the preparation processes for the realisation of SDGs. There are still ongoing capacity building works in relation to the audit of the realisation of SDGs within the body of INTOSAI, ASOSAI (Asian Organisation of Supreme Audit Institutions) and the other umbrella organisations.

TCA Audit

Turkey accepted the 2030 Agenda, which includes the sustainable development goals of the UN, and put it on its national agenda. The Department of Strategy and Budget of the Presidency of the Republic of Turkey (former Ministry of Development) has been assigned for the coordination of the process. Also, the Turkish Statistical Institute (TÜİK) assumed the task of coordinating the monitoring mechanism. The first study conducted has shown that, of 169 global targets, 155 concern our country, as well, and thus, a total of 218 global indicators related to these targets have been included in the Official Statistics Program.
After INTOSAI has come up with the idea that SAIs should conduct audits to assess the preparations works of their respective countries in relation to the 2030 Agenda, the Turkish Court of Accounts (TCA) launched the audit work in this field in 2019. The process was completed after audit and consultation works were carried out with numerous public institutions including the Department of Strategy and Budget of the Presidency of the Republic of Turkey and TÜİK, in particular, and some NGOs considered as stakeholders in this field. The audit conducted was not only consistent with international standards on auditing but also followed the 7-Step Model developed by INTOSAI.

Within the scope of the audit, preparation process for the implementation of SDGs was assessed. In this respect, the objectives of the audit included reviewing the preparation and infrastructure works conducted by Turkey in relation to the implementation of SDGs from 2015 to the present day and the present situation in a systematic manner; assessing the effectiveness of the processes related to implementation; informing the necessary stakeholders including the parliament, in particular, for taking the necessary measures for a successful implementation; and increasing the awareness levels of stakeholders about the importance of SDGs.

The audit work focused on the system and infrastructure mechanisms created or to be created for the implementation of SDGs in Turkey. In this scope, national policies and strategies for the implementation of SDGs; current situation of the preparations and plans made for the realisation of SDGs and targets at the national level; and effectiveness of the available processes for the monitoring, analysis and reporting of indicators were assessed, and audit results were reached. Actions taken for the realisation of SDGs were not covered by the audit.

Another audit planned with respect to the SDGs will be related to the implementation of SDGs. To this end, for the planned audit, SDG no. 7.2 "*Increase substantially the share of renewable energy in the global energy mix by 2030*" was chosen as theme. Works for planning and determination of methodology for the audit are ongoing.

As the TCA, we continue our audit activities to ensure the successful implementation of the 2030 agenda. Findings and opinions of these audits are shared with the relevant public entities at every stage. Our efforts and works with respect to the sustainable development goals and targets will continue in the future, as well.

On the other hand, the TCA plans to inform the public – depending on the legal framework – about the results of the completed audits. It is thought that such information might contribute to awareness raising in the society about the sustainable development goals and achievement of goals. Also, the TCA plans to share the translated versions of its reports with the international community and to exchange knowledge with the other SAIs and stakeholders.

Quality Control System in Financial Audit and Quality Assurance in the Turkish Court of Accounts

Taha AKGÜN

Principal Auditor
Turkish Court of Accounts

The purpose of financial audit is to obtain reasonable assurance on whether financial reports and statements and their underlying transactions as a whole contain "material" mistakes. It is important to implement quality control procedures, which are determined by the SAI and comply with professional standards in all audit stages, and revise and improve them according to the changing conditions to minimize audit risk. Thus, as the quality of the reports of SAIs and their associated reputations increase, assurance will be provided to the SAI senior management that the reporting task given by relevant laws is fulfilled in the best manner.

This study first explains why SAIs need quality control, and then explains the regulations in professional pronouncements for quality control. The last section addresses the quality control policies implemented in the Turkish Court of Accounts (TCA) in the scope of financial audit, and focuses on its quality assurance works.

Why do SAIs need to Assess Quality

Quality control consists of all measures taken and procedures carried out within the audit process seeking to guarantee the quality of audit work and of the resulting report.

Among the main strategic goals of SAIs, contributing effectively to the transparency and accountability of the management of public funds is the most important one, and this is achieved by carrying out high quality audits resulting in clear, reliable and useful reports. [2]There might be quite a few factors effecting the issuing of precious reports, of which quality control is an important one. Carrying out audits without compromising quality is one of the most important ways to ensure that audit work is conducted at a consistently high level and one of the leading factors in achieving the goals of a SAI.

