4. Cyprus

Country Paper
on
Sub-theme 2

The SAIs Performance Audit Report
and its Utilization by
Legislature and Executive

Prepared by:
Audit Office of the Republic,
Cyprus

6TH ASOSAI INTERNATIONAL SEMINAR 1997

INDONESIA 1997

SUB-THEME 2:

Performance Audit Report and its Utilisation by the Executive and the Legislature

COUNTRY PAPER
CYPRUS

November 1996

I N D E X

PERFORMANCE AUDIT REPORT AND ITS UTILISATION BY THE EXECUTIVE AND THE LEGISLATURE

1. INTRODUCTION

As public spending goes up as a % of GDP the public concern on proper utilization of public funds is increasing and the provision of .value for money services is becoming a major issue. There is a continuing pressure on the Public Sector to perform more efficiently with fewer people, cut public spending and increase decentralization for tactical and operational decision making, while increasing central control for strategic decisions.

At the same time increasingly the pressure is mounting on SAIs to report on waste, improper use of public funds, bad management, inadequacy of controls and procedures and or on corruption on big scandals as the public calls them.

The SAIs have long realized that strict financial audit is not sufficient to inform public sector management and the general public at large about the economy, efficiency and effectiveness of public resources. Therefore, the audit scope and methodologies were changed to cover these areas through what is nowadays called performance audit.

2. PERFORMANCE AUDIT REPORT

2.1 Performance Audit Approach.

Before the commencement of a performance audit, a preliminary survey is being carried out to assess among others the following:

- ***The mandate of the audited agency.***
- ***Programs of the agency.***
- ***Organization of agency.***
- ***Resources used by agency.***
- ***Management climate.***
- ***Environment in which agency operates.***

In Cyprus the **systematic approach** is mostly followed during performance audits. From the preliminary survey all necessary information and data are collected and analysed and the management system in operation is evaluated to pinpoint inadequacies and other poor controls. Also the **effectiveness attributes approach** is followed in examining certain areas and statistics about inputs and outputs are gathered and evaluated for substantiating

the conclusions. However, the audit report layout is not influenced by the approach adopted, but depends on the materiality of findings.

2.2 Performance Audit Scope.

In Cyprus the legal and constitutional framework within which the Auditor General operates is very general and outdated.

The only legal provision dealing with performance audit is contained in the Public Corporate Bodies (Audit of Accounts) Law 1983/1984 under which the Auditor General may assign the audit of Public Corporate Bodies Accounts to private auditors, while at the same time he reserves the right to carry out performance audit or other type of audit.

Despite the absence of specific provision in the Audit Mandate the Auditor General has long been engaged in carrying out performance audits. Recently the impetus towards performance audits has increased considerably.

This matter is expected to be clarified and fully regularised after the approval of a bill which is now pending before the House, in which specific provision is made about performance audits.

So far, there has been no serious attempt either from politicians or the other government executives neither to question the authority of SAI to undertake such audits, nor to limit the scope of a performance audit report, or the SAI' s function.

In determining the scope of audit the following factors are taken into consideration:

- ***The magnitude of activity, project or programme.***
- ***The revenue/expenditure involved over a specified period.***
- ***Impact of such activities on other programmes or projects.***
- ***Staff availability and needed staff disciplines.***
- ***Expected findings and recommendations.***
- ***Impact of final report on auditees, executive and legislature.***

An extract from the Quarry Materials Performance audit report undertaken in 1994 about the scope of the audit, is cited below:

"The audit covered the period 1991-1994 and focused on the production and sale of crushed gravel and sand, which constitute approximately 50% of all quarry materials produced. It covered the relevant legislation, regulations and Council of Minister' s decisions. Information was gathered through interviewing and questionnaires from the relevant Government Departments, as well as from the Pancyprian Association of Gravel Producers, the Cyprus Chamber of Science and Technology, the Association of Architects and Civil Engineers, the Association of Geologists and Mine Engineers, the Consumers Association and the Cyprus

Federation of Environment and Ecological Organisations. In order to form an opinion on the quality of the materials produced, the results of the laboratory tests carried out by the state laboratories during the last two years (1993 and 1994) were taken and analysed. Furthermore, additional samples were taken and tested by the audit team during the visits at the various quarries and concrete plants.

2.3 Intended Degree of Audit Assurance.

In the report the SAI endeavours to have the highest degree of objectivity, accuracy and professional standards.

The SAI has devised mechanisms and procedures to ensure comprehensive, complete and well founded reports, so that all opinions and statements can be relied upon without reference to other sources of evidence.

In verifying the correctness of findings of performance audits, it is necessary to employ conventional auditing techniques and collect appropriate supporting evidence. Drawing conclusions however which are fair and reasonable, is a more subjective exercise.

The SAI places great attention on the presentation and quality of its performance audit reports. To ensure fairness of audit findings the following are taken into consideration:

(a) The report is regarded more as an aid to management in the economic and efficient use of resources, rather than a checklist of deficiencies. When the auditee is operating economically and efficiently this is acknowledged, as it is essential that a balanced report should be presented which will form a contractive guide and stimulus to management. Also the report should aim to be constructive, avoid language which generates defensiveness and opposition, and be positive in its approach.

(b) The report contains certain basic information that enables users to draw reasonable conclusions from it. This information includes inter alia the terms of reference, descriptions of scope, the conclusions and recommendations and, where possible, a quantification of results.

(c) The main body of the report provides details and analysis of the issues raised in a concise and clear manner.

(d) The approval of report follows a formal preparation and review process which ensures high quality, accuracy of findings, soundness of conclusions and recommendations.

(e) The SAI considers the auditees' s response to the findings, prior to issuing any formal audit reports. In the normal course of events the draft report is considered by the auditee at

the management level for confirmation of facts or for making comments. Where the auditee's views differ, usually on matters of opinion or judgment, these are included in the reports without direct comments upon them.

(f) No press releases or public comments is made, prior to issuing the final report.

An extract of findings from the performance audit report on Quarry Materials, undertaken in 1994, is shown below.

"More than 50% of the materials produced and sold are sub-standard. This is due to the existence of illegal quarries which do not come under any scrutiny whatsoever, as well as the production by the legal quarries of materials which do not meet the standards. It is estimated that the illegal quarries produce between 20% - 30% of all materials produced. However, it is difficult to bring about an end to their operations, because the relevant legislation is inadequate, legal proceedings are time consuming and the resultant penalties very small. The Ministry of Agriculture, Natural Resources and Environment, on the other hand, maintains that, in accordance with its own statistics, production of materials from illegal quarrying is 5% - 10% and the proportion of sub-standard materials is 20% - 25%".

2.4 Significance.

Performance audit having multiple objectives is more complex to perform compared to financial audit where the main objective is to express an opinion on the financial statements based on the concept of materiality.

The performance audit report may be of interest to a variety of people like legislature, management, shareholders, customers, press and the public at large, each group having different perceptions of significance. Undoubtedly, no audit report can cater for the needs of all potential readers. Therefore the auditor is facing a difficult and complicated task to decide not only what is significant to report on but also how to report it, as there is always the danger, his report to be read out of context, by any of the above groups, for their own benefit.

In order to avoid such problems or limit them as far as possible, the SAI gives serious consideration not only in the process of selection of the topic, but also on the style by which recommendations are made and the findings are reported.

As already mentioned, the report is factual, leaving no room for ambiguities and misinterpretations or misunderstandings. An effort is made for findings to be reported in order of significance. Significance can be measured in terms of extra expenditure incurred or savings that could be resulted, if the SAI's recommendations are adopted.

Basically a mixture of criteria are used, in selecting a topic to be subject to performance audit, with particular emphasis on:

(a) the amount of possible savings,

(b) the interest to the public in general

(c) risk identified or inherent,

(d) audibility, i.e. possession of needed skills to make the necessary assessments,

(e) suitability i.e. the ability of the SAI to make worthwhile recommendations.

The criteria used for judging the audited agency's performance as a matter of principle are always discussed with the auditees in an effort to get their comments and reaction. From the established criteria, the audit program/questionnaire is developed not only to ensure proper audit coverage, but also for the proper control and audit supervision of work.

The criteria to be used are sometimes included in the audit report or as an appendix thereto depending on the size of the audit, but this is not a standard practice.

3. UTILIZATION OF PERFORMANCE AUDIT REPORTS BY THE EXECUTIVE

3.1 Management perception of Auditor's competence.

For the last decade or so, there has been an effort by the SAI to extend its mandate to cover performance audit assignments envisaged in upgrading not only the quality of services provided, but also to provide greater value for money to the taxpayer.

At the very beginning the practice was to select a big project where several Audit Sections were working together. This proved beneficial as more staff became acquainted with the idea of performance audit and gained the relevant experience.

The present practice is to carry out three or four small performance audits each year, preferably separately by each Audit Section.

The long term objective of the SAI is to include performance audits, in the ordinary audit work by integrating it with the financial audit of each Audit Section.

As already stated, an effort is made to gain the auditees cooperation and assistance in undertaking the performance audit and for this purpose meetings are always arranged with Heads of the Ministries or Departments concerned, during which the objectives of the audit are clearly explained together with the possible benefits that might have, as a result of the proposed audit.

It is also stressed that the findings will be discussed with them before being included in the report and that they will receive an advance copy of the draft report for their own comments and views.

The skills and competence needed in carrying out such audits are given serious thought and generally the SAI avoids entering in technical areas where these might be lacking. The SAI does not seek outside professional or expert assistance for such cases.

It must be noted however that besides the accountants, civil and mechanical engineers are also employed by SAI who assist in the audit of capital projects.

3.2 Audit Recommendations.

The SAIs must focus on preparing audit reports which will communicate sound recommendations in a way that is caused changes to be made. Results cannot come about unless public policy changes through the adoption of audit recommendations by the auditees. Such recommendations could prove very useful criterion for a SAIs contribution and performance towards the taxpayer.

Although written standards for preparing audit recommendations have not yet been prepared a conscientious effort is however made for recommendations to be always feasible, relevant, practicable and cost effective .

Where the SAI is fully aware of the whole issue and feels confident, detailed recommendations are made. For complex issues, the SAI raises the shortcomings and either puts forward some thoughts for resolving the issues and asks the executives views and comments as to how matters could be improved.

Experience has proved that action on the SAIs recommendations is usually taken where recommendations are detailed enough but not rigid and management feels competent that by adopting them improvements will be made and existing problems will be solved. Although there is still no written procedure for the follow up of the performance audit recommendations, over the past few years there has been an increasing effort towards their implementation by the auditees. Once the final audit report is issued views and comments expected to be received from them, but usually these are seldom specific enough and usually avoid to deal with the issues raised.. So it was found more fruitful and practicable to form a small committee made up from the top management of the audited agency and the performance audit coordinator or team leader, to study the report in detail and to decide about the necessary steps to be taken for the implementation of the relative recommendations.

As this procedure, for practical reasons, usually starts at least a year after the report is issued, the auditees in certain cases had taken action on recommendations made, if they agree with them.

The SAI usually follows up the implementation of the agreed recommendations.

This practice has proved very beneficial, because the auditees get the message that the SAI is not only interested in reporting shortcomings but also is mostly interested for improving the situation.

Generally the reaction of the auditees towards recommendations is positive, although for a number of reasons action is not taken promptly or appropriate as the SAI would desire.

However on a number of cases, especially where findings are duly substantiated and absolutely reliable and the recommendations are specific as in the case of the Driving Schools performance audit, the executive and legislature proceeded very quickly (within a week) with the amendment of legislation.

The main findings were:

- About 20% of driving schools could be described as fictitious and are set up, so that the owners can acquire vehicles which are exempted from duties and are subject to reduced registration and annual licence fees.
- Around 14% of duty free vehicles, which are meant to be used for driving instructions, are luxury vehicles which cannot be considered to be suitable for driving schools. These are used exclusively for private purposes and are not fitted with the appropriate training vehicles signs.
- A proportion of more than 60% of training vehicles are used proportionately more for private rather than driving instruction.
- Many schools extensively use for their training duty paid vehicles, which are smaller and of lower value than the duty free vehicles they acquired for the purpose.
- Many schools had, on paper, a second instructor, so as to justify a second duty free vehicle, as the Department of Road Transport did not approve two vehicles without a second instructor. The Supreme Court ruled that this policy is unlawful and so now each school is entitled to two duty free vehicles.
- Only 23, out of the 214 driving schools, have been registered for V.A.T. purposes.

