



# ECOSAI CIRCULAR 2011

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# ECOSAI Information



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# News Section

## 1. Appointment of new Chairman of the Kyrgyz Republic

By the Order of the President of Kyrgyz Republic dated March 14, 2011, Mr. Moldokulov Sabyrbek Aidarkanovich has been appointed as Chairman of the Accounts Chamber of the Kyrgyz Republic.

Born in 1956, Mr. Moldokulov is Postgraduate from the Academy of Sciences of the USSR.

Prior to being appointed as the Chairman of the Accounts Chamber, he had held posts of Senior Adviser of GTZ programs; Minister of Economic Development and Trade of Kyrgyz Republic; Secretary of State of Ministry of Industry, Trade and Tourism etc.



He has received the following titles during his illustrious career:

- Candidate of Economic Science;
- Honored economist of the Kyrgyz Republic;
- High-achiever of Financial Service;
- High-achiever of Statistics of the Russian Federation;
- Rank of 3<sup>rd</sup> class Counselor of State of public service

## 2. Mr. Muhammad Akhtar Buland Rana appointed as the Auditor General of Pakistan

Mr. Muhammad Akhtar Buland Rana became the 17<sup>th</sup> Auditor General of Pakistan on 27<sup>th</sup> August, 2011. As the head of the Supreme Audit Institution of Pakistan (SAI), he is entrusted by the Constitution with the responsibility of reporting on the results of the financial operations of the Federal and Provincial governments to the National and Provincial legislatures. This would ensure that the SAI incorporates the best international practices and standards, is effective, credible and plays a leading role in supporting good governance and accountability.



Honourable Chief Justice of Pakistan Mr. Justice Iftikhar Muhammad Chaudhry administering the oath of office to Mr. Muhammad Akhtar Buland Rana as Auditor General of Pakistan in Islamabad on August 27, 2011

Mr. Muhammad Akhtar Buland Rana joined the Central Superior Services in February 1976. He carries a Masters degree in Political Science and a Law degree from the Punjab University Lahore. His overseas exposure includes training courses in Public Financial Management from the University of Connecticut, Heart-Ford, USA, Commercial Practices in Telecommunication Accounting from UK

and Australia. As a career public servant he has received intensive and extensive trainings in Investment Analysis and Economic Management, Problem Resolution & Decision Making, Advance Performance Auditing, and Advance Public Management. He is a fellow of the National School of Public Policy, Lahore after attending its National Management Course.

Mr. Rana brings rich experience to this assignment as the Auditor General of Pakistan. Starting his career with public sector auditing, he remained engaged in managing and maintaining the accounts of the Defence Services of Pakistan and later in the consolidation of national accounts. Besides, he served in key public sector commercial entities of Communications and the IT sectors as an advisor on Investment and Finance. Prior to being appointed as the Auditor General of Pakistan, he headed the Ministry of Human Rights as its Additional Secretary In-charge. As the 17<sup>th</sup> Auditor General of Pakistan, Mr. Rana envisions the SAI Pakistan as an increasingly professional and responsive public body addressing the concerns of the domestic and international stakeholders in good governance.

As the Auditor General of Pakistan, Mr. Rana has focused the efforts of SAI Pakistan on effectively serving the needs of Parliament through objective and reliable reporting, bringing efficiency in the internal business process and ensuring compliance with international standards in the audit work.

### **3. Centre for Information Systems Auditing (CISA)**

*Syed Umar Banoori*  
Director (IR&C)

During the last few years, technological landscape of Government of Pakistan has been rapidly changing. Accounting and budgeting systems have been computerized on SAP/R3 ERP software and integrated through IT interventions; impressive work has been done in automation of taxes, national identity cards and passports. E-government has been implemented in Ministry of Information Technology and is likely to be replicated at all federal government ministries. All the above mentioned technological changes compel the officials of the Department of the Auditor General of Pakistan to

have the auditing skills through which the controls implemented in these information systems could be evaluated. Consequently, the departmental capacity to conduct audits in computerized environment needs to be taken to a level where this task could be performed with perfection.