The reputation of a SAI may change depending on the accuracy and consistency of audit results. A high-quality job greatly increases the probability that audit results will be relied on, and the recommended improvements made by SAI to audited entity will be seriously and willingly considered and implemented[3].

Recommendations made by the quality assessment of the work carried out by SAIs help mitigate the gap between "what has been done so far" and "what should have been done". With the help of these recommendations, decision-makers take necessary steps more correctly and diligently.

[1]Financial and Compliance Audit Manual, European Court of Auditors, September 2017

[2]Achievıng Audit Quality: Good Practices in Managing Quality within SAIs, EUROSAI, p.8

[3]An Audit Quality Control System: Essential Elements, United States General Accounting Office, p.6

reporting the progress achieved. In this respect, INTOSAI conducted capacity-building works with the contributions of the INTOSAI Development Initiative (IDI) and SAIs of certain countries, and as a result, developed methodologies and manuals for the conduct of audits on SDGs. INTOSAI recommends that SAIs first audit the preparation processes for the realisation of SDGs in their respective countries and then conduct audits with respect to implementation. In this context, INTOSAI organisations conducted guiding works for the determination of methodology to be used in the audit of the preparation processes for the realisation of SDGs. There are still ongoing capacity building works in relation to the audit of the realisation of SDGs within the body of INTOSAI, ASOSAI (Asian Organisation of Supreme Audit Institutions) and the other umbrella organisations.

TCA Audit

Turkey accepted the 2030 Agenda, which includes the sustainable development goals of the UN, and put it on its national agenda. The Department of Strategy and Budget of the Presidency of the Republic of Turkey (former Ministry of Development) has been assigned for the coordination of the process. Also, the Turkish Statistical Institute (TÜİK) assumed the task of coordinating the monitoring mechanism. The first study conducted has shown that, of 169 global targets, 155 concern our country, as well, and thus, a total of 218 global indicators related to these targets have been included in the Official Statistics Program.

After INTOSAI has come up with the idea that SAIs should conduct audits to assess the preparations works of their respective countries in relation to the 2030 Agenda, the Turkish Court of Accounts (TCA) launched the audit work in this field in 2019. The process was completed after audit and consultation works were carried out with numerous public institutions including the Department of Strategy and Budget of the Presidency of the Republic of Turkey and TÜİK, in particular, and some NGOs considered as stakeholders in this field. The audit conducted was not only consistent with international standards on auditing but also followed the 7-Step Model developed by INTOSAI.

Within the scope of the audit, preparation process for the implementation of SDGs was assessed. In this respect, the objectives of the audit included reviewing the preparation and infrastructure works conducted by Turkey in relation to the implementation of SDGs from 2015 to the present day and the present situation in a systematic manner; assessing the effectiveness of the processes related to implementation; informing the necessary stakeholders including the parliament, in particular, for taking the necessary measures for a successful implementation; and increasing the awareness levels of stakeholders about the importance of SDGs.

The audit work focused on the system and infrastructure mechanisms created or to be created for the implementation of SDGs in Turkey. In this scope, national policies and strategies for the implementation of SDGs; current situation of the preparations and plans made for the realisation of SDGs and targets at the national level; and effectiveness of the available processes for the monitoring, analysis and reporting of indicators were assessed, and audit results were reached. Actions taken for the realisation of SDGs were not covered by the audit.

Another audit planned with respect to the SDGs will be related to the implementation of SDGs. To this end, for the planned audit, SDG no. 7.2 “Increase substantially the share of renewable energy in the global energy mix by 2030” was chosen as theme. Works for planning and determination of methodology for the audit are ongoing.

As the TCA, we continue our audit activities to ensure the successful implementation of the 2030 agenda. Findings and opinions of these audits are shared with the relevant public entities at every stage. Our efforts and works with respect to the sustainable development goals and targets will continue in the future, as well.

On the other hand, the TCA plans to inform the public – depending on the legal framework – about the results of the completed audits. It is thought that such information might contribute to awareness raising in the society about the sustainable development goals and achievement of goals. Also, the TCA plans to share the translated versions of its reports with the international community and to exchange knowledge with the other SAIs and stakeholders.