- A number of schools do not have any business premises, contrary to the provisions of the Law and the Regulations.
- Many schools are systematically late in renewing their licences.
- A number of schools, which have stopped operating, have not yet cleared their vehicles customswise.

The main recommendations were:

- Strict enforcement of the relevant Laws and Regulations. It is imperative that the relevant Laws and Regulations are strictly adhered to, so that their transgression, as reported above, is avoided.
- Abolition of the exemption from duties. The exemption from duties given for training vehicles should be re-examined with a view to its abolition altogether, as this is granted only to a small group of people and does not serve the public at large and neither does the State have a say in the determination of the fees charged by the driving schools.
- The abolition of this exemption will stop non-entitled persons from exploiting it and will do away with a host of other problems, which give rise to a substantial administrative for the Government.

3.3 Lessons for the future.

The real value of the audit lies in preventing similar shortcomings taking place again. Audit recommendations become worthless, unless they are adopted and implemented by auditees.

As already stated there is no standing procedure or legal provision governing the follow up and implementation of audit recommendations. The Public Accounts Parliamentary Committee, in a meeting held on 7.12.93 in the presence of the Attorney General and the Auditor General of the Republic, decided to set up a technical committee with representatives from Parliament, the SAI, and the Law Office, to study the Auditor's General report for 1992 and prepare a list of topics that need further study and investigation by the above Parliamentary Committee within the scope of exercising parliamentary control.

At a meeting held in March 1996, the Council of Ministers laid down the procedure to be followed by Ministries in dealing with Annual Report and the Ministry of Finance has issued a circular asking auditees to comply with this decision and to submit in writing the proposed corrective action to be taken for each case mentioned in the Report.

A Ministerial Committee will study the replies to be received in the presence of the Auditor General and Attorney General and a report will be prepared for the briefing of the Council of Ministers. Additionally the Attorney General will decide whether any criminal or disciplinary action will be taken against civil servants or any other individuals mentioned in the Report. Recently the Attorney General and the Auditor General decided that all serious cases should be reported immediately to the Law Office, instead of waiting until the completion of the Annual Report.

The above development is an indication that the executive is beginning to give more attention to the Auditor General's findings and recommendations but there is still much room for improvement and a long way to go in this direction.

4. UTILIZATION OF THE PERFORMANCE AUDIT REPORT BY THE LEGISLATURE

4.1 *Accountability.*

Performance audit is a concept that is based on two important principles in the public sector. The first principle is that public administration should be conducted in a way that makes the best possible use of public funds. The second principle is that people who conduct public administration should be accountable for the prudent and effective management of the resources entrusted to them. This onus of accountability permeates the whole of the public sector, from elected representatives who are accountable to the public, to officials who are accountable to elected and public service superiors. The principle of accountability applies to public servants at all levels within the public organizations.

The idea of accountability relations is crucial. It is based on the assumption that those who confer responsibility should expect and should receive an appropriate accounting for the results of responsibilities conferred. The performance audit concept focuses and deals with accountability relationships in two ways. First, it examines the clarity of understanding that exists in the principal parties and how the responsibility to provide for proper accountability is to be discharged. Second, it examines how in practice this responsibility is discharged by those who manage public funds.

The SAI is an independent external mechanism that provides assurance to the general public whether public resources have been used economically, efficiently and effectively, through which the accountability relationship between the executive and the public could be discharged.

In Cyprus there are no Government guidelines dealing with the accountability of any particular group, such as Ministers, senior civil servants or other operational staff. In the absence of such guidelines the SAI follows the International Auditing and Accounting Standards and ensures that the auditees observe where applicable, the relevant legislation, regulations, financial instructions, store regulations and the budget procedure (preparation, execution, reporting) as stipulated in the Constitution.

The SAI is merely reporting its audit findings and other facts, concerning a department, organization, project or an activity. If, as a result, particular groups of people could be held accountable, it is up to the executive to proceed with further investigation, or to determine whether such people are being responsible for any financial or other losses to the public revenue.

The executive is generally forced to take action by the legislature, the opposition, or even the Press. Also, particular groups of people whose interests have been affected as a result of bad management, press for action against public officials.

It must be stressed however that in most cases it is not possible to assign responsibility to any particular person, and is not unusual, people higher in authority, to shrink off the responsibility and the blame to their subordinates.

As a rule, an audit report does not identify persons responsible for irregularities or other mismanagement of funds. In the Audit Report the Auditor General highlights facts or brings to the attention of the executive issues that in his opinion ought to be reported. It is up to the executive to decide whether issues of wastage, fraud or abuse of power should be reported for further investigation and punishment of those responsible for the such irregularities. On a number of occasions, an official inquiry takes place, but the end result is that no action can be instigated due to lack of evidence. In other cases, where a number of people are involved, it is not always possible to assign responsibility to any particular person as it becomes difficult to determine who is actually responsible .

Examples where persons were identified for some irregularities but the system did not permit any action against them are cited below.

Unladen weight of motor vehicles. In Annual Audit Report for 1993 it was stated that out of 791 registered vehicles, of a particular make and model, 350 vehicles were classified, as to their unladen weight, in the category of 1 017 kg. - 1 270 kg, and the rest in the category of 1 271 kg. - 1 524 kg, whereas according to the manufacturer's specifications, the unladen weight of these vehicles is 1 370 kg. It is estimated from the above that the loss of

revenue to Government from the 350 vehicles, that presumably have wrongly been classified in the category of 1 017 kg. - 1 270 kg, amounts to £150.000 in registration fees and £63.000 in annual licence fees. The Ministry of Communications and Works has set up a special committee to carry out an investigation with respect to these vehicles, so as to determine the facts and conditions under which these and other vehicles were weighed and registered.

The Committee concluded that some officers with their behaviour allowed such vehicles to be registered, but the persons involved had already retired with the result that action was taken against anyone.

Investigation of bribery charges against officers of Limassol Inland Revenue for tax concessions. In the Annual Audit Report for 1993, it was stated that reports, alleging corruption of Inland Revenue personnel, involving bribery of assessors of tax, for willful understatement of tax liabilities, were submitted to the Minister of Finance during 1993 and that a preliminary investigation, carried out by the Department, revealed that in some cases taxpayers were favorably treated, by assessors of tax, who examined their accounts and returns in priority to others, whose examination was pending for an unduly long period.

A number of tax cases were examined in detail and reports were submitted to the Director of the Department, who proceeded for further investigation with 21 of the cases considered quite serious. The Department completed so far the investigation of four cases, raising an additional tax of £247.500, plus interest. In three other cases, the investigation covered the examination of the books, resulting in the revision of assessments which, however, have been objected by taxpayers. The investigation of the remaining cases is in progress and covers the examination of the books and other documents. In two cases legal action was taken for failure of taxpayers to submit documents requested.

In one case, it was established that certain documents submitted by a particular audit firm were, prima facie, false or forged. This case, together with some others, is subject to police investigation.

Although the police investigation were completed and a report was submitted on 7.1.95 to the Law Office, suggesting the prosecution of two persons no action has yet been taken against them, due to lack of substantial evidence..

The SAI investigation showed the following:

(a) The accounts and returns submitted by some audit firms were preferentially treated and their examination completed either soon after receipt or sometimes at once, while at the same time the examination of a large number of other accounts was long overdue.

(b) Some assessors of taxes did not always comply with the internal procedures and routines established by the Department, when examining accounts and agreeing tax computations, and lacked due care and professional skill in performing their duties.

At the same time the Department proceeded with the examination of certain other cases, two of which were settled by an additional tax of £27.000, plus interest.

Urban Traffic Control System ("Scoot"). The feasibility study and the contract documents were prepared by Consulting Engineers who, at a later stage, recommended the purchase and installation of the English system "Scoot". They also proposed that only three firms should be invited to tender, these being the only ones which had a permit to install this system. Due to the specialised technology of the system, the evaluation of the tenders was performed by the Consultants with the approval of the Main Tender Board. After the award of the tender to one of the three firms and the commencement of works, the SAI and the Control Section of the Ministry of Communications and Works observed that the unit rates of the works executed by a local sub-contractor were very high, more than double the normal rates. In October 1992, the SAI also noted that the cost for five Civil Engineering jobs, based on the contract unit rates, was £780.340, whereas the normal market rates for these jobs was of the order of £349.000. From a later inspection, it was found that the rates of the electrical works executed by the local sub-contractor were also very high. It was also noted that these three firms had used the same local sub-contractor for their tenders and during the evaluation of the tender no comparison of the unit rates was carried out and, as a result, these high rates were not detected. In November 1992, the SAI asked for a legal advice from the Law Office whether Government could demand a reduction of the high unit rates of the contract and whether responsibilities could be attributed for omissions in the evaluation of tenders. The Law Office advised that the unit rates may be reduced only according to the conditions of contract and that the issue of allocating responsibilities must be further investigated.

For this case the Attorney General of the Republic started a disciplinary action against two officers of the Public Works Department but on the basis of the evidence, the Public Service Commission took no action against the said officers.

So far the SAI has no specific evidence or experience of legislators using the performance audit reports for their partisan interests.

4.2 ***Political Partnerships.***

No formal arrangement establishes any degree of liaison between the SAI and Parliamentary Committees or Opposition.

The Annual Audit Report forms the subject matter of study by the Parliamentary Public Accounts Committee and the Auditor General takes an active part in its meetings. Special audit reports on various issues are also presented to the Parliament for discussion by the Public Accounts Committee or any other Committees of Parliament.

5. CONCLUDING REMARKS

Performance audit report is a vehicle to give an assurance to various groups of persons that the accountability relationships are served adequately. Simultaneously it provides a mechanism for management to have an independent and objective assessment of their performance with recommendations for improvements.

Despite all the difficulties and lack of adequate expertise in performing performance audit, its value is immense not only to Government and non profit oriented entities, but also to profit oriented ones as well. It is the type of audit that considers all the data produced by the entity, not only financial but the whole system of management and provides the answers as to whether operations have been conducted in the most efficient and economic way providing the best value for money.

GK/AT

REF.: ASOSAI/RE961120.A01

5. India

Country Paper
on
Sub-theme 2

The SAIs Performance Audit Report
and its Utilization by
Legislature and Executive

Prepared by:
Office of the Comptroller & Auditor General,
India

Sub-theme 2: Performance Audit Report and its utilisation by the Executive and the Legislature

Country paper by SAI-India

1. Introduction

This country paper has been prepared in response to the Principal Paper on Sub-theme 2 "The SAI's Performance Audit Report and its utilisation by the Legislature and the Executive" prepared by SAI-Pakistan. The principal paper has highlighted various issues relating to the Performance Audit Report; the position prevalent in SAI-India on these issues has been reflected in this paper, in the same sequence and structure as the principal paper.

2. Performance Audit Report

2.1 Performance Audit Approach

The principal paper discusses three common approaches to the conduct of performance audit, namely :-

- a systemic approach;
- effectiveness attributes approach; and
- performance attributes approach

SAI-India essentially follows the systemic approach to the conduct of performance audit, whereby comprehensive reviews of the working of projects, programmes, organisations etc. are undertaken in terms of their goals and objectives, with a view to seeing how far the expected results have been achieved from the use of the available resources - money, men and material. The emphasis here is not on individual transactions, but on the systems and procedures, with a view to appraising the economy, efficiency and effectiveness of the project or programme. The effectiveness attributes approach of the Canadian Comprehensive Auditing Foundation (CCAF) has not been considered by SAI-India, since there is no concept prevalent in India of the management developing representations on different criteria, on which the auditors express their opinion. As regards the third approach mentioned in the principal paper viz. performance measurement by auditors, SAI-India does not develop performance indicators on its own, nor does it conduct performance measurement. The SAI generally relies on the targets, goals and indicators projected by the auditee or set out in national plans, as well as the performance measurements conducted by the auditee. This does not however preclude the SAI from critically evaluating the indicators and standards, to assess whether they are meaningful and relevant.

