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6TH GLOBAL FORUM ON REINVENTING GOVERNMENT

(MAY 24-27, 2005)

CAPACITY DEVELOPMENT WORKSHOP AUDITING FOR SOCIAL CHANGE

Workshop organized by the United Nations Department of Economic and Social Affairs (UNDESA) in partnership with the Board of Audit and Inspection (BAI), Republic of Korea

AUDIT AND LEGISLATIVE OVERSIGHT: DEVELOPING COUNTRY PERSPECTIVE

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I. Introduction

1. Thank you for this opportunity to present my views and share information on the role of the Audit and Legislation Oversight in the context of developing countries, particularly those in the Commonwealth. I am also grateful to Esther Stern from the UN and a colleague from Canada for this kind invitation to be in this wonderful country and among so many strong professionals. The countries of the Commonwealth have a common framework of public financial management and accountability. They have a System of governance and accountability that is rooted in the Westminster form of Government.² This framework has been operating for well over a hundred and fifty year. It has had a very strong role to play in the social and economic development of many countries rich and poor.³

2. **Scope:** Today, I would like to discuss this system of public financial management and accountability (The System) that we in the Commonwealth (Westminster form of Governance) have inherited from colonial times along with recent experience on the working of the System of audit and legislative oversight. I will point to: critical relationships involved in the process of holding the Executive arm of Government to account in pursuit of democratic governance – the role of “the Three Men in the Boat;” First Principles that underlie the legislative oversight function; the factors that Legislators believe are most important for the effectiveness of public scrutiny; the constraints and challenges ahead and some suggestions for further improvements that we have noted from research of the System. In doing so, I shall draw heavily from recent experience, as documented in the works of the Commonwealth Parliamentary Association (CPA) and the World Bank Institute (WBI), both of which I have had the privilege to contribute to and to actively participate. This paper does not probe into other forms of governance emerging around the world.⁴

¹ A paper developed by Vinod Sahgal, South Asia Regional Financial management Team (SARFM) in collaboration with Frederick Staphenurst of the World Bank Institute, under the overall guidance of Robert Saum, Manager SARFM. Rashmi Goel assisted with the editing and presentation of the paper at New Delhi.

² This form of Government has its roots in the United Kingdom and is still prevailing in most of the British Commonwealth countries. In recent years the evolution has taken the direction of increased democratization and public participation.

³ UK, Canada, Australia, New Zealand, India, Bangladesh, Sri Lanka, Botswana, South Africa and so on.

⁴ The System emerging in Europe is not discussed in this paper.

II. Background

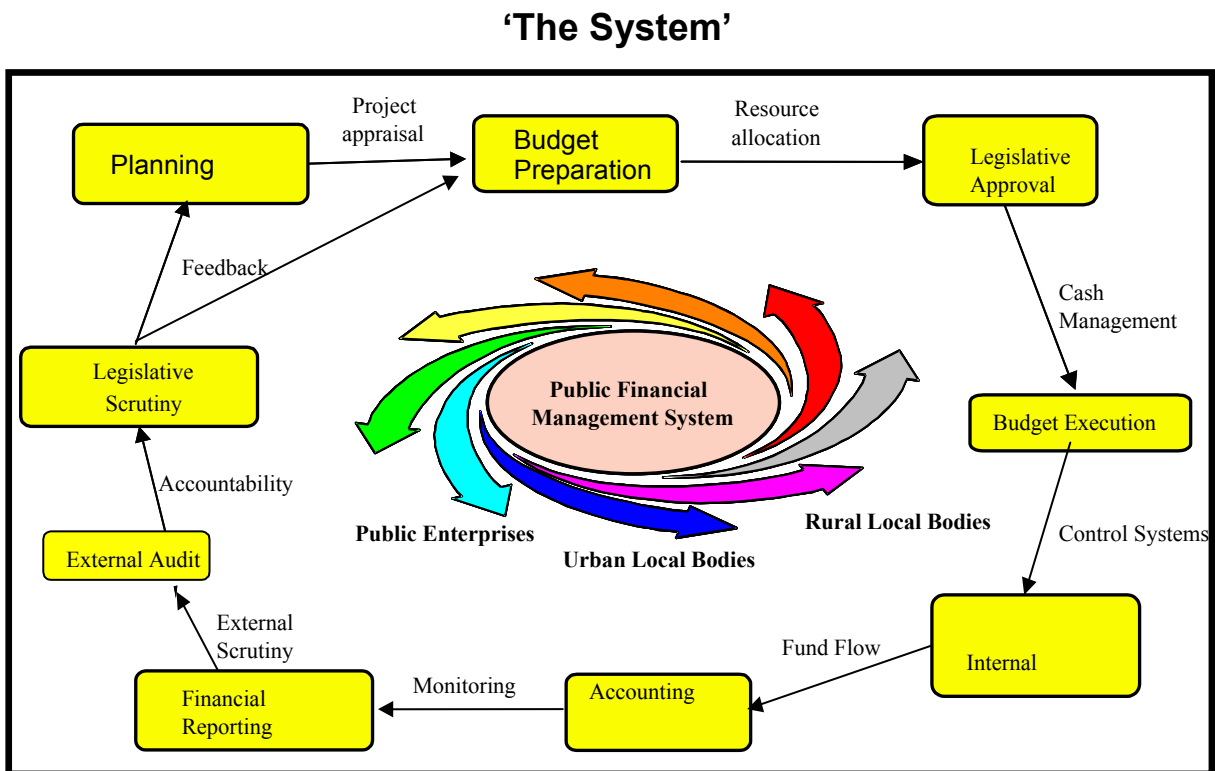
3. The System of Legislative Control of the public purse, as we know it today, goes back to the nineteenth century.⁵ In the USA, the system of congressional “appropriations” along with audit was introduced in the early part of that century.⁶ In the U.K., the System was built on the principle of parliamentary control of all finance transactions incurred by the Executive with Gladstone induced reforms for “closing the loop” by the Public Accounts Committee going as far back as 1861. In France too, the System worked with expenditure controls introduced by law and powers provided to the “Court of Accounts” to independently scrutinize the expenditure incurred by the Executive.