With this objective in focus, the Centre for Information Systems Auditing (CISA) was established in April 2011 at Audit and Accounts Training Institute, Lahore, Pakistan, as per directive of the Auditor General of Pakistan. The purpose of this centre is not only to equip officers and other staff of the Department of the Auditor General of Pakistan (DAGP) with modern tools in IS Auditing, but also providing support to various field audit offices for conducting IS audits. The following three objectives would be attained through establishment of CISA:

- i. Developing capacity of officers of the DAGP in IS Audit;
- ii. Continuous research and development in the field of IS Audit;
- iii. Organizing training courses in IS Auditing for other SAIs.

This training facility, after obtaining a maturity level in provision of services to the DAGP could be used to build capacity of officers from other government departments as well. A state of the art computer lab comprising 25 computers has been established as a part of the CISA at Lahore. In addition, a class room having a seating capacity of 25 persons has also been developed.

Presently, the courses in IS auditing have been

categorized at three levels. The duration of each level is two weeks. The main objective of Level I course is to familiarize participants with the theoretical concepts in IS Auditing. The main source of course material is the 'Certified Information Systems Auditor' manual. After attending this course, the participants can take the Certified Information Systems Auditor certification examination. Uptil now, four Level I courses have been conducted at Lahore, Islamabad and Karachi. The Level II course focuses on practical aspects of IS Auditing. The participants are imparted training on developed IS Auditing controls, checklists and guidelines in different IT areas. The Level III course would focus on more technical areas such as network penetration testing, Ethical Hacking in controlled environment, advanced information security, database audit, web server audit etc. For Level III courses top experts in the field of IS Auditing within the country would also be invited to deliver lectures.

The CISA also offers specially designed courses for higher management to give a comprehensive insight into various aspects of IS Auditing. The duration of these courses is generally one week. In addition to the above mentioned courses, other short courses and workshops such as Course on Database Management Systems, Course on Cyber and Network Security, Audit of E-Governance, Course on Statistical Sampling, Course on Information Security etc. generally having one-week duration would also be arranged keeping in view the needs of the field offices. Within a short period of two months after its establishment, CISA has conducted four courses on IS Auditing at Lahore, Islamabad and Karachi and more than 80 auditors have been trained in Level I course.

#### 4. Sectoral Guidelines on Auditing

*Syed Umar Banoori*  
Director (IR&C)

The main objective of auditing is to enable an auditor to form an opinion on the accuracy of the financial

statements prepared by an entity for a given period. Auditing also helps an entity improve the accounting system. The secondary objective of auditing is to detect or prevent errors. Auditing therefore enhances an entity's management's skills in financial management and evaluates its performance. With these main objectives in view and to provide auditors with useful tips on how to proceed in auditing, the Audit Competency Centres (ACC) of the Department of the Auditor General of Pakistan (DAGP) have developed Sectoral Guidelines for more than 30 sectors of which audit is undertaken.

A brief overview of some of the important guidelines for different sectors is given below:

#### Guidelines for Auditing IT Procurement Vol-I:



IT Procurement is a major activity in the public sector and auditors sometimes face difficulties in this area during their routine audits. They are equipped to audit procurement according to the prevalent rules but are not specifically trained to check the technical specifications of IT components. To address this need, a qualified team of Project to Improve Financial Reporting

and Auditing (PIFRA) staff was tasked to prepare guideline for Auditing Information Technology Hardware and Software Procurement (volume-I) to facilitate auditors in this newly evolving field of auditing. This package (volume-I) can be used during compliance audit, performance audit, IS Audit and any other special audit.

#### Guideline for Auditing Information Systems Vol-II:

IS Audit is the process of collecting and evaluating evidence to determine whether a computer system has been designed to maintain data integrity, confidentiality, availability, allows organizational goals to be achieved effectively and uses resources efficiently. Data integrity relates to the accuracy and completeness of information as well as to its validity in accordance with the norms. An effective information system supports the organization to achieve its objectives and uses minimum resources

This guideline helps the IS Auditor to assess the information system and its related environment with respect to security, business continuity, service management and administration. It also helps to ensure the data confidentiality, integrity and availability.