2.2 Performance Audit Scope

Performance audits conducted by SAI-India cover projects, programmes, schemes, agencies and autonomous organisations, ministries and departments, public sector enterprises, as also revenue receipts and financial management by Government as a whole. The selection of entities for performance audit is done, after making a preliminary study covering the following criteria :-

- Quantum of investment of public resources in the project, scheme or organisation
- complexity of scheme, importance in socio-economic development, difficulties in implementation and tardy progress
- schemes, which are of topical interest to members of the legislative financial committees and the media as well as the general public.

There is no hard and fast rule as to the period of transactions covered during the performance review, but this is generally three to five years or in a few cases, right from the inception of the project or scheme.

The scope of a performance audit is decided by the SAI alone, and is not subject to limitation or restriction by any external agency. It is also not obligatory for the SAI to describe the scope of the review in the performance audit report (since the contents and format of the Audit Report is at the sole discretion of the SAI). However, there is invariably a section defining the scope of the review, as indicated by some examples reproduced below from Audit Reports :-

National Watershed Development Project for Rainfed Areas (SAI's Audit Report of 1996)

Scope of audit

The project was launched in 25 States and 3 Union Territories. The implementation of the project during the period 1990-91 to 1994-95 was reviewed in the Ministry, selected watershed projects in 19 States and in selected Directorates of Agriculture of the State Governments between April 1995 to July 1995 with a view to examining the financial management, planning and execution.

Recovery of Government loans advanced to Shipping and Fishing Industries (SAI's Audit Report of 1996)

Scope of audit

..... A test check of the records relating to these transactions in the Ministry of Finance, Department of Economic Affairs (Banking Division) along with the records maintained by the Shipping Credit and Investment Company of India was carried out for the period from 1987-88 to 1994-95. The findings are based on this examination as well as the information made available in the course of audit.

2.3 Intended degree of audit assurance

While the intended degree of audit assurance is not spelt out formally in the performance audit report, the report conforms to the Auditing Standards issued by the Comptroller and Auditor General of India, which is a public document. These Standards prescribe that the report should include only information which is relevant and supported by sufficient and competent audit evidence, and should be independent, objective, fair, complete and accurate. The SAI has a system of verifying the factual accuracy of the draft report, by cross-referencing with supporting or "key" documents, which are either documents produced by the auditee or analyses conducted by the SAI. All reports are sent to the Executive agencies at the draft stage for their comments, and their responses are invariably incorporated in the Audit Report, in order to present a balanced perspective.

As regards the extent of examination, this is also specifically indicated both in the scope section and in the body of the report. For example :-

"..The review covers test check of 1058 contracts valuing Rs. 112.40 crores finalised by the Foreign Procurement Cell (FPC) in Naval Headquarters during 1988-94... Contracts in respect of 108 indents valuing Rs. 12.20 crores pertaining to the period 1988-93 were pending finalisation with the FPC..."

"...Test check of 375 supply orders for Rs. 6.09 crores placed by the Controllerates of Procurement, Bombay during December 1994- January 1995 revealed that 303 orders for Rs. 5.26 crores were placed on unregistered firms...."

2.4 Significance

SAI-India does not specify any "significance criteria" in the Audit Report. While the criteria for "what to report" are similar to those used for selecting the topic for audit, e.g. money value of losses/ financial irregularities, topicality, system failures, poor financial management, inaction on previous reports etc. these criteria are not spelt out in the Report.

3. Utilization of Performance Audit Report by Executive/Legislature

3.1 Management Perception, Audit competence and audit recommendations

Although credibility of Performance Audit Reports of SAI is very high and there are seldom, if any, remarks questioning the competence and ability of SAI staff to conduct such audits, in general, the auditee responsiveness is much stronger in case of those reports of SAI, that are placed before Parliament in terms of legal and Constitutional requirements. These are able to elicit high executive response and action by them. This is secured through the aegis of the Standing Committee of Parliament/Legislature, the Public Accounts Committee (PAC) and

the Committee on Public Undertakings (COPU) which examines the Audit Reports of SAI on Public Enterprises.

While the PAC resorts to selective examination of paragraphs in the Audit Report of SAI and in these cases after taking evidence of Secretary to the Government, it makes recommendations on the relevant subject of Audit report, the executive is required to submit Action Taken Notes (ATN) not only on these recommendations of the PAC but on all paragraphs contained in the Audit Report.

This procedure largely ensures executive response as well its utilisation of the reports of the SAI.

While the foregoing procedure is well laid out and followed in case of Union Government reports, in respect of SAIs Audit reports on State Governments, there are wide differences in the matter of discussion of Audit Reports by PAC and in the use of SAIs Audit reports by Executive.

The utilisation of Audit reports is much more pronounced in case of Receipts Audit than Expenditure Audit. Generally, the executive takes prompt rectificatory action on audit observations regarding under assessments etc. and system/procedural deficiencies. In the case of Commercial Audit, too the Performance Audit conducted through Audit Boards, has gained tremendous credibility and the free and fair exchange of views at the highest level between Audit and Executive, has helped quite often in evolving mutually accepted recommendations.

The SAI does not hire consultants or specialists for conducting performance audits. The personnel to man performance audit teams in different audit areas are carefully chosen from the available pool of SAI staff, based on their expertise, aptitude and skills; such personnel are retained for performance audits, typically for five years or more. These teams are closely supervised by Senior Audit Managers, with the requisite level of experience. The competence of SAI staff to audit technical areas is reinforced through specialised training in the training Institutes of the SAI (as well as external agencies), where they are exposed to the latest developments in a variety of audit areas. Hence, non-utilisation of external specialists does not significantly hamper the SAI's ability to conduct performance audit. However, as brought out in our paper on sub theme I, an exception to the above general rule exists in case of comprehensive performance appraisals undertaken on Public Enterprises by Audit Boards, where two outside industry experts are associated.

The executive's response to the SAIs/PAC recommendations for changes in systems, procedures, laws and regulations is generally positive and appreciative, since these are constructive in nature. Remedial action is generally taken promptly based on audit recommendations as well as recommendations of the legislative financial committees. A few such illustrative cases are listed below:-

the Committee on Public Undertakings (COPU) which examines the Audit Reports of SAI on Public Enterprises.

While the PAC resorts to selective examination of paragraphs in the Audit Report of SAI and in these cases after taking evidence of Secretary to the Government, it makes recommendations on the relevant subject of Audit report, the executive is required to submit Action Taken Notes (ATN) not only on these recommendations of the PAC but on all paragraphs contained in the Audit Report.

This procedure largely ensures executive response as well its utilisation of the reports of the SAI.

While the foregoing procedure is well laid out and followed in case of Union Government reports, in respect of SAIs Audit reports on State Governments, there are wide differences in the matter of discussion of Audit Reports by PAC and in the use of SAIs Audit reports by Executive.

The utilisation of Audit reports is much more pronounced in case of Receipts Audit than Expenditure Audit. Generally, the executive takes prompt rectificatory action on audit observations regarding under assessments etc. and system/procedural deficiencies. In the case of Commercial Audit, too the Performance Audit conducted through Audit Boards, has gained tremendous credibility and the free and fair exchange of views at the highest level between Audit and Executive, has helped quite often in evolving mutually accepted recommendations.

The SAI does not hire consultants or specialists for conducting performance audits. The personnel to man performance audit teams in different audit areas are carefully chosen from the available pool of SAI staff, based on their expertise, aptitude and skills; such personnel are retained for performance audits, typically for five years or more. These teams are closely supervised by Senior Audit Managers, with the requisite level of experience. The competence of SAI staff to audit technical areas is reinforced through specialised training in the training Institutes of the SAI (as well as external agencies), where they are exposed to the latest developments in a variety of audit areas. Hence, non-utilisation of external specialists does not significantly hamper the SAI's ability to conduct performance audit. However, as brought out in our paper on sub theme I, an exception to the above general rule exists in case of comprehensive performance appraisals undertaken on Public Enterprises by Audit Boards, where two outside industry experts are associated.

The executive's response to the SAIs/PAC recommendations for changes in systems, procedures, laws and regulations is generally positive and appreciative, since these are constructive in nature. Remedial action is generally taken promptly based on audit recommendations as well as recommendations of the legislative financial committees. A few such illustrative cases are listed below:-

EXPENDITURE AUDIT CASES

Outside Production - Doordarshan (State Television)

The Audit Report, relating to production of commercial programmes by independent producers for the years 1986-90, was examined by PAC which found several inadequacies and disquieting aspects relating to the programme production by these producers. These related to absence of any proper procedure to systematically record the position of receipt of such proposals and completion of programmes, which were bare essential inputs required for evaluating and monitoring the outside production of programmes, deficiencies in the system of empanelment of outside producers, absence of guidelines, norms for functioning of the costing committee etc. The Ministry of Information and Broadcasting accepted the deficiencies pointed out by Audit/PAC in all these cases and evolved new systems, procedures rectifying the deficiencies.

Disinvestment of government shareholding in selected public sector Enterprises during 1991-92

An audit review, based on findings of a test audit of the records of the Department of Public Enterprises (DPE) highlighted several deficiencies in the partial disinvestment of government equity in some selected Public Sector Enterprises (PSEs) in 1991 and 1992. The main findings related to unjustified reduction in the reserve prices in response to lower bids received in two tranches of sale resulting in lower receipts aggregating Rs 3441.71 crores to government. The PAC, on an indepth examination of the report and after taking evidence of concerned Ministries, found a number of inadequacies and disquieting features in the implementation of disinvestment process

On the basis of PAC recommendations, the Government streamlined the process of disinvestment by involving the concerned PSEs and Ministries through consultations, revising the methodology of sales of shares, enhanced publicity before disinvestment process etc.

INTEGRATED RURAL DEVELOPMENT PROGRAMME (IRDP)

IRDP introduced in 1978 is an important anti-poverty programme of Government aimed at providing income generating assets and employment opportunities for the rural poor. Its object is to enable identified rural poor families to take up productive activities to augment the family income on a sustained basis and to ultimately come out of the poverty syndrome.

In a performance audit of the scheme, (1994) the SAI brought out many important points on the implementation of the scheme. The PAC discussed this report and after taking evident of government officers, identified certain major areas of concerns arising from the Audit reports, requiring immediate government attention.

For example, an important finding by Audit was the coverage of ineligible families as beneficiaries of the programme. The Ministry of Rural Development

have been widely used by Executive and in fact, have been instrumental in bringing about substantive improvements in the working of the Tax Administration and even in Tax Laws. Some examples of legislative improvements contributed by Receipt Audit relating to both Income Tax and Central Excise and Customs are indicated below:

INCOME TAX

i) Tax avoidance by creation of wholly owned subsidiaries

Under the Income Tax law, as it stood, capital gains arising from transfer of capital assets by holding companies to their subsidiaries were totally exempt from tax. It was noticed by audit that private companies were using these provisions to avoid tax, by floating 100 per cent subsidiaries, and by transferring their capital assets at inflated values to their subsidiaries, which were later converted by the subsidiaries as stock-in-trade for business purposes. On audit pointing out avoidance of tax on true profit in such transactions, government appointed a committee to suggest legal and administrative measures for rationalisation of the law. Finally, the provisions of the Act were amended, providing for denial of the tax exemption to such transactions, if the character of the asset transferred to the subsidiaries was changed or the percentage of share holding in the subsidiaries was diluted, within 8 years.

ii) Wealth Tax on companies

Under the Wealth Tax Act, as it stood, all companies were totally exempted from payment of wealth-tax. An evaluation of the nexus between closely held companies and avoidance of wealth-tax conducted by Public Accounts Committee, at the instance of Audit disclosed that persons controlling monopoly houses minimised their tax burden by forming closely held companies, allegedly dealing with specified assets, and transferring their jewellery and other valuables to such companies for holding. Based on the recommendations of the Committee, government amended the law, rendering closely held companies liable for wealth-tax

iii) Definition of small Scale Industrial Undertaking

Based on a review conducted by Audit on small scale industrial undertakings the Public Accounts committee discussed the issue of different treatment accorded to such undertakings by various governmental organisations. The Committee recommended that Government should adopt a uniform approach as regards treatment of such units. The Income-tax Act has since been amended with effect from April 1993, to bring the definition of small scale industrial undertaking in line with the definition given in the Industries (Development and Regulation) Act, 1951.

iv) Assessment of firms and partners

Under the Income tax law, as it stood prior to 1993-94, registered and unregistered firms were assessed on different basis. While income of an unregistered firm was taxed at higher rates applicable to an individual, the

wrote to all the State Governments (who implement these schemes) regarding audit point. During evidence before the PAC, the Ministry agreed with the PAC that coverage of ineligible families introduced a distortion in the prgramme that needed to be earnestly avoided.