4. **Budget:** Over the last three centuries, we have had the process of annual budget and supplementary grants evolve from a pure control over every item of expenditure to groups of expenditures sorted out by function and leading to appropriations and reporting arrangements on aggregates of transactions. The other features of the “System” worth mentioning at this time are the secrecy behind budget formulation and the ceremonial nature of the budget presentation in the Legislature. The Budget is the big event of the year. It sets the direction for public expenditure. The economists dominate this aspect of public finance.

5. Does this “System” serve us well? Is this the model of the future? Is it sufficient in the context of developing countries? Do we have a system that scrutinizes the right things at the right time? Such questions are being raised in several countries.

III. The System of Public Financial Management & Accountability

6. So what is The System that we are referring to? There are nine key components.



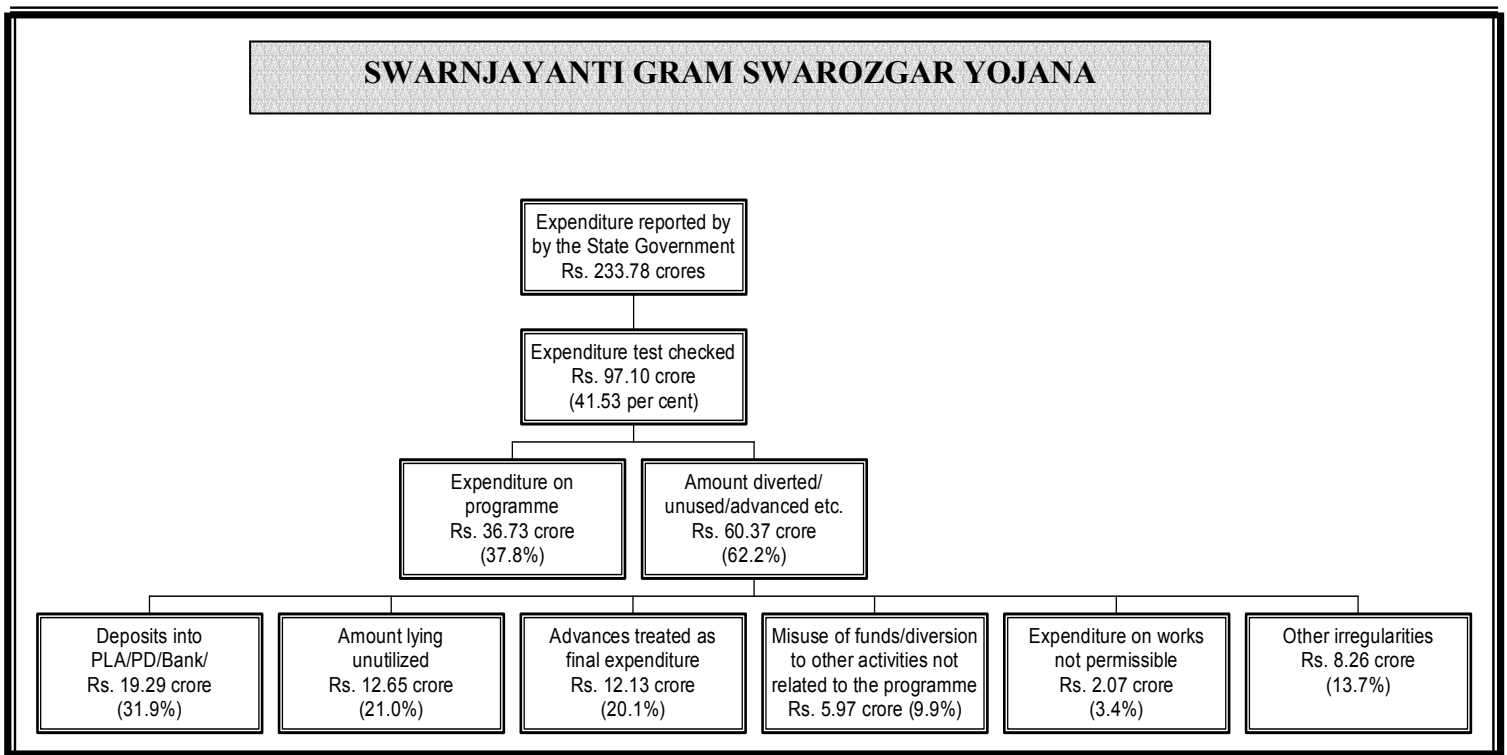
⁵ A Conference on the subject was organized by the Speaker of the Legislative Assembly of Uttar Pradesh in 2000 at Lucknow.

⁶ In the US, the external Auditor is the General Accounting Office, an arm of the US Legislature. This model of audit and oversight has had influence in Latin America. Public accountability is well served.