### **Guidelines on Data Extraction and Analysis (SAP&ACL) Volume-I Payroll and Volume-II Expenditure**

The Guidelines on Data Extraction and Analysis (SAP&ACL) Volume-I on Payroll and Volume-II on Expenditure have been accorded recognition and placed on the website of ACL Services Ltd, Canada and become a part of Knowledge Base Centre with Article Id 7300 and Id 7345 respectively. The hard work of ACL Master Trainers of the DAGP in developing these guidelines is manifest in appreciation and validation received from ACL Services, Ltd, Canada. Recognizing their practical utility, these guidelines have been placed on the Global ACL Knowledge Base Center and are accessible to all licensed users of the ACL at [www.acl.com](http://www.acl.com).

#### **Purpose of Volume-I**

The purpose of the manual is to guide the auditors in extraction of payroll related data from SAP/R3 HR Module and performance of audit procedures using the Audit Command Language (ACL). The guideline focuses on data extraction where the entity allows the auditor to extract payroll data by using customized reports of SAP R/3, presently being used for data processing and financial reporting at the federal, provincial and district government level. The manual follows the complete audit cycle from Planning, Data Access, Data Integrity, Data Analysis and Reporting. Planning and Data Access are covered in Section-I whereas, Managing Data, Analysis and Reporting are covered in Section-II.

The manual is specifically designed to provide step by step guidance from logging in the SAP R/3 System, to extracting & importing data in the ACL and finally to analyzing and reporting the results.

#### **Purpose of Volume-II**

The guideline focuses on the case scenario where the entity provides the data against the requisition letter of auditor regarding the Certification Audit of

Federal Government Accounts which was maintained on SAP/R3 FI Module and then apply ACL Data Analysis Methodology on different kinds of reports of SAP/R3 FI Module. The manual is divided into Eight Chapters such as Introduction on ACL, Planning, acquiring data, Uploading MS-Excel files through ODBC, Data Integrity Verification, Data Analysis, Working Papers regarding planning and execution files have been drawn up and generating Reports in ACL. The manual also contain several annexures that provide additional details and guidance material on specific matters and glossary of the terms used.

### **Guidelines on Data Extraction from Divergent Platforms**

#### **Purpose of the Manual**

The purpose of this manual is to familiarize the auditors regarding import of different types of data format from divergent platforms into ACL. The manual is divided into two chapters viz-a-viz Direct Access and Import and Copy. Chapter 1 covers Direct Access which is further sub-divided into three methods such as Automatic Layout, Manual Layout and External Definition Layout. Chapter 2 covers Import and Copy which is further sub divided into two methods such as Automatic Layout and Manual Layout. The manual provides step by step guidance of the data formats such as Delimited text file (\*.txt), Flat file (\*.fil), MS-Excel file (\*.xlsx), MS-Access file (\*.accdb), dBase file (\*.dbf), Oracle file (\*.dmp), COBOL File (\*.cob) and XML file (\*.xml) to import into ACL.

Sufficient and simple screen shots have been provided at each and every level to assist the auditors for better understanding and effective use of the manuals. However, the auditors are encouraged to use these manuals as a guideline and through their experience develop expertise in using the System in different scenarios and building different audit checks that could meet their audit needs.

Moreover, Guidelines have also been developed for audit of; Commercial entities, Federal, Provincial and District Government's Departments, Income Tax, Foreign Missions, Zakat, Post, Telecommunication & Telegraph, Railways, Foreign aided projects, Disaster Management and Regulatory Authorities.

# International Events



## **ASOSAI Environmental Audit Workshop (1-12 November 2010, Istanbul, Turkey)**

The “ASOSAI Environmental Audit Workshop” was hosted by the Turkish Court of Accounts in Istanbul, Turkey during 1-12 November 2010. The workshop was delivered by six IDI training specialists from SAIs of Bangladesh, China, Indonesia, Pakistan and Philippines. 31 participants from 31 SAIs attended the workshop. Technical guidance was provided by a Subject Matter Expert from SAI India. A representative of SAI Japan also attended the workshop as the Training Administrator of ASOSAI.

The workshop provided basic knowledge on environmental issues such as waste, air, water, biodiversity and climate change. Further sessions of the workshop built on these issues by building the skills for effectively auditing environmental issues.

The audit methodology followed in the workshop reflected the guidelines of INTOSAI and ASOSAI Working Groups on Environmental Auditing and the current global environmental trends.