Similarly, the Secretary, Ministry of Rural Development, commenting on the audit observation that concerned agencies/Financial Institutions had not conducted physical verification of assets in many states as revealed in test audit of 1,44,266 cases involving misutilsation of assistance amounting to Rs 14.33 crores, admitted that sickness or misutilisation of assets is more than the tolerable limit in IRDP, to the extent of being alarming.

Other important points brought out in Audit Report were:-

- diversion of funds meant for IRDP to other programmes
- failure to conduct household surveys for identification of beneficiaries
- lack of effective monitoring and evaluation of IRDP

Audit comments on shortcomings in the administration of subsidy helped the Executive in evolving more effective policies for implementation of the programme.

Gas Authority of India (GAIL)

GAIL was formed in August 1984 to take charge of all the post exploration activities connected with natural gas. The COPU took up for detailed discussion, the SAI's appraisal on GAIL and made several important recommendations. Of the 26 recommendations made by the Committee, 15 recommendations were accepted by the Government, the CPOU dropped two in view of government reply; COPU did not accept government reply regarding 4 recommendations and in respect of 5, final replies were still awaited from Government. Some of the recommendations accepted by government are given below:-

- Memorandum of Understanding (MOU) signed between government and the PSE define the obligations of each. This was part of the scheme to give PSE autonomy. However, the existing method of evaluating MOU at the close of the year did not have means to ensure that the Ministry also fulfilled its obligations under the MOU. COPU felt this was unfair and rendered MOU meaningless. They therefore recommended that while making assessment of the MOU of a company, in case of the failure of administrative Ministry to fulfill its obligations, some responsibility be fixed on the Ministry also and suitable action taken against the persons held responsible.

Government fully accepted COPUs recommendations

- COPU also recommended more delegation of powers to the CMD of GAIL. The government agreed and higher powers were conferred on CMD.

- COPU also to deplored on the inordinate delay in the approval of corporate plan 1992-2002 rendering the entire exercise fruitless. This happened due to lack of close coordination between Ministry and the Company. Government agreed and asked GAIL to update the Plan.

Other cases :

Natural Aeronautics Limited (NAL)

As a result of audit observations on delay in installation of equipment NAL, Bangalore has introduced a system requiring the concerned scientist to give complete details of spare parts, manuals, working environment and infrastructure etc. required for installation of the indented equipment. The tenderers are also being required to stipulate the facilities required for installation and commissioning. Monitoring and review by PERT/CP Method has also been introduced and mid-term corrective action taken, wherever necessary

National Wasteland Development Board

As a result of an All India Review by Audit of the National Wasteland Development Board, the Government of Punjab, Tamil Nadu and Arunachal Pradesh have formulated monitoring systems to watch the progress of various schemes.

Department of Biotechnology

The Department of Biotechnology was not maintaining any record of utilsiation of hardware facilities developed by them. On being pointed out in Audit, a formal feedback mechanism was introduced for analysis the number of user's queries which the net work had handled since its inception.

Procurement of equipment

A review of a project had revealed that time overrun had occurred because of delays in receipt of plant and machinery and in the execution of civil works, and that monitoring had been inadequate. As a result of the audit reviews, the ordnance Factory Board issued instructions that when processing procurement of machine's the capacity and technical competency of the supplier firms should be assessed and a physical inspection of facilities available with the vendor should be conducted. It was also laid down that a joint task force with the Military Engineering Services should be formed so that execution of civil works are monitored right from the time of issue of administrative approval. The instructions also stipulated the setting up of a dedicated monitoring group for each on going project in a factory.

RECEIPT AUDIT CASES : Changes in Law/Rules etc. as a result of Audit.

In the audit of receipts, performance audit reports assess the efficiency of procedures and systems employed by Tax Administration. These systems audits

registered firm had its income taxed at lower rates with share of income getting taxed again in the hands of individual partners alongwith his other income. Audit had pointed out the lapses in the system which included non-revision of partner's assessment consequent upon revision of firm's assessment and adoption of firm's status as registered while being unregistered. Government has amended the Income Tax Act and done away with distinction between registered and unregistered firms. Now the firm is treated as a taxable entity by itself whose share income is not longer taxable in the hands of the partner.

v) Uniform Accounting Method

In several audit observations appearing in the past Audit Reports, we had pointed out that assesses frequently adopted different methods of accounting for different categories of income to avoid/delay payment of taxes. The Government vide an amendment to the Income Tax Act, made it mandatory for the assesses to maintain accounts on 'cash' or 'accrual' basis.

vi) Under the provisions of the Income Tax Act, the 'appropriate authority constituted by the income tax department has either to purchase a property or issue a 'no objection' certificate in response to an application furnished in Form No.37-I. There is no third alternative available. The systems review by Audit on Purchase of Properties by Central Government cited a number of instances where the appropriate authorities could not take a decision, as the Form 37-I contained defects and these authorities could not get the defects remedied. The Audit Report contained a specific comment that it could not have been the legislative intent to debar the appropriate authorities from getting the defects rectified. This was also considered and included in the Report of the Public Accounts Committee. The 1996-97 Budget empowered the 'appropriate authority' to intimate the defects if any, in Form 37-I to parties for rectification within specified time. This amendment is directly attributable to audit.

CENTRAL EXCISE DUTY

i) System Review on Modvat

Government introduced a new procedure for levy of central excise duty from 1986, by streamlining the system, but making it clear that the new scheme would be revenue-neutral. A study by Audit, however, established that in respect of thirty seven manufacturers of different commodities test checked in audit, the revised assessment procedure had resulted in granting considerable tax concessions which were not intended by Parliament and to that extent Modvat was not revenue-neutral. Based on the Audit Report, Government appointed an Expert committee to review the scheme and to iron out the distortions which existed in the Scheme. A number of amendments have since been made for streamlining the procedures under MODVAT scheme.

ii) Unjust Enrichment

Excise duties paid to the Government are collected by the manufacturers of exciseable goods from the buyers. When refunds of these duties are made due

to any reason, which are not passed on to the buyers, undue enrichment arises. Audit had pointed out a number of such cases. On the recommendation of PAC, government amended the Central Excise and Customs Law Act, 1944. A Consumer Welfare Fund was constituted with effect from 20th September 1991, to which any refund of excise duty which cannot be made to the person who actually bore the incidence of such amount, shall be credited.

iii) Duty on manufacture of Motor Vehicles

Duty is required to be paid at 10 per cent ad valorem in cases where the motor vehicles (chassis mounted with body) have been cleared from the premises of manufacturer. A manufacturer fabricated chassis and supplied them free of cost, after payment of appropriate amount of duty, to a job worker of body building. The job worker returned the chassis and the body to the original manufacturer on payment of duty at concessional flat rate. The manufacturer finally cleared the motor vehicles without payment of duty. Duty paid on the chassis and the body (concessional rate) was less than the amount of duty payable on the total motor vehicle and the short levy was pointed out in Audit.

Government has made it clear in the Budget 1994-95 that the concessional rate of duty will not be applicable in the cases where the ownership of the chassis continues to rest with the manufacturer of the vehicle after the body is build and the vehicle is sold by him

CUSTOMS DUTY

i) Project Imports Scheme

Concessional rates of duty have been allowed since 1965 to plant and machinery, components and spares etc., imported for the setting up of a project, plan/unit or for substantial expansion of their installed capacities.

A review of the scheme revealed:

a) A large number of cases running into several thousands were pending finalisation

b) The delay in finalisation as mainly attributable to the non-submission of the requisite documents and reconciliation statement by the importers.

c) There was no legal provision compelling the importers to furnish the requisite documents within a specified period

Even as the PAC was examining the issue, the Government amended the Project Import Regulations, in January 1992, with the insertion of Rule 7, fixing the time limit of three months within which the importers were required to furnish the reconciliation statements.

(i) Cross verification of transactions of sales with the corresponding purchases transactions.

A review of the declarations made by dealers in a State, for claiming deductions in respect of goods which had already suffered tax and those goods on which tax was to be levied on the point of last sales, disclosed several procedural irregularities and weakness of the system. The review was mainly conducted by cross-verification of purchases and sales in respect of the corresponding dealers. Audit findings also brought out that there was considerable evasion of tax due, attributable to the defective assessment procedure adopted by the tax officers.

As a result of the audit observations, the Sales Tax Department reviewed the entire procedure regarding verification of exemptions based on declarations and issued detailed instructions in 1983-84 to all assessing officers for conducting cross-verifications of such declarations presented by the dealers, in order to check tax evasion

ii) Tax collected in excess allowed to be retained by dealers

There was no provision in the Sales Tax Act of West Bengal for imposition of any penalty or for forfeiture of tax unlawfully collected by dealers. On audit highlighting the absence of suitable provisions in this regard in the Audit Report 1984-95 for the State of West Bengal, the State government amended the Act from 1 June 1987, to provide for forfeiture of tax unlawfully collected by the dealers or in excess of the amounts payable by them to Government.

iii) Stamp duty and registration fees

There was no provision in India Stamp Act, 1899 (Himachal Pradesh Amendment Act 1988), for determination and levy of stamp duty and registration fee on the market value of the property. On audit highlighting the absence of suitable provision in this regard in the Audit Report 1987-88, the State Government of Himachal Pradesh amended the Act from 1988 vide Act No. 7 of 1989 to provide that if the Registering Officer, while registering any instrument regarding transfer of any property, has reason to believe that the value set forth in the instrument has not been truly set forth in the instrument, he may after registering such instrument, refer the same to the Collector for determination of the market value or consideration as the case may be and the proper duty payable thereon.

(iv) Non-compliance of legal provision:

The Karnataka Government had brought works contracts within the purview of their Sales Tax Act with effect from April 1986. Under the provisions of this Act, the Railway Administration was required to recover sales tax at source from contractors in respect of works contracts. During the course of audit, it was observed that this was not being done. As a result of Audit observations, the Railway Administration introduced a special clause in the terms of contract, enabling recovery of sales tax at source.

(v) **Evasion of Sales Tax**

Under the provisions of the Bombay Sales Tax Act, Sales of food served in a hotel are exempt from tax upto the first Rs 3 lakh. Audit noticed a case of a hotelier, whose Registration Certificate was cancelled within six months of commencement of business, and a new Registration Certificate obtained immediately, turnover of sales to the extent of Rs 3 lakh was exempted in both assessments in respect of the old Registration Certificate and the new Registration Certificate. On being pointed out in Audit, Government amended the provisions of the Bombay Sales Tax Act, to prevent such evasion of tax in future.

(vi) **Improved procedures**

Based on Audit observations, the Public Accounts Committee had recommended that a procedure be introduced by the Revenue Department for verification of exemptions claimed in the Sales tax assessments filed by the assesses. Accordingly, the Revenue Department adopted a procedure of cross-checking of assessment return with the records of the purchasing departments, before allowing exemptions in sales tax assessments.