7. **Main Components:**⁷ These are: (i) Planning; (ii) Budget Preparation; (iii) Legislative Approval; (iv) Public/Legislative Scrutiny; (v) Budget Execution; (vi) External Audit; (vii) Financial Reporting; (viii) Accounting; (ix) Internal Controls & Internal Audit. These are all interconnected. The health of one affects the others. And underlying the System are the accountability relationships between the Executive and the Legislature and between the External Auditor and the Legislature.

8. **Accountability Assessments:** In India, we undertook a State Financial Accountability Assessment at Orissa. One of the features of this study was a report of the CAG of India pointing to a large amount of irregularities in the case of a poverty related program for rural employment. The external Auditor reported that only 38% of funds provided by the government were used for the purposes intended without any financial irregularity.

Risk: Funds are not being fully used for purposes intended



Source: Pg. 129, Report of the Comptroller and Auditor General of India, for the year ended 31 March 2002 (Civil), Government of Orissa

9. **Scrutiny:** The example above is one of a result of the scrutiny provided by the audit and legislative oversight function. This function is dominated by the accounting profession. Audit has done its share by reporting the irregularities; however what the legislative oversight function does with the Report in most developing countries is not normally as transparent. The Public Accounts Committee (PAC) often meets in “camera.” What happens at the Committees can only be learned from second hand information. Press briefings are rare. The audit Reports, year after year point to key similar deficiencies. Whether this lack of transparency of the PAC has contributed materially to the limited impact of the public audit

⁷ A description of the System as used by the SARFM Group of the World bank, New Delhi Office.

function is becoming more evident. Public interest is limited unless there is a major scam with political implications.

10. **Values Based System Reexamination:** The underlying values associated with good governance and public scrutiny are widely accepted:⁸ Economy and Efficiency; Effectiveness; Accountability; Responsibility; Less Bureaucracy; Transparency; Participation; Equity; Perhaps the time has come to reexamine the System from the perspective of a focus on regularity of cash in-flows and out-flows to a broader set of parameters that incorporate a variety of inputs from a development perspective such as cash and other assets – financial and physical, as well as human resources and a host of outputs, outturns and development outcomes. And this raises the question of good governance and accountability for the management and control of public resources where *information* – financial and non-financial is in the driver’s seat. And Governance is value based.

IV. Holding the Executive to Account – The Role of the Public Accounts Committee.

11. **Compliance to Value for Money:** The main emphasis of audit and oversight has so far been on “Moneys *spent* for the purposes intended” as recorded in the books of accounts. And the scrutiny has been primarily on cash transactions. Whether money was *used* for the purposes intended has been a more difficult task for developing country Auditors. The impact of audit has become a burning issue in parts of the world where modernization has been constrained.⁹ Here lies the problem. Auditors tend to rely overly on documentary evidence which is increasingly limiting in the digital age. They often do not look at other sources of evidence such as electronic transfers, physical inspection and rational argumentation to form their conclusions. And they do not provide examples of excellence for others to follow. And at times the materiality of their findings has been questioned.¹⁰ The emphasis today is changing to look beyond mere “compliance” with financial rules and books of accounts to questions of “value for money” and best practice related performance.¹¹

12. **Fair Presentation of Financials:** Another aspect of holding the Executive to account is one of fair presentation of financial statements prepared by the Executive for tabling in the Legislature. There are generally accepted international standards for accounting and for auditing being formulated. But here again most developing countries are not sufficiently advanced on this front. Many SAIs are *de facto* insufficiently independent to provide third party assurance. Executive control can be bothersome.¹² Often they lack institutional capacity to perform auditing in line with standards set by IFAC.¹³

13. **Modernization:** A more modern System of public financial management and accountability would encourage the Executive to develop ongoing monitoring and evaluation procedures as well as carefully structured risk management and reporting on the performance

⁸ Gunpala Nanayakkara – Public accountability & the Role of the Citizen in Government – Postgraduate Institute of Management University of Jayewardenepura

⁹ Strategy for Strengthening the Public Audit Function in South Asia –Risks and Opportunities. Vinod Sahgal.

¹⁰ Regional Auditors General Conference On Harmonizing Institutional Efforts for Promoting Accountability in the Public Sector Dhaka.

¹¹ Audits focus on economy, efficiency and effectiveness related issues more recently along with environmental and equity considerations.

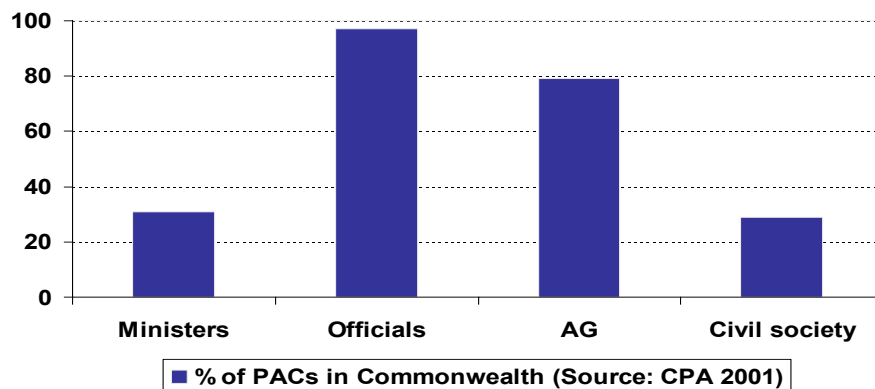
¹² INTOSAI Study on Independence carried out by the Auditor General of Canada 2002

¹³ International Federation of accountants.

of the schemes funded by the tax payers and citizens. These performance oriented aspects of holding the Executive to account are in the embryonic state in most of the developing parts of the world. The focus has been on nature and extent of compliance by officials to the financial rules which are too often set by the Executive.¹⁴