According to ISA 220, which forms the basis for ISSAI 1220: Quality Control for an Audit of Financial Statements, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that: (a) the firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and (b) the reports issued by the firm or engagement partners are appropriate in the circumstances.

Quality Control in Professional Pronouncements[4]

Quality controls horizontally cut the planning, execution and reporting processes of audit.I.e. they should exist in all stages to increase the value of work. In this respect, similar to the total quality management in business administration literature, quality control, which is an indispensable part of whole audit process, is addressed in a wide perspective in auditing standards. Due to its characteristic that should exist in all audit types and every step of planning, execution and reporting stages, many standards contain information on quality control. The below section focuses on the standards that has special parts on quality control.

Audit quality is the prerequisite for SAIsto make a difference to the lives of citizens. ISSAI 12: Value and Benefits of SAIs (INTOSAI-P 12) states that“SAIs should establish a monitoring process that ensures that the SAI's system of quality control, including its quality assurance process, is relevant, adequate and operating effectively”. ISSAI 20: Principles of transparency and accountability (INTOSAI-P 20) states thatSAIs should implement an appropriate system of quality assurance over their audit activities and reporting and subject such system to periodic independent assessment.

According to ISSAI 100: Fundamental Principles of Public-Sector Auditing, each SAI should establish and maintain procedures for ethics and quality control on an organisational level that will provide it with reasonable assurance that the SAI and its personnel are complying with professional standards and the applicable ethical, legal and regulatory requirements. An SAI's quality control policies and procedures should comply with professional standards to ensure that audits are conducted at a consistently high level.

ISSAI 140: Quality Control for SAIs is the professional standard for the quality control and quality assurance of public sector audits. ISSAI 140 uses the elements in International Standard on Quality Control (ISQC 1)[5]published by IFAC and dealing with a firm's responsibilities to establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements including those related to independence. These elements are as follows:

1. Leadership responsibilities for quality within the SAI
2. Relevant ethical requirements
3. Acceptance and continuance of client relationships and specific engagements
4. Human resources
5. Engagement performance and
6. Monitoring

Since these elements require some interpretation to enable their application by SAIs, ISSAI 140 includes the key principle adapted for SAIs and application guidance for SAIs.

These elements are addressed and detailed as “requirements” in ISSAI 1220: Quality Control for an Audit of Financial Statements while“documentation” is examined as a separate requirement in addition to these elements.

[4]The replacement process for existing ISSAI framework is still going on. All the number and the name of the pronouncements mentioned here, except ISSAI 1220, are based on updated version.

[5]https://www.ifac.org/system/files/downloads/a007-2010-iaasb-handbook-isqc-1.pdf

Quality Control Practices of the TCA

The TCA has a quality control system consisting of quality control procedures and quality assurance assessments to ensure audit quality. The first stage of this system is the quality control works performed as the audit continues before finalizing the audit report. Team leader, group leader, Report Evaluation Commission, judicial chambers and Board of Report Evaluation are in charge respectively in these quality control works. The controls by Report Evaluation Commission, judicial chambersand Board of Report Evaluation, which are not a part of the engagement team, are carried out before the date of the auditor's report, and these are a part of the engagement's quality control review in this aspect.This reviewis applied in all audits. The second stage of quality control system is the quality assurance works executed after the audits are finalized.

The purpose of quality assurance works in the TCA is to assess the effectiveness of quality control processes in audits and compliance of audits to the Manual and auditing standards when applicable. The work also increases the awareness level in audit teams to ensure quality and develop policies by identifying the strengths and weaknesses of the TCA.

In accordance with the “Key Principle Adapted For SAIs” of 6th Element (Monitoring) of the ISSAI 140, quality assurance work is performed independently under the leadership of an evaluation coordinator by a quality assurance team consisting of six professional staff members who hassufficient and appropriate experience and authority over a sample selected from completed audits.

First, an evaluation framework was established to carry out quality assurance evaluations. In the scope of framework, comprehensive criteria were identified for ethical requirements, monitoring, quality control and documentation, which should be evaluated separately as it is considered important and related to each stage, which horizontally cuts all stages of planning, execution and reporting. It is by all means within the realm of possibility that criteria may change depending on needs.