The workshop also included a study tour to the Istanbul Water and Sewerage Institution and Istanbul Waste Management Corporation, to deepen the understanding of water and waste issues.

The workshop was designed following a participatory approach which actively involved each participant in the learning process, enriching the quality of the workshop.

*Turkish Court of Accounts (TCA)*  
Ankara/TURKEY



Heads of delegations of the 5<sup>th</sup> ECOSAI Assembly held on October 13, 2010 in Astana, Kazakhstan





## 1. Reform Process at Turkish Court of Accounts

*Dr. Recai AKYEL*

President of Turkish Court of Accounts

### General Overview

Turkish Court of Accounts (TCA) was established in Ottoman period in 1862 under the name of "High Court of Accounts" as an audit and judicial authority independent of both the Parliament, the Monarch and the Government in order to audit and try the accounts of those possessing the State's money and properties.

The status of the TCA as an independent supreme audit institution and judicial organ was embodied in the first Constitution of 1876 and reconfirmed in the subsequent Constitutions. Our status as an independent organ has been robustly laid down in all its establishment laws applicable up until today.

Immediately after its inception, with the Regulation dated 1863, it was stipulated by law that the President, members and auditors of the TCA would be appointed on the consent of the Monarch; however, they would not be dismissed from the office, unless they resigned or their dismissal from the office was not required by law. Thus, the TCA was granted an independent status at the very beginning of its establishment, which many SAIs do not enjoy even today.

### Public Financial Management Reform and Its Reflections on the TCA

In the international arena such factors as developments in the approaches to public management, transformation in the budget and financial structures, extended democratic and

transparent management approach, etc., have brought about radical changes in the field of supreme audit. In this context, it has become inevitable to ignore the need for developing modern approaches and new methodologies. SAIs has become one of the closest assistants of Parliaments in the establishment of popular sovereignty by starting to question whether public resources are used efficiently, effectively, economically and as intended as well as in line with the common benefit and expectation of the public at large.



Recently in Turkey, fundamental legal arrangements have been made in various areas with the effect of developments in the world, harmonization process to European Union and society's demand for change. With the Law on Public Financial Management and

Control entered into force in 2005, public financial management system in Turkey was restructured. With this Law, such mechanisms as financial transparency and accountability, strategic planning, multi-year budgeting, performance management and performance audit, internal audit, etc., were introduced, and all structures and processes were reorganized in harmony with generally accepted international standards. Reporting liabilities of audited entities were broadened and their accountabilities were reinforced.

Accordingly, such developments necessitated fundamental changes in our Audit Law. Major amendments that broaden the competences and field of work of the TCA were made in the Constitution. New TCA Law No. 6085, which was drafted by considering current conditions, international standards and mentioned contemporary changes in the fields of management and audit, was put into force on 19 December 2010.

Our roles and responsibilities have considerably increased and our audit scope has substantially broadened with these arrangements, which have also influenced the structure, functions and operation of the TCA from various aspects. To begin with, we need to maintain our structure dynamic so as to audit the structures that has changed in nature and to develop appropriate mechanisms for newly established institutions/organisations, services or operations. Besides, at a time when there are efforts to render new approaches and understandings prevailing like more focus on performance audits within the new public management, increased importance of accountability, participation and responsiveness to the needs and demands of the public; it has become a necessity for us to develop constantly our audit approaches in line with contemporary needs.

In parallel to all these developments, efforts towards improving audit function and strengthening audit capacity of our Institution have gained impetus. In this respect, the required infrastructure has been established by means of training, methodology development and implementation practices and of such documents as audit guidelines, institutional development strategies at various fields, etc.

### **Enhanced Functions of the TCA**

Our two major functions prescribed by the Constitution and laws are audit and trial. While we are charged with auditing on behalf of the Parliament and submitting information and report to the Parliament, we are also responsible for taking final decision on the accounts and transactions of public entities found incompliant at the end of audits. New legal arrangements address and reinforce particularly our audit and reporting functions.