(vii) **Conflicting Schedule of Rates**

Under an outdated enabling provision, Superintending Engineer (SE), Public Works Department (PWD) of a State government issued a schedule of rates (SOR) w.e.f 1 April 1993 for various items of work for piece work orders. But a comprehensive schedule of rates for the entire sub-ordinate formation was already issued by the Chief Engineer PWD and was already in force w.e.f 25 November 1991 in which the rates were lower and was mandatorily applicable in respect of piece work also. The currency of two conflicting schedule of rates and the legality of the schedule of rates issued by the SE was commented by Audit whereupon the SOR issued by the SE was cancelled on 11 September 1996. Result of test check revealed excess payment of about Rs 20 lakh due to work executed on invalid schedule of rates. About 500 piece work orders valuing Rs 10 lakh were also cancelled by the EE at the instance of Audit.

(viii) The Comptroller and Auditor General has been repeatedly laying stress on the need for setting up and strengthening the internal audit machinery in Government Departments. Based on the recommendations of the Public Accounts committee on the Audit Report (Revenue Receipts) for 1986-87, the Government of Tamil Nadu has reconstituted the existing scattered arrangements for internal audit into an integrated internal audit machinery under the control of the Finance Department, to ensure effective monitoring of the system controls and for improvement in the quality of internal audit.

4. Utilisation of Performance Audit Reports by Legislature

4.1 Accountability

As stated earlier, the Performance Audit Reports of SAI when submitted to Legislature, get transmitted to the two financial committees viz. PAC/COPU - these reports are, by convention, not discussed by the full House. The financial committees as already stated, deliberate on the points and issues brought out in these Reports, call the senior most civil servants associated with the implementation of the relevant subject matter of the Audit Report and on the basis of these discussions present their Report containing their recommendations to the House. The main concern of the PAC or COPU is to remove the deficiencies that have come to its notice through Audit Reports and evidences of the witnesses and inter-alia suggest ways and means for improving the financial management in general. In the process, the accountability aspects are carefully gone through. While the SAI does not try to fix directly responsibility on an individual or group of individuals for financial irregularities, loss or other acts of commission and omission, the financial committees, where they so desire, do ask the government to fix responsibility and take appropriate action against officers responsible for such acts.

4.2 Political Partisanship

SAI of India, as a Constitutional authority, is independent of both executive and legislature. It is apolitical. The independence of SAI and its non-political credentials have been solidly laid during the last 50 years of independence. Since both the PAC and the COPU work largely on non-political basis and discuss audit reports as professionals, free from party dogmas, political partisanship is far removed from their working too. Also, the recommendations of these committees are almost invariably unanimous, cutting across party lines.

One basic reason for such happy state of affairs is that SAI reports are basically directed at finding gaps in performance at implementation level i.e. the Civil Service. The witnesses called before the PAC are also the Civil servants and the political masters are not called to give evidence.

In summary, therefore, SAI of India has not experienced situations charging it of political partisanship. There are no instances of the type listed in Issue No.12 of the principal paper.

6. Indonesia

Country Paper
on
Sub-theme 2

The SAIs Performance Audit Report
and its Utilization by
Legislature and Executive

Prepared by:
Supreme Audit Board,
Republic of Indonesia

SUB-THEME 2

COUNTRY PAPER

ON

THE SAIs PERFORMANCE AUDIT REPORT AND ITS UTILIZATION BY LEGISLATURE AND EXECUTIVE

THE SUPREME AUDIT BOARD
REPUBLIC OF INDONESIA

PERFORMANCE AUDIT REPORT AND ITS UTILIZATION BY EXECUTIVE AND LEGISLATURE

Introduction

1. The Republic of Indonesia is a nation based on the sovereignity of the people which is exercised by the People's Deliberative Assembly (further referred to as People's Assembly). Hence as the people's representative body, the People's Assembly is the supreme state institution holding the power to formulate the State Policy encompassing the highest policy and grand strategy decisions of the State, and to elect the President and the Vice-President of the Republic of Indonesia.

   The State Policy is formulated on the basis of the people's needs and national aspirations. The power to implement the State Policy and other resolutions of the People's Assembly are fully delegated to the President as the chief executive. As such, the President is assigned the status of "mandatary of the People's Assembly" and is responsible to the People's Assembly.

   Constitutionally, the Presidency (including the Vice-Presidency) are a high state institution that stands equal in relation to the other four high state institutions. These five high state institutions are as follows:

* the Presidency as the holder of the executive as well as legislative powers, the latter in conjunction with Parliament;
* the House of People's Representatives or Parliament as the co-holder of the legislative powers in conjunction with the Presidency;
* the Supreme Advisory Council;
* the Supreme Audit Board (further referred to as BEPEKA), and;
* the Supreme Court of Justice.

Parliamentary Committees

2. There are parliamentary committees, namely Committee 1 through Committee X, and a Budget Committee. Each committee has its own scope of duties, or has a working relationship with several ministries, agencies and nongovernmental institutions. On the other hand, the scope of duties of the Budget Committee covers all ministries, governmental and nongovernmental institutions, as well as the general secretariats of the high state institutions with respect to budget matters.

3. Within their respective scope of duties, the parliamentary committees deliberate on budget preparation, legislation and implementation, review the financial statements,

compliance with laws, regulations and the broad outlines of state policy, and generally cooperate with the Budget Committee on relevant matters. In carrying out these tasks, the committees may conduct meetings with the respective ministers, government officials, the public or even conduct working visits to government and other agencies.

The Budget Committee has specific tasks to :

a. deliberate on the draft of the budget and take into consideration the views of the various factions and committees in parliament, as well as those of government officials;

b. oversee the execution of policies with regard to financial management;

c. review budget supplements and amendments with government officials;

d. consider the annual financial statement (AFS) draft, and

e. study the Audit Report prepared by BEPEKA to assist Parliament in carrying out its tasks.

4. BEPEKA maintains a close working relationship with Parliament, providing written replies to questions raised by Parliament with respect to the Audit Reports and the AFS audit findings, whereas members of Parliament may

at times meet with BEPEKA to discuss financial matters that arose during the members' working visits to the regions.

On certain occasions, BEPEKA may send observers to parliamentary sessions, meetings and public hearings. These meetings are held by Parliament with government ministries or agencies to discuss issues on state finance and national development.

BEPEKA's Independency vis-a-vis the Government

5. Article 1 of Act No.5/1973 concerning the Supreme Audit Board defines the independency of BEPEKA in relation to the Government as follows :

"The Supreme Audit Board is a high state institution which in the execution of its task shall be independent from the influence and powers of the Government, but shall not be superior to the Government."

It should therefore be clear that in the execution of its audit task, BEPEKA is completely free from any interference by the Government. However, in spite of the fact that in virtue of its constitutional mandate BEPEKA is legally authorized to audit the accountability of the Government, BEPEKA is not superior to the Government.

6. BEPEKA submits its audit reports to Parliament in the

following manner :

a. The audit findings with respect to the AFS together with the suggested corrections to the AFS are submitted to the executive. Once the corrections have been agreed upon, the audit reports on the statements together with the corrected AFS are submitted to Parliament for approval.

b. BEPEKA also submits Semestral Reports on the audit findings with respect to the central government, the regional governments, and public enterprises to Parliament and Government. These reports are compilations of audit findings during the budget year. BEPEKA's audit findings are also submitted to the Government.

Utilization of Audit Findings and Reports

7. BEPEKA's audit findings and reports are meant to be followed up and for appropriate actions to be taken by the audited entities. Both the responsible minister and the management of individual enterprises are expected to initiate remedial action should the circumstances warrant this. Parliamentary commissions, too, may refer to audit findings and reports in the course of their investigations of particular entities.

8. The Government utilizes BEPEKA's audit findings for the

purpose of taking corrective actions. In some cases, BEPEKA's recommendations are also used as guidelines. The corrective actions mentioned above may be in the form of, among other things :

* improving government accountability;
* consultation by heads of agencies concerning sensitive matters;
* recovery of state losses;
* legal action in the case of misuse of public funds.

9. Parliamentary committees utilize the audit findings for the purpose of, among other things :

* hearings with a particular ministry or agency;
* field inspections;
* discussing and reviewing previous as well as forthcoming budgets (especially by the Budget Committee).

Conclusion

10. By reporting its audit results twice a year, both the Parliament and the Executive will be able to obtain more up to date information concerning the accountability with respect to state finance. In this way, BEPEKA can increase its contribution to the promotion of public accountability.

7. Iraq

Country Paper
on
Sub-theme 2

The SAIs Performance Audit Report
and its Utilization by
Legislature and Executive

Prepared by:
Board of Supreme Audit,
Republic of Iraq

بسم الله الرحمن الرحيم

جمهورية العراق
ديوان الرقابة المالية
مكتب رئيس الديوان

REPUBLIC OF IRAQ
Board of Supreme
Audit

التاريخ / / ١٤ هجري
/ / ١٩ ميلادي

Ref. 2/3/3/1425
Date: April 10, 1997 العدد

Mr. Shuro HIKITA
President, Board of Audit
Secretary General of ASOSAI
Japan

Dear Sir ,

Reference to your letter No. ASO 96331 of September 12, 1996 .

We herewith send you the country paper of the sub - theme you have refered to, that will be submitted to the principal paper Prepars for the forthcoming ASOSAI Assembly and International seminar to be held in Jakarta this year and we would like to appreciate your cooperation and serious working for the success of this International seminar .

We wish you all the success .

Sincerely Yours,
Jasim M. AL- Hadeethi
President, Board of Supreme
Audit, Republic of Iraq

Performance Evaluation

for the high education in the republic of Iraq

Acountry Paper Presented for the

ASOSAI

Prepared by
Hilal Bashir Dawood
An expert - Board of Supreme Audit
February - 1997

Introduction

Increasing concern in the actual Performance and the Productivity of the Variant institutions and enterprises , started in Iraq in the late Sixties .

Mainly because , achieving evaluation could enhance more chances to improve investing our Valid resources and to minimize the wastage of the revenues of these institutions .

For the First time , the board of Supreme audit in Iraq , started the evaluation of performance efficiency according to the board act no.42 in 1968 which authorized maintaining the evalation and giving the right to the board to amend laws , Systems and instructions when we found out that the defect in the performance was the result of defected legislation.In act No.194 in 1980,the forth paragraph of the second article quoted that one of the main targets the board of Supreme audit works to achieve is the evaluation of the performance efficiency of the projects and businesses to check the efficiency of the reached products and the best usage of the economical resourses and avoid wastages.

According to the second article of act No.6 in 1990,the management of evaluation of performance efficiency is considerd one of the essential commissions.So far,the third article of the indicated act has explained the way which the board of supreme audit has pursued to achieve that aim and as the following:-

1) The board of supreme audit prepares an annual planning to evaluate the authorities under control and as ordered by the chairman of

the Revolution command council or which the board necessitates their evaluation and also must approved by the chairman of the Revolution command council.

The board of Supreme audit has these procedures to follow:-

1-1) The fulfilment of evaluating the authouities under control according to the annual planning to investigate their efficiency and avoid wastage.

1-2) Studying the financial and adminstrative laws and regulations and clearify , in detail , the basis and acts to utilize their application and intensify their efficiency and guarantee the ideal employment.

1-3) Evaluating the achieved planning results of our findncial and developmental plans for the authorities under Control.

2) Writting report regarding the performance evaluation according to the basis, indications and Credit Standards and included with detailed financial statements clarifying the events , guides and numbers that concerned with the Subject. accompanied with the board recommendations to improve the performance efficiency then achieving their aim of investigating revenues and minimizing the wastage and conclude the final result in report that will be Presented , after discussion with the related sides ,to the presidential Republican board .

Consequently , it would be obvious that performance evaluations has taken vital role of controlling the audit of the enstitutions and adminstrations , as an example ,

annually the board of Supreme audit evaluate the performance of the education and high,educotion and Scientific researches'administratives and check up the objective System and actual performance through checking up the expenditure transactions and evaluates the revenues and finally concludes an opinion of their bills , programs and reports the Financial statements .