While forming the framework, the criteria was based on the TCA's Audit By-Law, Regularity Audit Manual and international auditing standards. After the team prepared it, the framework was subjected tonecessary quality control processes.Afterthe evaluation coordinator approved it, the implementation stage started.

After the preparation of the evaluation framework, the audit files that would be subjected to evaluation were determined via sampling method by the Presidency. The evaluation work covered 21 audit files from 2018, with one file from each audit group.

Quality assurance work is executed based on evidence. While replying the criteria included in the evaluation framework, the audit files are examined on SayCAP, which is the audit management system.Then, discussions are made to reach an agreement with the audit teams. Evaluation results are documented in tables, and quality assurance team prepares the Quality Assurance Work Result Report based on this information. The penning of the Result Report focuses on the principles of understanding the requirements that the audit teams did not/could not fulfil, reflecting the results of audit files to the whole TCA and forming suggestions for improvements in problematic areas.

Effect of the Independence of Supreme Audit Institutions on Fiscal Performance

Sinem YALÇIN, PhD

Principal Auditor
Turkish Court of Accounts (TCA)

Introduction

The economic and financial crisis experienced since the 1980s seems to have intensified the works of international organizations for an improved fiscal performance. The World Bank report titled "Governance and Development", published in 1992, emphasized the importance of governance in establishing the legal conditions necessary for the development of developing and developed countries, the direct participation of governments in the production process and ensuring economic development (World Bank, 1992: 1-5).

This study focuses on the importance of the independence of the Supreme Audit Institutions (SAIs) in ensuring fiscal transparency (transparency of the budget process), one of the main conditions of good governance, which is essential for a well-functioning economy policy.

Governance and Good Governance

In theory, governance is defined as an economic and political order, which is built on the mutual cooperation and reconciliation of all social actors, instead of a hierarchical (vertical) management style based on conventional bureaucratic structure; it emphasizes the importance of democracy, the rule of law, participation, human rights and freedoms; it is based on transparency, accountability, qualification and ethics; it has an independently functioning audit and judicial system; and it is compatible with technological developments (Jessop, 2002: 52, Stoker, 2002: 18, DPT, 2007).

As for good governance, it is defined as the optimization of the processes and institutional arrangements related to the development, implementation and delivery of policies, programs and services serving the benefits of citizens and society by the government. Good governance provides assurance for the management of the policy process in line with the principles of rule of law, transparency, integrity and accountability along with effectiveness, efficiency and economy (World Bank, 1994: vii). When supported by good governance principles, policies and programs gain citizens' trust hence help the policy implementations in achieving their goals (Rhodes, 1996: 656; OECD, 2014: 35-38). Therefore, fiscal transparency and accountability, which are the basic control functions of good governance, are among the fundamental factors for ensuring a successful implementation of development objectives (Ministry of Finance, 2003; Moser, 2015: 85).

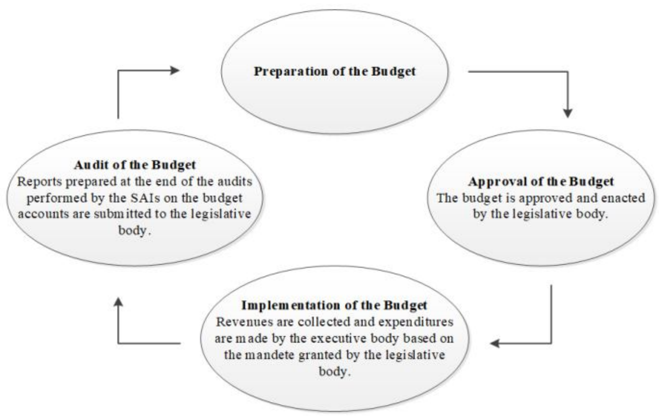
In the study conducted by Kopits and Craig (1998), it was reported that fiscal transparency is prerequisite for a well-functioning economic policy and increases the efficiency of public expenditures. The OECD (2014) report titled Budgetary Governance Principles emphasizes the importance of fiscal transparency, which also means budget transparency, and states

[1] This article was produced by the author based on the practice section of her PhD dissertation completed in 2017.

that budget documents should be open, transparent and accessible and budget process should be participatory and realistic.