### **Audit Function**

The TCA, which audits financial activities, decisions and operations of public entities, is now giving more focus to contemporary audit techniques within the framework of guidelines based on generally accepted international auditing standards. In this context, in order to increase the effectiveness of audits:

- Audit procedures and evidence gathering techniques have been revised and improved;
- In audit strategies, system-based and risk-oriented audit approaches are given more emphasis;

- Effective and widespread use of computer-assisted audit techniques in audits is promoted;
- Contributing to strengthening of accountability and transparency has been adopted as the main goal;
- Necessary mechanisms have been established to enable auditors to benefit from external experts at a maximum level.

Regularity audit, which encompasses financial audit and compliance audit, is conducted by the TCA through:

- Determining whether revenues, expenditures and assets of public administrations, as well as accounts and transactions pertaining to those are in compliance with laws and other legal arrangements,
- Giving opinion on the reliability and accuracy of financial reports and statements of public administrations, by evaluating all kinds of supporting and necessary documents,
- Assessing financial management and internal control systems.

The TCA, at the same time, carries out performance audit by evaluating whether public resources are used effectively, efficiently and economically and measuring activity results of public entities in terms of their performance.

Performance audit is an independent examination of effectiveness and efficiency of activities, programs or projects conducted by public entities, which aims at leading to economy and improvement. The main purpose of this type of audit is to provide impartial information to the Parliament, the public and public entities with respect to whether economy and efficiency is achieved in the acquisition and utilization of public resources as well as to contribute to the development of public entities within the scope of good governance principles and practices. Besides, it also aims at evaluating the activity results related to the objectives and indicators determined by public entities within the framework of accountability.

### **Reporting Function**

The number of reports that we are now required to produce and submit to the information of the

Parliament and the public has considerably increased with the new legal arrangements. Therefore, we have assumed a more active role in strengthening public accountability and transparency by sharing information concerning the results of our audit activities with citizens, as actual owners of public money.

The reports we will submit to the Parliament and share with the public are as follows:

Statement of General Conformity is a statement of assurance of the accuracy and reliability of budget implementation results as displayed in the draft final accounts law, which is established by comparison with the results derived from the accounts of public administrations.

External Audit General Evaluation Report: Audit reports prepared by headships of audit groups at the end of regularity and performance audit of public entities are consolidated in respect of administrations, and a copy is sent to the relevant public administration in order to obtain their opinion with regard to these reports. The External Audit General Evaluation Report, which covers also the financial matters that the TCA deems appropriate, is prepared by considering these opinions.

Accountability General Evaluation Report: Accountability reports for the entire year, which are prepared by public entities, are evaluated by the TCA in consideration with the audit results. An Accountability General Evaluation Report is prepared on the basis of evaluation reports produced in this regard.

Financial Statistics Evaluation Report: Annual financial statistics published by the Ministry of Finance are evaluated by the TCA in terms of its preparation, publication, accuracy, reliability and conformity to the predetermined standards.

Report on State Economic Enterprises: These are the reports that encompass the audit reports prepared following the audits of state economic enterprises and annual activity results of these in respect of sectors.

Other reports: These are the reports prepared as result of audits and examinations on other matters that are of significance for the Parliament.

## Judicial Function

We audit whether or not the accounts and transactions of public administrations within the scope of the general government related to their revenues, expenditures and assets comply with laws and other legal arrangements. Matters specified in the judicial reports prepared at the end of these audits by auditors are discussed and decided on by the relevant chamber of the TCA.

## Independence of the TCA

We have functional and institutional independence in carrying out our duties of examination, audit and taking final decision. Although we carry out audit on behalf of the Parliament, we do not have an organic bond with it. As we are entrusted with a special status with our judicial powers and non-affiliation to any other higher-level organ within the organic structure of the State, the TCA is an organ that enjoys the highest-level of independence. The institutional and financial independence of the TCA as well as the security of tenure of its personnel has been reinforced with several legal arrangements. We act fully independent in planning, conducting and concluding our audit activities, and in no case, are under external influence. The necessary competences and safeguards are entrusted to the TCA, which enable it to fulfil mentioned duties impartially and independently. We are competent to demand all kinds of documents and information from public entities as well as real and legal persons. We are also authorised to examine, on the spot and at any stage of operation and incidence, all related records, goods, properties, practices, transactions and services of those public institutions and organizations within the audit scope, by assigned personnel of our Institution, or expert witnesses.