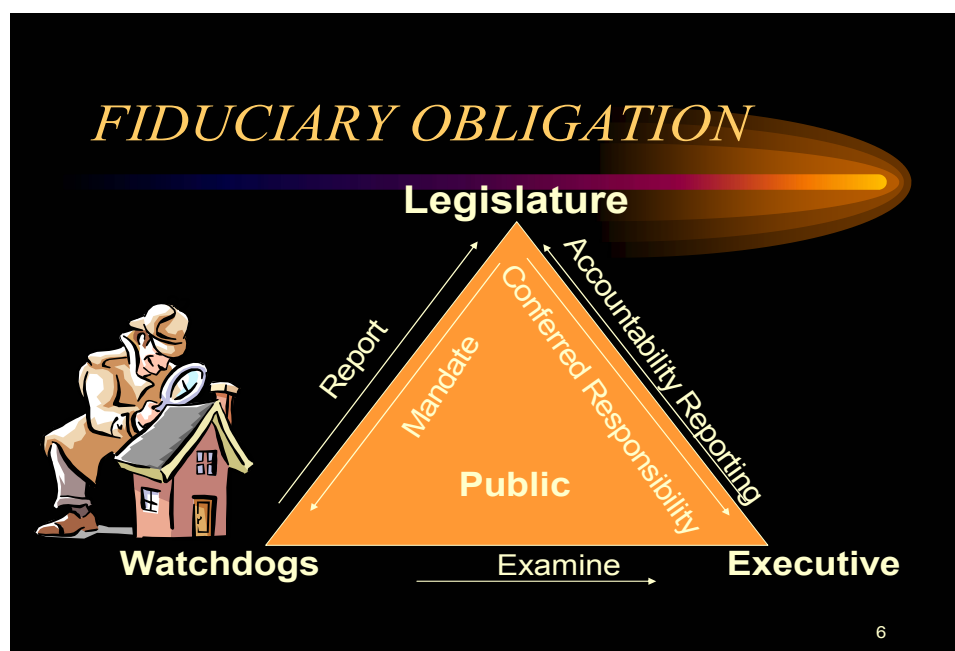
14. **Witnesses at PAC hearings:** It is interesting to note the results of a recent survey (CPA 2001) that brought out the learning that while officials and the SAI are almost always called as a witness at the hearing, it is not so in the case of Ministers and Civil Society.

Who is normally called as witness?



V. CRITICAL RELATIONSHIPS

There are three critical relationships involved:



¹⁴ Subordinate legislation

15. **First, there is the accountability relationship between the Legislature and the Executive** – the paramount relationship. This is where the rules of this game should be set. The rules of the game inform the budget planning and preparation process to the external audit and scrutiny process. This “bargain” between the Legislators and the Executives¹⁵ can be one of the most critical aspects of good public financial management and accountability. This matter is unfortunately least understood. Often the bargain is struck within the Executive without any visibility to the public, and over the years many developing countries have been unable to make the debate on setting “rules of the game” public.¹⁶ There is no sunlight here in many developing countries.¹⁷ This is a constraint.

16. **Second, the relationship between the external Auditor and the Executive.** As one observer pointed out, the relationship should be “cordial” not “cozy.” This issue is also complex. In many cases, the Executive does not see value addition from the work of the Auditor and accordingly does not participate in the audit process, and perhaps in many cases there is no invitation to do so, at least until it is too late in the process. It has been argued that the time to start a dialogue with the auditee is towards the beginning of the audit and not towards the end. A course correction is advisable. Modern auditing standards are attempting to fill this gap. And we are seeing movement in this area in India and Sri Lanka. Here, auditors are being encouraged to meet with the Executive regularly during the conduct of the audit.¹⁸

17. **Third, there is the relationship between the Auditor and the Legislature.** This, too, is a strong relationship. Does the oversight committee of the legislature depend primarily on the AG’s Report? Eighty five % responded “yes” to this question posed by the CPA in 2001.¹⁹ The Auditor operates in a proactive manner and in most cases the Report is tabled in the Legislature. The Report is almost always a public document. OECD sought the answer to yet another question:

Are the findings of the national audit body available to the public?

	Number of countries	Percentage of total
Always	20	50%
Generally, but with some exceptions*	18	45%
Never or rarely	2	5%
Total	40	100%

Source: OECD (2003), <http://ocde.dyndns.org/>

Note: * For example audits of the military.

¹⁵ Reflects contemporary values of those framing the rules.

¹⁶ Absent primary legislation.

¹⁷ The PACs meet behind closed doors.

¹⁸ The objective is to inject quality control at entry with regular monitoring thereon.

¹⁹ The Overseers – Public Accounts Committees and Public Spending, Page 99

18. **Timeliness and quality:** The main issues of continuing concern are of timeliness and quality. There is a debate going on whether the focus should be on individual transactions, management systems or program results and so on. There is no clear cut answer. Most developing countries' Auditors tend to report on individual transactions. The emphasis is on "accidents" (deliberate or inadvertent) rather than on "road conditions. There are hosts of related issues in this area, some technical others cultural and some that could be dealt with by greater clarity of need expressed by the Legislature. The difficulty is getting consensus on what the ideal "mix" should be between reporting on transactions, systems, and program results.

19. **Competing Institutions of Accountability:** While the struggle to develop these relationships continues, a number of competing accountability institutions have sprung up to fill the gap. Public Access to information is one such institution.²⁰ The rise of the institution of the Ombudsman being another.²¹ The media is playing a critical role in scrutiny and the proposal of expanding the ambit of the social audit by community groups and concerned NGOs is very much alive. The traditional Westminster model of governance and audit in that context of colonial times did not emphasize social development as much as financial compliance.