Also , the board of Supreme audit has achieved the detailed performance evaluation for the educational adminstrations with the indicated years and as follows : -

	The Year
Educational adminstration - Primary and Secondary educations .	1990
Three republic and issuing constitutions of the universities.	1992
Educational adminstration - Professional education	1995
The ministry of high education and Scientefic research - University education	1996

The Performance evaluation requirements :

To settel a complete Systematic method for Performance evaluation,there are important Procedures that can be Summerized as the following:-

1) Clarify and determine Preciesly the institutions Projects and their achievements to find out whether they are managed as planned for them.

2) Put an outline of the periodical or branched audit phase that the enterprise manage to fulfil at the current time or on the close future.

3) There must be a planning budgets that scope on the financial and economical resources used to fulfil the planned goals for the institution .

The comparison between the actual achievements and planned achievement is an essential way to evoluate the performance .

4) Concluding the clear indications that could be compaired with the standards and numbers or with standards that are no longer used at current time , the comparison could also be with the indication outlines of the resemble institutions performance in or outside the country .

5) The performance evaluation system should include a vital informational System to utilize checking the available informations.

6) To achieve perfect and complete performance evaluation system , the administrations of the institutions under control have to be concerned and be helpful , as much as their ministry.

7) The executive authority of the(institution) under control has to be helpful in collecting the data and analyses to enable the Audit institution to reach the final indications and the conclusion.

" The Standards and indications of performance evaluation "

In the Middle of 1987 a central comittee with branch comittees were authorised to Settle Public indications and standards to evaluate the performance of the different activities and determine the special standards to every activity that the enterprises would handle to prepare their annual paper concerning the perfor.

mance evaluation of these enterprises . Yet these indications and standards submitted annually to examination by the board of Supreme audit .

In evaluating the performance of the universal education there are two types of indications , the first one is the numeral indications that deal with quantitative or monetarial units while the second is the descriptive units that go on the standards which can not be explained numerically .

Herwith an explanation :-

1) Numerical indication :

1-1- Students indications

1-1-1 The Percentage of the achieved plan for the students acceptance .

1-1-2- The percentage of acceptance developement .

1-1-3- The success percentage .

This ratio is used for all educational stages and fits all professions then compaired with the applicable standards ratios used by the colleges or institutions .

1-1-4- The percentage of run away students through the first year.

This ratio is used to indicate the colleges capacity of keeping students and encourage them to continue their study .

1-1-5- the absence perecentag for students this ration is used to find out the student's perseverance for studying.

1-1-6- The absence percentag for students through their actual studying.

1-2- The educational staff indications.

1-2-1- The number of students everyone of the educational staff has . This ratio indicates the responibilities of the educational staff (those who got the master degree or those who have scientific qualifications : (Subsidiary teacher - teacher- Subsidiary - ledger-ledger) .

1--2-2-The number of students the technical staff has . This ratio indicates the responsibilities of the technical staff towards students .

1-2-3 The educational career for the members of educational staff. This ratio indicates responsibilities of the educational staff concerning the spent time in teaching .

Taking to consideration that standard scedual of one week in colleges and institutions is as the following .

Subsidiary teacher	14 noures weekly
Teacher	12 noures weekly
Subsidiary ledger	10 noures weekly
Leager	8 noures weekly

1-2-4- The educational responsibilities of the technical staff . This ratio indicates technical studies the students practice at laboratories .

1-2-5- The precentage of the time spent in the actual studying. this ratio is used for the studied materails for every educational stages - colleges or instutions-while the lossed time is excepted (the time when studying is stopped for any reasons).

1-2-6-The percentage of the planned noures for the educational staff.

This ratio is used to measure the actual fulfilled capacity of the educational staff through the year.

1-2-7 The percentage of depending on outside - lecturers .

This indication is used to know the percent of depending on the lectures of outside the college .

1-2-8- The perentage of those who quit from the educational staff .

This indecates the remain educational staff .

1-2-9- The scientific activities for the educational staff (publication and issuing) .

This indicates the staff ability to write and publish books .

There are advantage points for every activity and as the following :-

(8) Points for writting books .

(5) Points for translating books .

(3) Points for the published researches in scientific journals .

1-2-10- The practical activities (training) .

1-2-11 The complemental activities the staff manages(i.e except studing activities) that include :-

- Paricipation in Sientific comittees .
- Participation in Scientific thesis .
- Offering the consultation for other constitutions .
- Taking part in the administrative affairs of the college .
- Taking part in the administrative affairs of the university

1-2-12- Participating in short seminars .

1-3- Indicators concerning supplementary Scientific activities .

1-3-1 Laboratories and workshops .

1-3-1-1 Percentage of utilization of available working hours .

1-3-1-2 Number of working hours to every teacher .

1-3-1-3 Number of working hours to every technician .

1-3-1-4 Training effort to every teacher ,

This indicator is employed to point to the effort spent by the teachers in the laboratory and workshops work from the point of working hours and number of training students according to their speciality .

1-3-1-5 Training effort to every technician .

1-3-1-6 Capacity of laboratory and worshops .

1-3-2 Plantational and animal production .

1-3-2-1 Areas allocated for plantational Production .

1-3-2-2 Halls allocated for animal production .

1-3-2-3 Percentage of dependance on college capabilities to manage plantational production.

1-3-2-4 Percentage of dependance on college capabilities to manage animal production .

1-3-2-5 Percentage of applying pruduction plan .

1-3-2-6 Percentage of applying selling plan .

1-3-2-7 Selling cost to every teachering .

1-3-1-3 Teaching halls .

1-3-3-1 Capacity of teaching halls .

1-3-3-2 Percentage of exploitation of teaching halls .

1-3-3-4 Percentage of usage of halls.

1-3-4 Boarding Sections .

1-3-4-1 Percentage of available beds .

1--3-4-2 Percentage of exploitation .

1-4 Indicators concerining resources and costs.

1-4-1 One student share out of total resources

This indicator is employed on different levels starting from Schooling stage then college (Institute) ,and university .

1-4-2 Intensity of investment in the college .

This indicator is employed on different levels starting from Schooling stage, then college (Institute), and university.

1-4-3 Cost for one student.This indicator is employed on different levels from schooling then college(Institute),and university

2- Descriptive indicators (Undigital)

Descriptive indicators are utilize by using different ways out of which collecting questionnairs or making tests or requesting detailed informations .

Below is the explanations to this :-

2-1 Indicators concerning type of accomplishments .

2-1-1 Scientific and practical level of graduate .

This is carried out by utilizing method of selecting a specimen of graduates or by circulating questionnaires to adminstrations and offices into which those graduates are working to stat their openion on the level of graduates working with them . Also the graduates themsolves could be included in this questionnaire to specify the extent of identifiction of the Sciences and subjects they gained with their practical exprience they face .

2-1-2 Level of programs and teaching methods :

This is carried out by implementing method of circulating questionnaires to Selected specimen of teachers and students to state their openion as to the level of programs and teaching methods.

2-1-3 - Level of executed research

This is carried out by employing method of criculating questionnaires to selected specimen of research valuer teachers to state their openion as to the level of research thay have already valued.

2-2 Level of cooperation with other educational institutions inside the country or outside,this is measured by requsting answers to questions forwarded to officials of the destination to be evaluated or the valuer himself to investigate the correct answers.

some of the questions to be forwarded:

2-2-1 Does the college or institute have plan or specific policy to grow up Cooperation links with other scientific institutions ? What are they ?and how are they settled ?

2-2-2 What are the most important executed activites to the benefit of these institutions ?

2-2-3 What are the most important activites executed by these Societies to the benefit of the college or institute ?

2-2-4 What are the mutual activities?

2-2-5 What are the difficulties faced by the college or institute to achieve this cooperation ?

2-2-6 What are the proposals in this connection?

2-3 Cooperation level with the college or institute.

This is measured in the same manner explained in article (2-2)and also by questions put in hands .

2-3-1 Have the college or institute carried out studies or surveyed the problems and requirements of outside society?

2-3-2 Does the college or institute have in hand spacific plan or policy supporting his connections and cooperation fields in the concerned society ? What are they ?
and how they have been placed ?

2-3-3 What are the forms followed by the society college or institute representatives in the participation of management of their affairs .

2-3-4 What are the forms followed in the cooperation and organization between the college or institute on one side and the state offices and institutions on other side . These activities should be explained in the following aspects :-
Title of the activity, its nature and dates of its execution.
- The beneficiary destinations and their part .
- Participators in its execution on both parts .
- Results achieved .

2-3-5 what are the major press intersts in the college or institute activities ..

2-3-6 Others ....

2-4 Initiatives and inventions

This is done by limitting the most important initiatives run by the college or institute , teaching board and students during the course of the year that was achieved beyond the normal working field , which led to important results that helped in the evalution of the college or institute to Satisfy their scope in a better way .

3- Experience of Board of Supreme Audit in the Republic of Iraq rectifying the Ministry of Higher Education and Scientific Research (university Education) for 1996.

During the year 1996 the Board of Supreme Audit in Republic of Iraq was asked as explained in clause (1) in the begining of this research , to rectify the performance of Ministry of Higher Education and Scientific research whom are responsible to run the government educational establishments and the supervision of the private educational instituions,the level of which is after the secondary level .

Below are the stages of achieving this commission:-

3-1 Placing a general outline for the evaluating program including the following steps:-

3-1-1 Placing main axis and the subsidiary ones for the evaluation work.

3-1-2 determine the major and subsidiary indications to evaluation reach the indicators.

3-1-3 Evaluating the informations and data resouces required to reach the indicators.

3-1-4 Seaking the help of number of university professors to state the specialized evalating tools to measure the qualitative and scientific level to high educational outlet,-

3-2 Because of the numberous and vast educational adminstrations,it has been chosen five colleges out of every university (medicine,engineering,agriculture,adminstration ,

economy and education) and nine institutes following the Board of Technical Institutes,as specimen for the purpose of evaluation.

3-3 The Ministry of Higher Eduction and scientific Research have submitted complete copies of information files regarding university performance evaluation system stored in their computer centre that to be entered in the computer centre of the Board of supreme Audit,to secure reaching the following aims :-

3-3-1 Preparation number of scheduals to the level of collegs and institutes of the specimen to be checked by the concerned Audit committees .

3-3-2 To guarantee quick obtainment of any additional informations needed afterward .

3-4 Utilized additional evaluation tools included the following :-

3-4-1 Carried test to specimen of graduates for the year 1995-1996 included (80) questions on general edueation and (20) questions on subject of speciality .

3-4-2 Circulating questionnaires to selected specimen of professors for the purpose of evaluating the achieved research which they have valued during the last three years .

3-4-3 Circulating questionnaires to specimen of students of high studies to state their openions in the study , its level, obstructions , and problems facing them (availability of scientific references , availability of laboratory

equipments,the extent of activity of the professors supervising student research coopreation of outside authorities to carry out practical application to the students research ..etc.)

3-5 On the light of inspection operations , the above informations and data have been cured and obtained the indicators explained in this resereach and the preparation of the preliminary report of the rectification results .

3-6 The report has been discussed with the Ministry of high Education and scientific Research to know their observation in order to issue the report in its final form .

8. Japan

Country Paper
on
Sub-theme 2

The SAIs Performance Audit Report
and its Utilization by
Legislature and Executive

Prepared by:
Board of Audit,
Japan

SIXTH

ASOSAI INTERNATIONAL SEMINAR

INDONESIA-1997

SUB-THEME 2

COUNTRY PAPER

THE SAI'S PERFORMANCE AUDIT REPORT AND ITS UTILIZATION BY THE EXECUTIVE AND THE LEGISLATURE

BOARD OF AUDIT

JAPAN

1 INTRODUCTION

The Board of Audit of Japan (BAJ) has a history of nearly 120 years of auditing since its establishment in 1880, although there have been changes in its position in the governmental structure and its legal mandate. If you have a brief look at the "Annual Audit Reports", comprehensive compilation of its works, it will be easily understood that the BAJ has conducted audits of not only "regularity" which have been a major focus of traditional auditing but "substance of budget execution".