## Audit Area

The new TCA Law was drafted by taking account of the Lima Declaration as well as the basic principles established in the fundamental documents of INTOSAI. The new Law incorporates all public resources and activities in the audit scope of the TCA, regardless of whether or not these are in the national budget and who collects and manages these. All public entities within the scope of the central government, social security institutions, local administrations, state economic enterprises and the utilization of all domestic and foreign resources and funds are within our audit mandate. In addition to these:

- Public enterprises and partnerships;
- Public administrations established with special laws;
- All types of administrations, organizations, institutions, associations, enterprises and companies affiliated to, or founded by the public entities;
- All transfers of resources and their utilization by public entities;
- The utilization of domestic and foreign resources and funds obtained by public institutions and organizations;
- Public accounts, funds, resources and activities;
- Accounts and transactions of international institutions and organizations within the framework of the principles set out in the relevant treaty or agreement are all covered in our audit scope.

### Enhanced Professional Competency and Personal Development

To fulfil our increased duties and responsibilities as appropriate during the change process, we are now attaching great importance both to strengthening our audit capacity, developing and extending contemporary audit techniques and to the modernization of our organizational structure. In parallel to this, moving from the idea that the human is the main element of change, we are now trying to build up a more modern and functional management approach oriented towards reinforcing the personnel's organisational consciousness and the desire to reach common goals.

Within this framework, due consideration is given to personal development and training of professional personnel, who take active role in audit activities, as well as of supporting staff. With in-house training courses, auditors are supported in adapting to new audit methodologies and approaches. The personnel has become more equipped and willing to keep abreast of and put into implementation the contemporary developments by actively participating in the seminars, conferences, panels, etc., abroad, or at home.

With the significant duties we assume on behalf of the Parliament, our judicial function, broad competences and level of independence; the TCA constitutes one of the key and the most prestigious organ within the Constitutional System of Turkey. As

a strong audit and judicial authority, independent status, competent personnel and broad powers entrusted by the Constitution and laws, the TCA strives to keep abreast of developments in the world and to manage the change in the most effective manner. It also endeavours, for the overall benefit of the citizens, to ensure that the public management of Turkey has a more sound and reliable structure in consideration of the contemporary developments in the world.

Building on its knowledge coming from a 149-year old history, the TCA, in the light of the developments in the contemporary world and in line with current conditions, will continue to put emphasis on new strategies in the continuous development of audit methodologies, effective use of information technologies, development of human resources and rendering the institutional functioning more effective.

### 2. Experience of the Supreme Audit Court of Islamic Republic of Iran (SAC) in relation with the institutionalization of Performance Audit (PA)

*Performance Audit Executive Committee*  
Supreme Audit Court of Iran

Based on the policy of the Senior President of SAC, H.E. Dr. Rahmani Fazli to institutionalize performance auditing as the most important audit method for achieving higher productivity, the Executive Committee on Performance Auditing with four distinctive sub-working groups was recently established in SAC. This initiative aimed at both the development and institutionalization of performance auditing in Iran. The main objective of the same committee includes policy making, planning for implementation of performance auditing, as well as supervision and evaluation of the same type of audit. The sub-working groups were established, with distinctive responsibilities, to provide expert support to the decisions made by the same Committee. The decisions made by the same sub-working group will be implemented after the approval of the committee. The responsibilities of sub-working groups are as in the following:

#### 1. The Training Sub-group:

- Identification of talented people for implementation of performance auditing and the related training matters in seminars and workshops both in Iran and abroad;
- Research planning for performance auditing.

## 2. Sub working groups on developing performance auditing guidelines and standards:

- Preparation of guidelines for planning, implementation and reporting of performance auditing based on INTOSAI standards as well as revision and updating the same guidelines;
- Identification of sources for developing audit criteria to evaluate economy, efficiency and effectiveness elements by the auditing teams;
- Providing support and guidance to audit teams regarding the appropriateness of audit criteria suggested for each audit topic.

## 3. Supervision and Evaluation Sub-group:

- Supervision on the proper implementation of performance audit plans in regard to compliance with the related auditing standards and guidelines;
- Controlling the quality of performance audit reports and providing suggestions for improvement.