20. **Contract Appointments:** Another interesting reform on the plate is the increasing number of appointments of top civil servants on contract basis. This is a new feature for developing countries. Sri Lanka is a case in point. This relatively recent move is significant in that the "CEO Concept" is emerging with greater clarity vis a vis performance expectations. There is convergence taking place between public and private sector management. There is an emerging consensus on the need for a common set of accounting and audit standards to govern the accountability regime associated with public financial accountability. An issue is the role of the "Audit Committee" of the Legislature. Should this evolve on the lines in the private sector (corporate world) where the Committee plays a pivotal role in the oversight function and is subject to legal liability associated with members of the Board of Directors? Perhaps this is too far into the future.

21. **Speed of Modernization:** In most developing countries, the evolution of audit and legislative oversight from financial compliance towards more effective system of oversight of Executive performance, based on strengthening of the above noted critical accountability relationships, has been relatively slow.

²⁰ Preliminary work is underway by the author on criteria for assessing public access to financial information India.

²¹ A number of Anti corruption agencies are also springing up in countries such as Nepal and Sri Lanka.

VI. FIRST PRINCIPLES

The success of the audit and legislative process rests very much on the principles on which the process is embodied.²²

(i) Policy Neutrality

22. The Westminster model of governance calls for a bi-partisan approach (to Oversight) and the expectations is to audit policy implementation, rather than *policy per se*. The U.K. legislation, for instance, specifically refers to avoid deliberations on “the merits of policy.” Not so in the U.S. or India and other countries, where the lines between the audit and evaluation are blurred. The increasing emphasis on auditing of results and more performance audit orientation suggests that it will be increasingly difficult to draw the lines in a traditional manner. Some audit institutions have already begun the process of examining the nature and extent to which intended beneficiaries do, in fact, derive the benefits of the program funded from public money. India is one such country. I think this is a commendable move that needs to be expanded in line with the more modern risk based approach to audit advocated by professionals in the world of both public and private audit.

(ii) Performance of the Bureaucracy

23. The focus of legislative oversight is mainly on the performance of the bureaucracy.²³ Officials are almost always the main witness at a PAC hearing. Ministers are called in less than 40% of cases and civil society witnesses are called in less than 25% of cases surveyed by the CPA. You will recall this question rose earlier in Para 14.

24. There is less going on in developing countries by way of self evaluation on the part of Legislative Auditors on their own performance or their combined effort with legislative committees responsible for oversight,²⁴ than in more advanced countries. The effectiveness of the traditional audit system has been questioned in one country by way of a Public Interest Litigation.²⁵ In my view, the impact of the audit function would be greatly enhanced if greater attention was paid on the need for a more holistic approach; one where the contribution of audit and the legislature oversight function taken together was also subject to some form of measurement and public reporting.²⁶

25. I am not aware of any Public Accounts Committee in the world of developing countries that provides the public an annual report on its own performance. However, credit is due to the community of SAIs²⁷ where the development of auditing norms now incorporates the need for members to meet the standards of management and performance in line with those of the

²² Frederick Staphenurst – CPA Conference at Colombo 2004.

²³ In Commonwealth countries, Auditors focus on the Bureaucracy’s responsibility to implement Government policy.

²⁴ The Peer Review process is very recent. It should be welcomed. Lessons learned have not been researched so far. Countries such as Canada and UK are examples of those that see merit in this procedure.

²⁵ A Public Interest Litigation has been filed recently in one developing country calling for greater attention to expenditure control.

²⁶ The New Delhi Conference on Governance and accountability held in 1998 pointed to the breakdown in the chain of accountability at the PAC level.

²⁷ INTOSAI – International Organization of Supreme Audit Institutions.

Executive subjected to audit scrutiny.²⁸ In another words, there is recognition that what applies to the ‘goose should apply to the gander.’ Unfortunately, PACs in developing countries do not have an equivalent forum for their professional growth and development. For example, there is no web site to locate PAC recommendations or Action Taken Notes. PACs are generally far behind the legislative Auditor in this regard. And there is no concept of Peer Review among developing country PACs.

(iii) Inter-party co-operation

26. I referred earlier to the need for a bi-partisan approach to legislative oversight. While many PACs are chaired by members of the opposition, the key rests in the manner in which the Committee is able to develop a consensus on what issues need priority, the manner in which Committee hearings are organized and recommendations formulated. The PAC’s stature is greatly enhanced by strong inter-party cooperation and my personal view is that whether the Chair is from the opposition or the ruling government is not half as important as the strength with which the Chair can induce a common front to promote answerable, honest and productive government operations. The tenure of the Committee, regularity of its meetings, timely actions, and rigorous follow-up are equally important areas for promoting the effectiveness of the oversight function.

(iv) Unanimity in Decisions

27. Following through on the question of inter party cooperation is the requirement for unanimity in decisions of the oversight committee. This approach adds to the clout of the Committee. And most importantly, the likelihood of timely remedial action on the part of the Executive is enhanced. Without question, a case can be made for retaining a dedicated Committee for dealing with the reports of the SAI. This is, however, presently open to debate, given the evolution from “Financial compliance” audit to “Performance” audit. In countries where there are proactive subject matter Committees in the House, the call has arisen for audit Reports to be dealt with by the relevant subject matter Committee. This reform should be seen as a step forward. The need for effective co-ordination by the PAC goes without saying. In my view, a dedicated Committee for follow through of the audit Reports issued by the SAI regardless of where the “hearing” takes place needs to be preserved. And the Public Accounts Committee would be my favorite choice in this regard.

