**TOWARDS A SUPREME AUDIT INSTITUTION[[1]](#footnote-1)**

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The office of Auditor General of Pakistan (OAGP) and the Public Accounts Committee are constitutional entities charged with the responsibility of ensuring that public funds are being used properly and effectively. The experience with the AGP and PAC over the last several years and the development of auditing standards and institutions in other emerging countries call for a major transformation of the OAGP. The Supreme Audit Institution of Pakistan (SAIP) which should replace the OAGP must be the apex body for financial accountability mechanism and an integral part of the Institution of Accountability in the country for promoting accountability and good governance. SAIP must be concerned not only with proper and effective use of public funds but also oversee a sound public financial management system consisting of budgeting, revenue collection, Accounting, Internal Controls, Audit and Legislative oversight. As part of the overall framework of Institutions of Accountability the SAIP should assist NAB, FIA, Anti-Corruption agencies in the detection and investigation of misuse and leakage of public funds. The SAIP will place objective reports to the Public Accounts Committee to support Parliamentary oversight of the management and use of public resources.

The OGAP suffers from several major weaknesses that cannot be removed by simple tinkering or moving the boxes around on the organization chart or introducing some process changes. It requires a fundamental restructuring and transformation. Why should the OAGP be replaced by SAIP?

First, it lacks professional competence. Out of 5400 personnel majority (3350) consists of poorly educated ill-trained, uncertified individuals with little knowledge of the business of the public sector organizations or department and lacking grasp on the modern auditing techniques.

During my last visit to the OAGP in connection with the National Commission for Government Reforms (NCGR) out of a total 464 audit teams, only twenty five percent were headed by Grade 16 officers and sixty three percent members of audit teams belonged to Grade 14 with the remaining below that grade. This low level of composition undoubtedly, resulted in poor quality reports which could not be recast to desirable standards despite guidelines and standards prescribed by the OAGP.

The supervisory officers, mainly recruited from general Pakistan Audit and Account Services, with few exceptions do not have the background, aptitude or skills to exert effective control over the lower cadre of the OAGP. The lop sided organizational structure where the clerks enjoy tremendous influence, power and nuisance value has done more harm than good to the image of the OAGP notwithstanding some of the finest officers who have headed the organization from time to time. This congenital defect is so deep rooted that it cannot be removed without a surgical operation.

Second, the Auditor General is not appointed in a transparent and open manner raising serious questions about the motives of the reports prepared and placed before the PAC. The expertise, qualifications, experience, integrity and overall reputation of the appointee are neither explicitly laid out nor are they reflected in the decision making process.

Third, the integrity of those who prepare the reports and their objectivity have been challenged off and on. Newspaper reports and anecdotal evidence show that funds are not released to government departments and agencies, superfluous objections are raised and delaying tactics are adopted unless money is paid or favors are bestowed to the Audit Staff. The credibility of the Audit organization being so low, cannot add any value to its findings and report. To add injury to the insult there is no recourse for grievance redressal or complaints against the officials of the OAGP and the Accountant Generals.

Fourth, the OAGP’s financial audits are not based on risk categorization or assessment. Most of the time and resources are devoted to low risk activities while high risk operations go escot free causing enormous losses to the exchequer. ‘Value for money’ concept has not yet entered the vocabulary or practices of OAGP. Claims that OAGP had made recoveries of Rs. 20 billion over a four year period show how insignificant this amount is in relation to the Federal Government spending of Rs. 3.5 trillion annually.

Fifth, despite the reforms of separation of audit and accounts function, introduction of the use of technology through PIFRA and implementation of Integrated Financial Information System the efficiency gains, the quality of reports, reduction in discretionary powers of the lower cadre officials or the speed in the disposal of business have proved to be elusive. The pendency before the Federal and Provincial PACs is large – at last count there were 56 years of audit report that had not been reviewed. In absence of prioritization and risk based audit reports the clogging of the process would remain a major issue.