Therefore, transparency should be ensured in all stages of the budget process shown in the following Figure 1 to ensure fiscal transparency (budget transparency). In this scope, the last stage of the budget process is the audit of government activities, and this task is carried out by the SAIs on the basis of the mandate granted by the constitution and/or laws of the country.

Figure1. Budget Process



Source: Prepared by the author.

The public sector audit conducted by SAIs has four main aims (DFID, 2004: 1):

- Proper and efficient use of public resources,
- Sound development of financial management,
- Correct implementation of administrative activities,
- Informing public and public authorities via objective reports.

Therefore, although their legal bases, forms of reporting, organizational structures or interactions with the political authority are different, all SAIs have the common objective of auditing the use of public resources in line with the legislation as well as the accuracy and reliability of government financial statements are audited in accordance with the international standards on auditing and ensuring that they are shared with the public (World Bank, 2001; OECD, 2014: 46).

Role of Supreme Audit Institutions in Ensuring Good Governance

According to the OECD studies, SAIs are an important source of objective information, which helps to put good governance into practice. In addition, they play a decisive role in the implementation of development strategies by controlling how, by whom and for what purpose the public resources, required for sustainable developments goals, are used (OECD, 2014: 5 and Moser, 2015: 85). Furthermore, SAIs ensure that states are transparent, and this allows citizens to have access to the necessary information (OECD, 2014: 66).

Independent audit of financial statements is importance since financial information can be effective only when they are provided in full and in an accurate and timely manner (Schelker, 2008: 30 and Schelker and Eichenberger, 2010: 359). Without accurate information, both citizens and investors have difficulty in taking proper and correct decisions (Schelker, 2012: 432). An independent evaluation of government activities increases the fiscal transparency, reduces the cost of knowledge and balances the principal-agent problem between citizens and the government in the use of public resources thereby positively effects the financial outcomes of the public sector(Schelker, 2008: 1 and Schelker and Eichenberger, 2010: 359). Therefore, SAIs are the main control institutions ensuring that accurate information is reported in the public sector (Schelker, 2012: 432).

Importance of The Independence of Supreme Audit Institutions

The final stage of the public financial management system is the audit by the SAI of public accounts and financial practices (IBP, 2006: 25).The audit conducted by SAIs ensures that government agencies work more efficiently, which enables the production of the same amount of public goods with the use of less resource. This, in turn, leads to a decrease in tax revenues as the source of financing for public expenditures (Schelker and Eichenberger, 2010: 366).

Performing the external auditing of the public sector, SAIs can play a key role in enhancing the quality of the state, ensuring the efficient use of public resources, properly implementing financial management and administrative activities and maintaining transparency and accountability that are essential for a well-functioning public sector only when they are independent from the audited entities and they are protected against external interference. Therefore, independence is crucial for well-functioning SAIs (INTOSAI, 1977: 6 and OECD, 2014: 39-40).SAI independence is an issue that has been emphasized by international organizations such as INTOSAI, OECD and the United Nations. The importance of independence was emphasized in INTOSAI's Lima Declaration of Guidelines on Auditing Precepts (1977), and the Mexico Declaration on SAI Independence (2007). With the chief aim of calling for independent government auditing, the Lima Declaration stated that SAIs could accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influences. For achieving this goal and for a healthy democracy, each country must have a SAI whose independence is guaranteed by law, and SAIs must have the functional and organizational independence required to accomplish their tasks (INTOSAI, 1998: 2-6).

The following Table 1 summarizes the factors affecting the independence of SAIs according to the international organizations and academic studies:

Table1. Factors Determining the Independence of Supreme Audit Institutions

Name of Person/Institution	Factors Determining the Independence of Supreme Audit Institutions
INTOSAI (2007)	The scope of SAI independence is specified in legislation in detail. Heads and members of SAIs are independent in the performance of their duties. SAIs are free from direction or interference from legislative or executive bodies in the selection of audit subjects, audit process, organization and management of the institution and implementation of the sanction decisions. SAIs are vested with the necessary authorities to have direct and free access to the necessary information and documents in the performance of duties assigned to them. They report the results of their works at least once a year. They are free to determine the content and timing of audit reports and to publish them. There is an effective mechanism for the monitoring of the recommendations of the SAI They manage and duly allocate their budgets.
OECD (2014)	Independence is guaranteed against government and parliament. Head of the SAI is elected by the parliament. Accounts of the SAI are audited by a committee established within the parliament. Financial accounts of the SAI are audited in line with the international standards on auditing. The decision on the type of reports submitted to the parliament is left to the discretion of the SAI as much as possible.