VII. RECENT EXPERIENCE

(i) CPA Study Group

28. The CPA Study:²⁹ The “Overseers” is a landmark study on the workings of Public Accounts Committees across the Commonwealth. It was held in Toronto in 2001. I was fortunate to be invited as a technical adviser. What impressed me most was the dedicated effort made by the members from around the globe to evaluate the role and functions of the Committee (PAC) as well suggest ways to move forward. Many common issues emerged and

²⁸ INTOSAI – Strategic Plan 2005-2010, 2005

²⁹ David McGee, *The Overseers-Public Accounts Committee and Public spending*, Pluto Press, London 2002

also the challenges ahead. For instance, the need for public oversight in relation to international transactions and cross border funds flow. And this item was raised well before September 11th ³⁰.

29. **Openness:** One item of special interest to me was the discussion on openness with which the Committees work across the Commonwealth. It became clear at this meeting that most developing countries lagged in terms of the speed of evolution towards greater transparency of their hearings and deliberations. The split between Committees - those that are open to the public and those that are not was about 55:45. This needs to change. Pakistan and Nepal have already moved in this direction and, to the best of my knowledge, no Committee has regretted a move from “closed door” meetings to “open” public hearings.

30. **Functioning of Committees:** The Toronto meeting raised important questions on a host of issues such as the nature and extent of research undertaken by committees, the tenure of its members, access to information on developments internationally, the independence of auditors (*de jure and de facto*), the relevance of global development goals to Legislators, and the distinct challenges facing small countries such as Botswana and Nepal, where resources available to the Committee are extremely limited.

Selected results from a survey of Public Accounts Committees in the Commonwealth

	Yes	No
Is the chairperson from an opposition party?	67%	33%
Are departmental officials normally summoned?	97%	3%
Is the auditor general normally summoned?	79%	21%
Are ministers normally summoned?	31%	69%
Are committee reports freely available to the public?	87%	13%
Are hearings open to the press and the public?	55%	45%
Committee depends primarily on audit report?	85%	15%
Is the committee report debated in the legislature?	57%	43%
Executive required to respond to recommendations?	80%	20%

Source: McGee (2002); based on a survey of 70 branches of the Commonwealth Parliamentary Association.

³⁰ One of the weaknesses of the SAI/PAC System in many countries is that it excludes scrutiny of the banking system. In India, for instance the public sector banks are not audited by the SAI.

31. **Main Conclusions and Recommendations:** The Toronto meeting of the Study Group came to the conclusion that there were three main areas for serious consideration.

- (a) *Capacity building:* A constant theme was the need to improve institutional capability, that is, the ability of Parliaments, PACs, and Auditors-General's offices to carry out their functions by being provided with sufficient resources and having adequate training and access to the expertise that they require. The audit of Central Banks, for instance, require special expertise.
- (b) *Independence:* Particularly for Auditors-General, it is essential that they be free from political or legal constraints that could inhibit them carrying out their duties diligently and impartially. Administrative constraints too need to be watched.
- (c) *Information exchange:* PACs in particular need to have the means to exchange information and ideas so as to keep them up-to-date with important developments, changing standards and best-practices as they emerge. The World Wide Web provides an opportunity to overcome this difficulty.

The following are the main individual recommendations of the Study Group: ³¹

(d) *International Dimensions:*

- There should be greater direct contact between Parliaments, especially PACs, and international financial institutions.
- The CPA include good government as a subject of the theme or sub-theme of its conferences

(e) *Auditors General:*

- The Auditor General should be an Officer of Parliament independent of the Executive
- The appointment process for an Auditor General should involve consultation with a wide range of stakeholders
- An Auditor General should only be removed from office on limited grounds that are specified in advance by law
- Central banks should be subject to the Auditor General's audit mandate in the same way as other public sector agencies
- The Auditor General should take account of the views of PACs in framing their work programs
- Parliaments should be involved at the pre-Budget stage in determining the resources to be allocated to the Auditor General
- Auditors General and their staff must have appropriate legal protections conferred on them to enable them to carry out their duties

³¹ As listed in the paper: Scrutinizing Public Expenditures: Assessing Performance of Public Accounts Committees – WBI 2005 paper developed by Rick Stapenhurst, Vinod Sahgal, William Woodley, and Ricardo Pelizzo based on WBI Survey and research 2003-2005

- PACs should keep under review any proposals to change the Auditor General's audit mandate
- Any company receiving public funding to deliver public services should be subject to the Auditor General's audit mandate in respect of those services
- Auditors General should present their reports in an attractive form and devise active communications strategies
- Auditors General should take steps to measure their own performance
- The main of PACs work should be guided by the work of the Auditor General
- Auditors General should actively participate in international Auditors General associations
- Auditors General should actively introduce themselves and their services to all parliamentary committees, not just PACs
- Auditors General have a role in approving internal audit standards

(f) Public Accounts Committees:

- Parliaments should regard the PAC as their pre-eminent committee
- Senior opposition figures must be associated with the PAC's work
- There should always be sufficient experience and seniority among the membership of the PAC
- Specially structured training be provided to PAC members
- It is crucial that the Chairperson of the PAC has the qualities to ensure that the PAC works effectively
- PACs must be adequately resourced to carry out their functions
- PACs, while not being bound to act unanimously, should strive for some consensus in their reports
- PACs should promote greater public awareness of their role
- PACs should consider using subcommittees for specific inquiries
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- PACs should promote greater public awareness of their role
- PACs should consider using subcommittees for specific inquiries
- The Internet should be used to disseminate information on PACs
- Procedures for follow-up action in recommendations in PAC reports are critical
- Parliament should hold an annual debate on the work of the PAC
- PACs in smaller and developing parliaments need improved access to information technology