A symptom of performance auditing by the BAJ is already found in its audits conducted as early as during the era under the old Constitution (1888-1946). It conducted audits of contracts pertaining to purchase of goods , procurement of services and construction from the viewpoint of ascertaining whether or not they were proper in their substances, economical and utilized effectively as well as from the viewpoint of their conformity with related laws and regulations.

After the enactment of the new Constitution (1947), the BAJ has come to be empowered by the new Board of Audit Law to present its opinions to or to demand remedial measures by the responsible authority when it finds matters which should be improved with regard to accounting, laws, ordinances, administrative system or administration, whereby providing measures to reflect results of its audit on the public administration.

Starting around 1975, the BAJ has attached importance to audits of the results of programs/projects as a whole, and thus it has come to conduct audits of "effectiveness" as well as " economy and efficiency".

With increasing taxpayers' awareness triggered by recent movements toward reforming public administrative/financial system and taxation system, it has become one of the Nation's major matters of concern to secure public administration/finance more efficient and effective. Under such circumstances, the BAJ is under the necessity of strengthening performance auditing, including effectiveness auditing in particular, which evaluates the performance of public institutions from diversified and integrated viewpoints.

2 FORMAT OF THIS PAPER

The principal paper prepared by the SAI of Pakistan specifically asks for a response on 13 issues. Accordingly, this paper states practices and experiences of the BAJ following the format of the principal paper.

3 ERFORMANCE AUDIT REPORT

Issue No. 1 Audit Approach

Which particular audit approach do you adopt in most of the cases? Do you follow more than one approach? Do you adopt an audit approach which is not covered in the three approaches discussed above? If so, what are its main features and how it affects your audit report?

The first and the third approaches are adopted by the BAJ.

When auditors are going to evaluate effectiveness and results of programs/projects, the first approach can be adopted if the objectives thereof are stated explicitly and quantitatively in the related laws or planning documents and they are found to be reasonable.

However, since such cases are limited in number, BAJ auditors are in most cases required to adopt the third approach where they by themselves have to develop measurement criteria by clarifying and quantifying the objectives of the programs/projects, collect data extensively, and conduct a quantitative analysis and evaluation based on such data. What is worthy of special mention in this connection is that it is often quite difficult to develop measurement criteria by clarifying and quantifying the objectives of the programs/projects. The BAJ has successfully tried to develop measurement criteria by classifying and subdividing the objectives or to use intermediate results of the programs/projects as a substitute for them.

Issue No. 2 Audit Scope

What are the main factors which guide you in determining the scope of audit in your SAI? Does the performance audit report in your SAI describe the scope of audit? If so is it obligatory to do so? Who has made it obligatory? Are there any instances of performance audit reports in your SAI where the scope of audit was limited by some agency or authority?

The BAJ decides the scope of audit in its own judgment. That is, it decides the scope of audit after having considered, based upon the results of a preliminary survey, such factors as the availability of relevant data, and human/physical resources and time needed. BAJ audit reports usually describe the scope of audit. This is because the BAJ believes such description will give the readers better understanding as to what were examined and what were the results.

What we would like to mention here is whether or not the evaluation of policy objectives should be included in the scope of performance auditing. It is generally understood that the BAJ is not entitled to question the objectives of a budget or a policy apart from the results of their execution/implementation. In case the BAJ conducts an audit of the results of their execution/implementation and finds something improper, it then examines thoroughly what are the causes. This is done in order to secure propriety and improvement of future execution/implementation, and in the course of this examination, it is often needed for the auditors to ascertain whether or not the objectives of the budget or policy audited are appropriate. In this manner, the BAJ may question the objectives of a budget or a policy. However, since the BAJ is an *ex post facto* auditing institution, it is difficult to claim that the BAJ is entitled to question the objectives of a budget or a policy apart from their execution/implementation.

Issue No. 3 Audit Assurance

In your SAI, how do the performance audit reports communicate the degree of assurance the reader should obtain from them? (You can quote the language used for the purpose of illustration.)

The BAJ believes that quantitative evaluation should be used to the extent possible in order to secure objectivity and fairness of audit reports, and that qualitative analysis be used only for the purpose of supplementing quantitative analysis. This is also because qualitative analysis is not satisfactory when auditors try to conduct comprehensive evaluation of the program/project results which produced both positive and negative effects or when they try to make a comparison among alternatives. In addition, the BAJ believes that this practice facilitates better communication of the degree of assurance to the reader of the audit reports.

Considering the fact that the outcome of the evaluation depends upon what kind of criteria auditors have set in order to assess the program/project results, the BAJ usually breaks down an evaluation criterion into a few levels. For example, the BAJ shows in its audit reports the number of cases with the achievement rate of expected results of 50% as well as the number of cases with that of 30%. The BAJ believes this practice contributes to securing the objectivity and fairness of audit reports.

Issue No. 4 Significance

In your SAI, is there a practice to specify the significance criteria in the audit report? If so, quote some examples of the language in which this was specified.

The BAJ does not show the significance criteria but do always show in its audit reports such monetary value as estimated wasteful expenditures/losses incurred by improper execution of programs/projects, expected benefits/saving by taking an alternative course of action, or, even if these cannot be figured out, at least monetary value associated (e.g. monetary magnitude of investments to date). This is because the BAJ believes that indicating monetary value is the best way to communicate the significance criteria to the readers of audit reports although it is not a direct way to do so.

4 UTILIZATION OF PERFOMANCE AUDIT REPORTS BY THE EXECUTIVE

Issue No. 5 Efforts to Make Performance Auditing a Going Concern

In your SAI, what formal and informal efforts have been made to make performance auditing a going concern for the executive departments? How far these efforts have borne fruit?

Since the BAJ does not have a legal investigative power to take compulsory measures in the course of auditing, successful execution of audits largely depends upon audited organization's cooperation and understanding. Accordingly, the BAJ pays attention to the following:

a) The BAJ tries to keep close communications with audited organizations throughout an audit to ensure that the audit objectives are well understood and that too much burden is not levied on them.

b) The BAJ tries to get better understanding of audited organizations' activities including technical and specialized matters, through which its auditors come to know, for example, what kind of information useful for them is produced and how long they are preserved within the organization.

c) The BAJ tries to secure the objectivity, propriety and fairness of audit reports. For this purpose, multiple layers of screening and peer review committees are set up within the BAJ which carefully examine all the draft audit reports, including opinion presentations and action demands, to ensure that they are appropriate, fair and objective with regard to, among others, expression and basis for assertion.

Issue No. 6 Reinforcement of Auditor's Competence

In your SAI, what efforts have been made to reinforce the competence of the auditors enabling them to audit technical areas? Hoe far these efforts have been successful?

As mentioned earlier, the BAJ has a long tradition of auditing substances of a disbursement, i.e. activities leading to a disbursement, including technical aspects. This has never been called "performance auditing" by the BAJ, but has gone far beyond auditing of cash receipts/disbursements or bookkeeping.

Owing to this tradition, the BAJ has long been recruiting its staff members from a variety of backgrounds. The breakdown of its workforce of 1,248 as of January 1996 by backgrounds shows that the majority are law or economics graduates with accounting graduates being the minority, and that a total of 177 staff members are with technical backgrounds (to name a few, civil engineering 67, electrical engineering/electronics 37, mechanical engineering 34 and architecture 17).

Thus, it may be said that the BAJ has considerably good potentiality for performance auditing as far as its staff members' backgrounds are concerned.

However, university education cannot be directly applicable to an actual performance auditing. Thus, constant training is essential in order to upgrade these staff members' competence and facilitate its full use in an actual auditing environment. After their recruitment, BAJ staff members from time to time receive training in various fields, through which they learn knowledge necessary for auditing. They also gain actual work experiences in BAJ audit divisions. Then, they sit for an internal examination and can be appointed as "Auditor," which is usually 7 to 8 years after their employment by the BAJ. Even after that, they from time to time receive more advanced and sophisticated training in order to be able to cope with changing auditing environment.

To strengthen its training activities and upgrade its staffs members' competence, the BAJ established in 1992 a special training center with lodging facility, where various training is being provided according to an annual training plan.

Through these measures, the BAJ has gradually come close to be equipped with fundamentals for performance auditing, as demonstrated by a number of performance audit reports in recent years. The BAJ is not yet satisfied with current situations. The BAJ believes that improvements are still needed in its public relation activities to attract promising human resources as well as in the quality of training activities to secure staff competence. The BAJ also believes that continued efforts are needed to develop more advanced and sophisticated performance auditing techniques/approaches.

Issue No.7 Standards for Recommendations

In your SAI, what are the standards for making recommendations? Do you make recommendations in detail or merely identify a problem and indicate direction for action? Is there any system of follow-up on the compliance of the audit recommendations in your SAI?

BAJ audit reports examines closely and identify the causes for an undesired situation and describes recommended action for improvement. Detailed recommendations are provided for the cases where the situation is rather simple and there are no other alternative ways of improvement. However, there are often cases where it is better to leave detailed ways of improvement to the organizations in charge, and in such cases the BAJ indicates only direction for action.

The BAJ follows up all its findings included in audit reports as to what actions have been taken by the organizations in charge until problems are solved, by such means as asking the organizations to submit reports thereon. In particular, the BAJ describes, in every subsequent year's annual audit report, the results of its follow-up on those findings included in "Opinion Presentations" or "Action Demand" until the matters are completely settled.

Issue No.8 Executive's Reaction on Recommendations

What has been the reaction, in general, of the executive toward recommendations made in your performance audit reports? Will you like to cite any specific example where the management accepted your recommendations with positive outcomes in the future?

Before dispatching a formal document of "opinion presentation" or " action demand," the BAJ confirms the appropriateness and feasibility of its recommendations through discussions with the audited organizations and receipt of their responses to its letter of inquiry which presents its draft recommendations and seeks their comments. As a result, BAJ recommendations have been accepted, without exceptions so far, by the

audited organizations.

Although there are some cases where it took several years for the audited organizations to finish implementing BAJ recommendations, in most cases BAJ recommendations have been implemented by the time the next year's annual report is finalized. Also, there are a number of cases where audited organizations finish implementing BAJ recommendations before the BAJ finish the preparation for an opinion presentation or action demand. These cases are included in the current year's annual audit report under the caption of "Matters on which the audited organization took required actions based upon BAJ findings."

Issue No. 9 Institutional Arrangements

Is there any institutional arrangement in your country to ensure that the executive departments make use of the recommendations of the audit while planning future projects?

As stated in the response to Issue No. 7, the BAJ follows up the status of its findings included in its past audit reports so as to secure the effectiveness of the results of its auditing.

Also, the BAJ holds regular meetings twice each with the Ministry of Finance Budget Bureau and Financial Bureau every year. At the meetings, the BAJ explains audit findings reported in its latest annual audit report for better budgeting and financial management. The BAJ also draws attention to the matters which arose in the course of its audit. Through this measure, the Government can reflect these audit findings on its budgeting and financial management.

Furthermore, in the belief that it will lead to securing the effectiveness of its audits to let executive agencies and every stratum of the people be acquainted with the results thereof, the BAJ is trying to strengthen such public relation activities as follows:

a) To hold meetings every year in which the BAJ explains the results of its auditing to the heads of accounting divisions of executive agencies and to the chief auditors of government- owned organizations.

b) To hold meetings regularly in which the BAJ explains the results of its auditing to such organizations involved in public auditing as the Administrative Inspection Bureau of the Management and Coordination Agency, the audit office of a prefecture government and the Japanese Institute of Certified Public Accountants.

c) To issue annually such publications as "Auditing in Brief", "Audit Report tells us..." and "The Board of Audit" to facilitate better understanding of BAJ audit reports and activities by the public.

d) To explain the results of its auditing to mass media at the time of the submission of annual audit reports to the Cabinet.