## 4. Sub-working group on increasing awareness:

- Increasing awareness of stakeholders about the benefits of performance auditing. This is to create a common understanding of the basic principles and benefits of performance auditing through preparation of articles, holding meetings, consultation and other ways with the objective to expand the PA literature and expertise as well as developing the culture of accountability and good governance in auditees;
- Seeking the cooperation of top management of auditees in creation of the necessary ground for the implementation of PA;
- Creating the opportunity for stakeholders to access reliable and practical resources for PA;
- Considering the needs of the stakeholders and recognition of priority areas for PA.

It is noteworthy to mention that the Supreme Audit Court of Islamic Republic of Iran is planning to increase its capacity building and competence building in the area of PA. In this regard, it is the priority of the Iranian SAI to prepare local reliable literature about PA based on the guidelines of INTOSAI and ASOSAI. The Iranian SAI is ready to

cooperate with working groups and committees of regional and international organizations of supreme audit institutions in research projects and comparative studies so that it becomes familiar with the better methodologies and PA experience of the leading countries in the same field. Furthermore the Iranian SAI is planning to develop its own local PA guidelines.

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## 3. A Perspective on Project Audits in SAIs

*Arsalan Haneef*

Director (ACC), PIFRA

Project audits are becoming increasingly common as national governments in developing world increase development spending to meet the Millennium Development Goals (MDGs). Most of this spending occurs through projects/programmes modality requiring the SAIs, in turn, to carry out project audits. Project audits help identify what worked and what did not work in government projects. Audit results help improve design and implementation effectiveness of ongoing and future projects. One problem that some SAIs face in project audits is that their auditors are trained to view things through the prism of compliance with authority audits. Some of these SAIs face capacity constraint for project audits. This article provides auditors with key points of reference for carrying out project audits. Though it covers key reference points, its major thrust is on measuring project effectiveness as part of project audit activity.

Auditors' first activity in any project audit assignment should be to review the design of project under audit. Key project design areas to be examined should include organizational structure, stakeholders' involvement, coordination linkages between key players, and monitoring for results. While conducting this review, auditors should watch for gaps to be explored during field audit activity. Once this design review is over, auditors should compare when a project was approved, when its implementation began, and when actually came to a close. Further, they should compare what was the original and revised cost of this project. Variations in project duration/cost frequently occur but auditors should look for, and investigate abnormal variations and point those out in their reports if such variations are not justifiable given facts.

Experience shows that most of project funds end up in consultancies and procurement of goods. Hence, auditors must closely examine these areas in project audits. In the case of consultancies, auditors need to ask questions such as (i) whether consultants were engaged as per approved project design, (ii) were the Terms of Reference (TORs) of consultants' engagement clearly written in terms of activities, outputs, and deliverables, (iii) were objective and transparent criteria used in consultants' selection, (iv) were they paid according to their respective contracts, (v) whether review mechanisms for processing consultants' deliverables i.e. reports, guidelines, procedures, etc. were efficient and facilitated workflow and (vi) whether there was any major contract variation in service contracts of consultants. In the case of procurement of goods, auditors should examine whether a proper competitive system involving use of advertisement, standard bidding document including evaluation criteria, standard contract agreement etc. has been used in major procurements. Frequently, defective bidding documents and contract agreements increase cost of procurements. Focusing on these areas will help identify instances of waste and abuse of project funds in the use of consultants and procurements.

Frequently, projects do not show progress because of funding problems. Auditors should compare available funds with budgetary requirements as per project implementation schedule. Project implementation may be slow because (a) project is not getting funds as per requirements and (b) it is not able to spend the fund because it has limited capacity for use of fund. Auditors should examine these and other underlying factors (high turnover rate for key project positions, organizational weaknesses, leadership deficit, project allowance, complexities of procedures, low commitment, resistance to change within stakeholders, etc.) that slowed project implementation.

All projects seek to achieve certain outcomes. Thus, outcome measurement should be integral part of project audits. In fact, this is an area which auditors trained in compliance with authority audits find difficult to handle. In making this assessment, auditors must review implementation effectiveness of a project as it significantly affects whether a project will eventually achieve planned outcomes. Auditors

should examine whether (i) coordination linkages with relevant government agencies was effective, (ii) project activities were in synch with project design, (iii) key stakeholders were involved in the process, (iv) periodic monitoring was done and results thereof informed project execution, (v) project outcomes would be sustainable beyond its life, (vi) project has weakened or strengthened service delivery capacity of regular service provider, and (vii) project benefits actually accrued to target population. The above mentioned questions are critical in any project audit.