- A rational local method of allocating funding to PACs needs to be put in place to ensure that they have adequate resources
- Smaller Parliaments need to take innovative steps to expand the pool of personnel available to serve on the PAC
- Special attendance allowances, rather than a special salary, should be considered for PAC attendance
- Links between PAC websites should be developed
- The CPA should explore the potential for the use of a news group to encourage information exchange on PAC matters
- The CPA should examine what options exist for conferences of associations of PACs
- A compendium of Commonwealth PAC practice be established to be managed by a CPA branch or Parliament
- Research should be undertaken into establishing a basis for making international comparisons of PAC performance

(ii) World Bank Institute Survey

32. The CPA study outlines how the PACs work. A survey conducted by the WBI subsequently explored the reasons behind the practices employed by PACs. What are the critical success factors? And what are the main constraints?

(a) Success Factors:

The Success factors that PACs themselves consider most important included:

- Having a broad scope of enquiry
- Power to select issues without government direction
- Power to report conclusions, suggest improvements, and follow-up
- Strong support from the legislative auditor, members and research staff that creates a unity of purpose about PAC work
- Having a bi-partisan relationship among committee members
- Involving the public and encouraging media coverage

33. There are other factors that were rated highly, many of which support these listed above. The Survey results support the view, for example, that a PAC will be more effective if: it meets regularly, keeps up to date with the progress of public business, members are well prepared for committee hearings, and detailed records are kept of Committee meetings for the public record.

As regards results achieved by the PAC: How frequently has the PAC achieved the following results in percentage terms:

Result achieved	Frequently	Rarely	Often
Recommendations accepted	78.8	15.2	33
Recommendations implemented	63.6	27.3	33
Better information	60.8	18.2	33

Disciplinary action	27.3	15.2	33
Modification of legislation	15.2	54.5	33

(b) Major constraints – cultural and technical

Some of the most significant constraints that hamper progress included:

Cultural

- Partisan Climate
- Executive Dislike for Legislators
- Weak Civil Society/Media
- Lack of Ethical Base
- Belief: Audit Reporting is the end of the Responsibility
- Unduly Adversarial approach to Politics
- Ministers on the Oversight Committees

Technical

- “System” design: Performance Reporting?
- Dated and/or Immaterial Audit Findings
- Audit Reports that focus on “accidents” rather than “road conditions”
- Executive Non response
- Capacity for Research and Follow Through
- Communications Capacity at the SAI
- By convention: Team Work discouraged by adversarial environment

(c) Suggestions for enhancing the impact of the Legislative Oversight Function

- (i) **Chair of the Committee:** A strong Chair with leadership qualities and desire to forge a consensus among members was referred to earlier as a key ingredient of success. Next, experiences show that smaller committees (5-11 members) were likely to be more effective than very large committees (over 12 members). A senior parliamentarian who is well respected by all parties, who is seen to be fair minded and is a visionary and subscribes to openness as an important value makes for an ideal Chair.
- (ii) **Tenure:** Tenure of members too is important. Ideally the tenure of the committee should be the life of the legislature. A PAC system where there is constant turnover, says change of members on an annual basis may not provide for adequate continuity and therefore, could lack effectiveness. To my mind, Sri Lanka and India tend to have this kind of difficulty.
- (iii) **Selection of Topics:** Providing *Suo Motu* powers to investigate is another suggestion for enhancing the scope and clout of the oversight function. A number of Committees are able to select topics of their choice for investigation over and above those pointed out by Audit. But most do not. An example of one that does is the Public Undertakings Committee of Sri Lanka.

- (iv) **Research Support from SAI:** In many developing countries the contribution of the SAI at the hearings of the Public Accounts Committee is limited, to “a friend, philosopher and guide” to the Chair of the Committee. This convention has led to a situation whereby the SAI is highly subordinate to the Committee; the SAI representative sits “behind” the Chair rather than in front of the Chair and the Committee. The SAI is rarely questioned on the validity of the report or cross-examined by the members for his/her analysis and views supporting the “cause” of the problems reported by the Auditor. Some believe that this practice needs to evolve towards the more open debate on the issues of public interest raised by audit whereby the SAI too is a witness and subject to public scrutiny as in the case of more advanced countries Such as the UK and Canada. This reform would likely lead to a more level playing field for officials hauled in for scrutiny. It would also allow for a more informed discussion on the Auditor’s findings and recommendations. This, together with the presence of other witnesses that could provide subject matter expertise would encourage a higher quality of discussion. At the same time some believe that the Auditor would be even more conscious of the importance of quality of audit work and the need to defend, if necessary, the basis of his judgments.
- (v) **Relevant Topics:** Other suggestions include greater attention to the selection of relevant topics for discussion at the PAC. Topics that are current, relate to areas of high fiduciary risk and those that are of greatest interest to the public tend to invite the best debate. Canada provides a good example in this regard. The quality of strategic thinking and planning that goes on at the Audit Office has had a salutary effect. The recent issue of what appear to be highly “irregular” disbursements to individuals recently uncovered by the Gomery Commission is a follow through of a previous Audit report on this matter.
- (vi) **Performance Report:** The annual performance report on their workings of the PAC and its tabling in the Legislature is another area of importance. A question was posed by the CPA —Is there any mechanism in place for the measurement of PAC performance. The response was instructive. Thirty-three per cent responded ‘yes’ and 67 per cent ‘no.’
- (vii) **Evaluation of Performance:** Common mechanisms in place for measuring the performance of PACs are Annual Reports and corporate/business plans that provide performance indicators and targets. In this regard, it was found that PACs are far more likely to have their performance measured in Africa (47 per cent) and Canada (50 per cent) than in Asia.