The newly formed SAIP would remain a constitutional entity supporting the Parliamentary oversight of the use of public funds and its reports placed before the Public Accounts Committee of the Federal and Provincial Governments. But it has to be set up on a completely different footing than the present OAGP. The main distinguishing features of this new organization would be:

1. *Autonomy:* SAIP would enjoy administrative, functional and financial autonomy but work in close collaboration with the Ministry of Finance for exercising oversight of the Public Financial Management system. The appointment of Chairman heading the SAIP would be made on the recommendation of the Public Accounts Committee through an open and transparent process. The chairman and members cannot be removed before the completion of their tenure except for mental incapacitation or moral turpitude.
2. *Staffing and Competence:* The staff and officers of the SAIP would be selected on the basis of their qualifications, expertise, experience and integrity. Only qualified high level auditors would be recruited to SAIP. The Audit and Accounts Training Institute should play a critical role in developing technical skills of the staff. It should be transformed into a National Institute of Public Finance (NIPF) with a wing devoted exclusively for training research, case studies on Audit and Accounts. The Audit Officers would be imparted training continuously and promotion to the next level would depend solely on their performance. For performance audit, a new group of sectoral and technical and trained experts should be inducted. The present incumbents of the OAGP should be carefully screened and tested before they are inducted into the SAIP. In 2008, the then Auditor General had prepared plans for strengthening audit party structure by bringing in Grade 18 and 17 officers and trained Assistant Audit officers and eliminating the lower clerical staff. It was estimated that the strength of the department would be reduced by 33 percent.
3. *Mandate and Conduct:* The SAIP would have the mandate to carry out financial audit, performance audit and compliance audit. Financial Audit must be driven by the consideration of Value for money. Allocation of staff and time for audit should be made on the basis of Risk classification and Risk-based categories. The outdated and archaic Financial Rules, Fundamental Rules, Supplementary Rules and other rules must be weeded out, purged, simplified, updated, codified, digitalized and placed on the website for ready references. Audit manual should therefore be recast in the light of these rules. Systemic issues should be given priority attention. New Audit methodology comprising Financial Audit Manual and Computer Assisted Audit Techniques and Tools (CAATs) should be adopted and put into practice. Information System Audit should also be included in the mandate of SAIP and trained staff recruited to carry out this function. The Audit Management Information System (AMIS) which has been under implementation should be brought to bear upon the decision making process.
4. *Ethical Standards:* The salary package and compensation of the officers and staff should be delinked from the Basic Pay Scales. The increased use of Information Technology should result in a lean organization of 1000 qualified and well paid professional staff. The elimination of clerical and lower cadre staff would result in substantial savings which could be deployed to raise the salary structure of the professional staff. This will not only improve the objectivity of the reports but also enhance the credibility of the Audit process. As salaries are made more attractive those indulging in malfeasance or malpractices should be punished in an exemplary manner so that the core values of Integrity and professionalism become embedded in the organizational culture of SAIP. Government Servants Efficiency and Disciplines Rules should not be adopted or applied in case of the employees of SAIP.
5. *Enforcement and Follow-up actions on the Reports:* As the core competencies are upgraded, ICT Tools are routinely used, large data bases are built up, the reports and findings become more objective, the credibility of audit process would be enhanced. The PAC proceedings will no longer be guided by the media coverage or point scoring but a realistic assessment of those who had indulged in wrong doing. The enforcement powers of the PAC in getting its decisions executed would have to be strengthened. Both criminal and civil actions should be in remit of PAC. The deterrent effect of these actions would have a salutary impact on the governance in the public sector. Timeliness in the production of reports of SAIP and careful choices in the selection of the reports by consideration of the PAC would reinforce the enforcement capacity.
6. *Governance Structure:* The SAIP should be headed by a Chairman and two members. An Advisory Board consisting of in independent public finance experts should assist the SAIP in aligning its work with international auditing standards, benchmarks and conforming to best practices. The SAIP should have an ombudsman to whom all the complaints against the excesses and infractions committed by the officials are addressed. His/ her decision after due investigation should prevail and action, if recommended, should be taken automatically. The SAIP should have an effective monitoring system with agreed plans with the Field Audit offices, specify quality control mechanisms, Key Performance Indicators (KPIs) and ensure that audit work is conducted in line with the plans and the KPIs are being achieved. Guidelines, policies and procedures for conducting certification, compliance and regulatory of audits would be issued by the SAIP along with a quality assurance program. The SAIP should also oversee the internal controls in each Ministry, large autonomous bodies and determine if a strong internal audit function exists.

To sum up, let me reiterate that the task ahead for transforming the OAGP into a SAIP would involve regularity, independence, integrity, objectivity and competence to establish its credibility and usefulness.

1. Paper presented at the Public Financial Management Conference 2014, Islamabad [↑](#footnote-ref-1)