	SAI takes the decision on the audit subjects although it can be informed about the matters concerning the parliament. All audit reports are made public at regular intervals except for special causes. Rules concerning the functioning of the parliamentary committee are determined. Parliamentary committee has knowledge of the content of the SAI reports. Meetings of the parliamentary committee are open to public and media (unless they are restricted for special causes).
Blume and Voigt (2011)	Auditors can obtain the necessary information from the auditees in a complete and accurate manner. Government authorities cannot dismiss the auditor on the grounds that they do not approve his/her report. Wage of the auditor. Independence of the SAI is guaranteed by the related articles of the Constitution.
EUROSAI (2013)	SAI is independent from the auditees (Organizational independence). It is administered by a person or a board (Personal/Administrative independence). Tasks and duties of the SAI are determined by the Constitution and laws (Legal independence). Appropriation is transferred from the budget with the decision of the SAI management (Financial independence).

Source: Prepared by the author.

The level of corruption and waste are significantly reduced as the SAI audit becomes independent since the SAI audit makes it more risky and disadvantageous for bureaucrats to engage in corruption(Olken, 2007: 243, Ferraz and Finan, 2008: 744; Schelker, 2008: 1 and Blume and Voigt, 2011: 217). Also, independent audit is of great importance for fiscal performance of the government (Schelker, 2008: 7 and Schelker, 2012: 435). Similarly, Yalçın (2017) concluded in her study covering 85 countries in the period between 2007 and 2012 that public debt decreased as the SAI independence increased.

Conclusion

Financial transparency (budget transparency) is a prerequisite for ensuring fiscal sustainability, good governance and fiscal discipline. The main function of SAIs, which play a role in the last stage of the budget process, is to audit whether the public funds are used in line with the legislation as well as in an effective, efficient and economic manner on the basis of the mandate granted by the constitution or laws of the country. Thus, what matters for improving fiscal sustainability and fiscal performance is increasing fiscal transparency and guaranteeing SAI independence. SAIs can have impacts on fiscal transparency, and accordingly public debt, only when they are independent from the executive body and this independence is guaranteed by laws.

OECD. (2014). Partners For Good Governance: Mapping The Role of Supreme Audit Institutions; Phase One: Analytical Framework. Paris: OECD.

Olken, B. A. (2007), “Monitoring Corruption: Evidence from A Field Experiment in Indonesia”, Journal of Political Economy, Vol. 115, No: 2, s. 200-249.

Rhodes, R. A. W. (1996). “The New Governance: Governing Without Government”. Political Studies, 44, 652-667.

Schelker, M. (2008). Public Auditors: Empirical Evidence from the US States, Centre for Research in Economics, Management and The Arts Basel.

Schelker, M. and R. Eichenberger (2010). “Auditors and Fiscal Policy: Empirical Evidence on a Little Big Institution”. Journal of Comparative Economics, 38, 357-380.

Schelker, M. (2012). “Auditor Expertise: Evidence from The Public Sector”. Economics Letters, 116, 432-435.

State Planning Organization (DPT) (2007). Good Governance in the Public Sector: Special Commission Report. Ankara: DPT Publications.

Stoker, G. (2002). “Governance As Theory: Five Propositions”. International Social Science Journal, 12, 17-28.

The World Bank (1992). Governance and Development. Washington D.C.: World Bank Publication.

The World Bank (1994). Governance: The World Bank's Experience. Washington D.C.: World Bank Publication.

The World Bank (2001). “Features and Functions of Supreme Audit Institutions”, http://www1.worldbank.org/prem/PREMNotes/premnote59.pdf, (20.10.2016)

Yalçın, S. (2017). Effect of Supreme Audit Institutions Independence and Organizational Structure on Fiscal Performance: A Panel Data Analysis. PhD Dissertation, Hacettepe University, Turkey.