And when the question was posed – Has there been any recent study or comment on strengths and weaknesses of the operations of the committee? The response was: Eight percent responded ‘yes’ and 92 percent ‘no.’

- (viii) The working of the PAC was considered at a Conference of Chairmen of Central and State Public Accounts Committees at Parliament House, New Delhi on 17 and 18 January 2001. The need to improve performance was widely accepted, the need for regular meetings stressed and methods to

reduce backlogs explored. Consideration to open PAC hearings to the public was deferred. This event is a good example of a self evaluation process.

(ix) Other comments on the subject of performance generally derive from the media. It was reported one Caribbean country, for example, that the PAC was not as effective as it should be. Information tabled was often dated.

(x) **Media Coverage:** The overall suggestion remains to encourage public and media coverage of the oversight function. Sunlight of this nature has its own sanitation effect. Given the increasing role of other institutions of public accountability such as Social Audit, Ombudsmen, Vigilance, Media and Civil Society interventions there is a strong signal emerging to harmonize efforts among the various institutions of public accountability.

(d) **An Ideal PAC:** In the light of the findings of the CPA and the WBI work, we are able to present below in a box, however cautiously, some aspects of an ideal PAC:

An “Ideal PAC Committee”

- The Committee is small; committees seem to work well with 5-11 members, none of whom should be government Ministers;
- Senior opposition figures are associated with the PAC’s work, and probably chair the Committee;
- The Chair is a senior parliamentarian, fair minded and respected by Parliament;
- The Committee is appointed for the full term of the parliament;
- The Committee is adequately resourced, with an experienced clerk and a competent researcher(s)
- There is clarity on the Committee’s role and responsibilities;
- The Committee meets frequently and regularly;
- Hearings are open to the public; a full verbatim transcript and summary minutes are quickly available for public distribution;
- A steering committee plans the Committee’s work in advance and prepares an agenda for each meeting to the full Committee;
- The typical witness is a senior public servant (the “accounting officer”) accompanied by the officials that have a detailed understanding of the issues under examination;
- The Auditor’s Report is automatically referred to the Committee and the Auditor meets with the Committee to go over the highlights of the report;
- In addition to issues raised by the Auditor, the Committee occasionally decides to investigate other matters;
- Committee strives for some consensus in their reports;
- The Committee issues formal substantive reports to parliament at least annually;
- The Committee has established a procedure with the government for following up its recommendations and is informed about what, if any, action has been taken;
- In all its deliberations, the Committee uses the Auditor as an expert advisor;
- Parliaments hold an annual debate on the work of the Committee.

VIII. Conclusion

Audit and Legislature oversight are crucial links in the chain of public financial management and accountability. The System of public financial management and accountability cannot function effectively without a strong audit and legislative oversight function. The Public Accounts Committee acts as the crucial agent among the “Three Men in the Boat” – the Legislator, the Executive, and the Auditor. There is a call for both the public and private sectors of the economy in developing countries to strengthen public governance & accountability.

The success of the PACs depends to a large extent on how they are institutionalized and on what institutional features and characteristics that they have, that is, their power and mandate. In this respect, recent research points towards:

First, PACs should focus on governments’ financial activity (implementation and service delivery) and accountability for performance, rather than evaluating or assessing the content of the governments’ policies.

Second, we believe that PACs should have the power to investigate all past and present government transactions regardless of when they were made.

Third, PACs should be given the power to verify whether the Executive actually undertakes concrete steps to implement the recommendations of the PAC itself.

And finally, PACs must have a close working relationship with the Auditors General. The relationship is truly symbiotic.

The success of the PACs does not depend exclusively on institutional design, but it also and equally importantly depends on the behavior of its members and in the functioning of the Committee itself. Here, we have been able to identify some obvious best practices: PACs’ members must act in a non partisan fashion and should try to have a good working relationship with other Committee members in spite of possible partisan differences. In its functioning, the PAC should always strive for consensus. The WBI Study has revealed that the effectiveness in the PACs’ activity increases whenever the PACs members study the documentation and prepare themselves before the PAC meetings. The PACs should keep the transcripts of their meetings, they should publish their conclusions and recommendations, and they should involve the public and the media. Public opinion can provide, in fact, a strong incentive for the governments to improve their financial accountability and avoid possible allegations of ineffective management of public resources.

Many developing countries need to catch up with their counterparts in more advanced democracies. The traditional “compliance” based regime need to be broadened to a more “performance” based regime. For audit and legislative oversight to remain effective there is an urgent need to modernize the System of public financial management and accountability in many developing countries. One way is to change the focus of audit and legislative oversight from “cash outlays” to “development outcomes” and of audit from reporting on “accidents” to “road conditions”. There are many common issues to tackle, good practices to follow, ways to support the harmonization agenda and building capacity by sharing and learning.³² We are thankful to the Board of Audit and Inspection of Korea for giving us this opportunity to discuss the audit and oversight function here in Seoul.

³² Barbara Kafka senior manager at the World Bank speaking to Auditors General of Asia , at Dhaka 2004.

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