5 UTILIZATION OF PERFORMANCE AUDIT REPORTS BY THE LEGISLATURE

The audit report, together with the Final Accounts of the State, is submitted to the Diet through the Cabinet, and serves as indispensable reference at the deliberation on the final accounts by the Public Accounts Committee of both houses of the Diet. The BAJ believes that the effectiveness of its auditing can be secured when its audit reports are fully utilized by the Diet, which represents the People, and when a thorough inquiry into the causes as well as a strong request for the implementation of remedial actions are done by the Diet on BAJ findings included in its audit reports. BAJ staff members attend every meeting of the Public Accounts Committee and, when requested, explain audit findings/activities as well as address their views from the standpoint of auditing. BAJ staff members also attend, when requested, the Budget Committee and other committees of the Diet for the same purpose.

Issue No. 10 Guidelines for Focusing on Accountability

Are there guidelines in your SAI for the auditors to focus on accountability of any particular group, such as ministers, senior civil servants operational staff?

The main objective of performance auditing is to improve the economy, efficiency and effectiveness of programs/projects. Accordingly, the BAJ neither has such guidelines nor thinks of its necessity.

Issue No. 11 Action Against Officials

Are there any examples in your SAI where the audit report could identify the persons responsible for some irregularity yet the system did not permit any action against them? Was it due to unrealistic rule, high turnover of persons, political interference or all of these factors?

As stated in the response to the issue No. 10, the objective of performance auditing is to improve economy, efficiency and effectiveness of programs/projects, and not to identify particular persons responsible for the improper situations. Accordingly, a BAJ audit report does not describe the names of the persons responsible, although it may be possible for a reader to figure out the persons responsible due to the fact that it describes causes of the situation in detail.

Issue No. 12 Requests from Legislators for Audit

Do you receive in your SAI any requests from individual legislators for auditing any particular organization and with specific angle?

Recognizing that it is important to take up the topics which are the matters of strong concern for the Diet and the public, the BAJ tries to audit as many issues as possible which have been taken up in Diet resolutions and deliberations. However, the selection of audit topics is solely dependent upon BAJ judgment.

Accordingly, even if the BAJ receives requests from individual legislators for a particular audit, such auditing will be initiated only when the BAJ deems it necessary to do so.

Issue No. 13 Use of Audit Reports for Partisan Interests

Do you have any experience of legislators using your performance report for their partisan interests?

As stated earlier, findings included in BAJ audit reports are often cited by legislators in the deliberation of such Diet committees as the Public Accounts Committee. However, their purpose is usually to ensure quick improvement of the performance of the programs/projects criticized by BAJ audit reports.

6 CONCLUDING REMARKS

While traditional auditing has developed focusing on a control function to inquire into the responsibilities of accounting units or individuals, performance auditing is tied up with the following two functions. Increasingly high expectations are placed on the BAJ to widen/strengthen these functions.

a) A feed-back function aiming at improving the total process of budget circulation.
b) An information-providing function aiming at furnishing, through audit reports, the Diet/the public with relevant information on budget execution.

It is noted that such expectations placed on the BAJ will grow keeping pace with increasing recognition/awareness of public accountability among the people as well as in the Diet, the Cabinet and executive agencies. To meet such expectations, the BAJ has to make continued efforts toward the development of various auditing techniques for practical use, aside from securing desired human resources.

9. Jordan

Country Paper
on
Sub-theme 2

The SAIs Performance Audit Report
and its Utilization by
Legislature and Executive

Prepared by:
The Audit Bureau,
Jordan

6Th ASOSAI International Seminar 1997

Sub-theme 2:
Performance Audit Report And Its Utilization By The Executive and The Legislature

Submitted by:

The Audit Bureau of the Hashemite Kingdom Of Jordan

October, 1996

Table of Contents:

1- Introduction:

Government plays a key role in the development of economic and industrial infrastructure and the provision of facilities, materials and services which necessitated the setting up of government public enterprises and a number of autonomous bodies capable of taking managerial decisions quickly and implementing them without being shackled by cumbersome government procedures. As a function of SAIs, audits on public sector operations and activities had been conducted in the past to establish order in financial management and to secure legality and propriety in the discharge of duties of accounting officials. The last developments of government activities required shifting the concept of conventional audits to a more expanded one enabling the SAI responsible to ensure that the declared economic and social goals have been achieved within the stipulated time and cost frame work. Accordingly, the Audit Bureau of Jordan (ABJ) has adopted performance audit of projects and schemes as well as performance appraisal of public enterprises.

Performance audit gives more importance to the economy, efficiency and effectiveness in comparison with the conventional and legality audits. The former one is conducted to check whether the expected goals are achieved through the efficient allocation of human and material resources and to ascertain that such audits carried out are not only to locate the responsibility of public officials concerned, but also to make suggestions to the decision-makers of audited agencies on the areas to be improved for the promotion of operation efficiency.

2- Objectives of the Paper:

Each audit has its own properties that characterize it from other types of audit. This paper attempts to identify the features that may distinguish performance auditing reports from other

reports written. This study will discuss the utilization of performance audit reports by the Executive and the Legislature. Furthermore, it will highlight some important points in this regard related to the procedures conducted of such audit by the ABJ.

3- Performance Audit Report:

3.1. Reporting Concept:

The Public Sector Committee in their proposed study on *"Performance Reporting By Government Business Enterprises", 1994* defines performance reporting as " the communication to a wide range of users of quantitative and qualitative information which identifies the results of an enterprise against specified benchmarks " *(1)*.

Performance audit reports are considered an essential element for the establishment of public accountability. Therefore, audit and inspection results are to be reported with the opinion of the auditors concerned attached on completion of a review.

The legality of the ABJ's report is acquired from article (119/1) of the Constitution of the Hashemite Kingdom of Jordan which provides an authority for submitting a general report including irregularities and consequent responsibilities thereon (2) , from articles (21), (22), (16) of the Audit Bureau Law No. (28) for the year 1928 (3) , from the international declarations such as : Lima Declaration (1977) , Tokyo Declaration (1985) , and from Official Circulars and proclamations issued by the ABJ .

According to article (21/1) of the Audit Bureau Law of the Hashemite Kingdom of Jordan, the President of the ABJ reports annually on the work of the Bureau and on whether all required information and explanations have been received and

submits this report to the Prime-Minister and the Minister of Finance. The President includes in his report matters of special importance that he wants to bring to the attention of the Parliament, audit notes , and government -wide audits (performance audit).

In addition, special reports presenting matters of significant may be submitted to the Parliament at any time which need urgent considerations and action in pursuance to article (21/2) of the Bureau's Law.

3.2. Performance Audit Approach :

The Audit Bureau of Jordan functions performance auditing at different stages: the stage of planning, the implementation stage, the reporting one and finally follow-up. On this basis, reporting phase is accomplished at the conclusion of the implementation stage .

Performance audit as an approach directed towards an assessment of the activities of an organization to see if the resources are being managed with due regard for economy, efficiency and effectiveness and accountability requirements are being met reasonably aims at achieving the followings:

* improving public sector accountability and administration in audited entities;
* providing a basis for accountability;
* producing a work program that can be achieved with expected available resources.

The Planning and Central Supervision Department (PCSD) held at the ABJ conducts performance audits studies oriented towards achieving the objectives mentioned above . In this regard two approaches are used to accomplish the prescribed goals : the Systematic Approach , and the Performance Measurement by Auditors.

In the first approach , the PCSD work team studies the systems and controls of the audited entity under evaluation . If the body under audit works in light of generally accepted practices , the working team lays down an audit criteria in this regard. If the entity subject to audit doesn't have appropriate documentation measuring its performance, the auditor takes up the task and asks the approval of the entity for such measurement.

As a strategic plan, the ABJ through training courses works on extending the performance audit concept to comprehensive auditing.

3.3. Performance Audit Scope:

In the phase of reporting the scope of audit , auditors should describe the depth and coverage of work conducted to accomplish the audit's objectives . Auditors should , as applicable, explain the relationship between the universe and what was audited ; identify organizations, geographic locations, and the period covered ; reports the kinds of and sources of evidence ; and explain any quality or other problems with the evidence. Auditors should also report significant constraints imposed on the audit approach by data limitations or scope impairments. Furthermore , the " Comprehensive Auditing Manual " of the Office of the Auditor General of Canada , 1990(4) states that reports should appropriately describe their scope so that the reader can appreciate the context and significance of the audit findings.

3.4. Intended Degree of Audit Assurance:

Despite the fact that financial auditing involves a high degree of assurance since it relies thoroughly on specified criteria and measurements , assurance in performance auditing depends on the professional judgment of the auditor. In

addition, evidences deduced from analytical Review enhancing report conclusions may add more to the assurance of the performance report. Consequently , if the reader of the report arrives at incorrect conclusions mentioned in the report as a result of some weakness in the audit program and assumes that the report will contain all inadequate performance of the body under evaluation , the auditor, accordingly, have to state the level of assurance that the reader needs through citing his notes and observations and the evidences that promote these points.

3.5. Significance :

The significance of a matter is its relative importance to the audit objectives and potential users of the audit report. Qualitative, as well as quantitative, factors are important in determining significance which includes:

1- visibility and sensitivity of the program under audit.
2- newness of the program or changes in its conditions.
3- role of the audit in providing information that can improve public accountability and decision-making and
4- level and extent of review or other forms of independent oversight.

In financial auditing, auditors may specify significance to enable him to steer audits that will affect his observations and conclusions in return. While in performance auditing , significance is related to the professional judgment of the auditor that will involve the reader's interests.

4-Utilization Of The Performance Audit Report By The Executive:

The main users of the performance audit report are the management of the audited entities . Audits are actively involved in audits and findings of such audits which were

discussed at various tiers of the bodies subject to audit management. In reporting which is accomplished at the conclusion of the implementation stage , the Bureau decides to prepare a draft report communicated firstly to the official responsible of the audit team for discussion, secondly to the President of the Bureau to comment on the findings and thirdly to the entity under audit to discuss findings in a discussion session. During discussion, the Bureau may change some of the findings or approve at them in order to rest at the format of the final stage.

The ABJ , upon completion of the review of the report, presents the audit findings in a draft report communicated to the audited agency management for their comments thus commencing a negotiating process. On completion of the negotiating, a formal report shall be submitted to the management.

Auditors should report recommendations when the potential for significant improvement in operations and performance is substantiated by the reported findings. Recommendations should be reported to improve management control. Auditors should also report the status of uncorrected significant findings and recommendations from prior audits that affect the objectives of the current audits.

Constructive recommendations can encourage improvements in the conduct of government programs. Recommendations are mostly constructive when they are directed at resolving the cause of identified problems, are action oriented and specific , are addressed to parties that have the authority to act, are feasible , and to the extent practical , are cost-effective.

The audit team of the ABJ suggests solutions in specific areas evaluated through the recommendations mentioned in reports to improve the administrative performance of entities

under audit , to eliminate bottlenecks , problems and obstacles and to develop their operational performance.

A main constraint an auditor has to encounter is the reluctance of the entities to utilize the findings of such reports for improving the systems and control mechanisms used by them.

The ABJ , in this regard, has started to convince the management of entities under audit and the public of the characteristics and usefulness of performance auditing through exposing them to the relatively new responsibility of the Bureau that will improve the audited agency and the country as a whole.

5. Utilization Of The Performance Audit Report By The Legislature :

The other main user of the performance audit report is the legislature. The legislature utilizes this report from an accountability point of view . Audit reports are submitted to the President of the Bureau, the Parliament, the Prime-Ministry, the Head of the Representatives , the entity subject to audit, the entity connected in work to the audited entity .

The Prime - Ministry addresses the entity under audit to correct the ABJ's observations mentioned in the Bureau's report. Furthermore, at the stage of discussing the annual audit report of the Bureau in the Parliament, the Financial Committee confirms the ABJ recommendations.

Bibliography

1. Public Sector Committee, Performance Reporting by Government Business Enterprises , IFAC , New York, 1994.

2. High Legislative Council, The Constitution of the Hashemite Kingdom of Jordan, Amman ,1952.

3. The Audit Bureau of the Hashemite Kingdom of Jordan , The Audit Bureau Law No. (28) for the year 1952, Amman, 1952.

4. Auditor General of Canada, Comprehensive Auditing Manual , Office of the Auditor-General , Canada, 1990.