Project documents will indicate list of partner agencies that must be coordinated with during project implementation. Auditors can also determine the nature and scale of coordination needed. They can see from record whether implementation agency has kept collaboration as envisaged in project design. A consistency check between actual and planning activities is also critical. Auditors may come across an activity that was omitted for one reason or another and that may have substantially affected project outcomes. Sequencing of activities also need to be consistent with project design. In addition to partner agencies, there can be other stakeholders like civil society organization, private sector, media etc. who were required to participate in project implementation and oversight. Auditors should see whether this aspect has been covered in implementation. Periodic monitoring is part of every project design. However, lapses are frequent at implementation stage. Auditors should see if this tool was used effectively. Usually, project includes activities that contribute to its sustainability even after it comes to a close. In practice, implementing agencies tend to underestimate this aspect during project execution phase. If such activities are not carried out, the risk that the project outcomes would not be sustainable is high and real. If outcomes are not sustainable, the project would not yield desired impact three to five years later. Thus, gains made under the project may be lost. It may be worth adding that, at times, project outcomes could be the result of factors other than project activities. This aspect should be examined thoroughly. Our experience also shows that at times projects tend to erode capacity of regular service delivery mechanism. This will occur if a project comprises activities that are mandate of an established government agency. For instance, a project for promoting primary education in rural areas can be duplicating effort of local education department having the same mandate.

Auditors should look for possibility of such duplication and overlaps and point those out in their reports. This is more likely to happen in institutional and capacity building projects in which, instead of focusing on institutional and capacity building initiatives, projects get in direct service deliver mode. Projects may have physically achieved targeted objectives but this achievement is meaningless unless intended benefits trickle down to target beneficiaries. Assessing whether projects have generated tangible benefits for target audience requires carrying out a perception survey (questionnaire, focused group discussion, random interviews etc.) Beneficiaries' perception survey will help further strengthen your over all conclusions on projects' effectiveness. Use of this technique is becoming increasingly common in the SAls of developed world.

Whatever is stated above is equally relevant for the audits of Foreign-Aided Projects (FAPs). In addition, auditors need to be sensitive to terms and conditions of foreign aid and expectation of donors while working out objectives and methodology of project audits. Thus, in addition to project design review, auditors should examine Loan Agreements/ Memorandum of Understanding signed between the government and donors.

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#### **4. Challenges for Ensuring Transparency and Accountability in Public Financial Management**

##### **The Impact of Technological Developments in Strengthening Public Accountability and Transparency**

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Public financial management in its broadest sense links a community's aspirations with its resources, and the present with the future. It therefore lies at the very heart of the operations and the fiscal policy of government. The major components of public financial management include fiscal planning, budget formulation, resource mobilization, efficient management of resources, accounting and financial reporting, audit and legislative oversight.

There has been increased emphasis from the general public, civil society, media and international community for good governance and value for

money in public finance. In fact good governance is strongly linked to successful public financial management. Good financial management is important to a country's development and ensures transparency and accountability to citizens that their taxes are being used appropriately, to donors and lenders that the funds they provide are being used appropriately, and to the private sector that there is an appropriate environment for investment and growth. Transparency implies that the procedures and methods of decision making and the disbursement of public funds are open and visible to all. Transparency can be achieved through public access to fiscal information, simplification of financial information (budgetary and financial statements). Accountability requires that those who hold positions of public trust should account for their performance to the public or their duly elected representatives.

During recent years, national government agencies around the world have started applying information technology (IT) to a growing range of public services. The major objectives of usage of IT are to bring improvements in the speed of response, efficiency, productivity and hence bring governments closer to the citizens' expectations. IT offers wonderful potential for increasing efficiency, transparency and accountability in government operations as it can be used to:

- Improve service to citizens through enhancing public access to fiscal information and making procedures and methods of decision making more open and visible to all.
- Improve citizen confidence through increased predictability in budget execution and better monitoring & evaluation to reduce fraud and corruption.
- Track spending of public funds in the system to the lowest level.
- Keep logs / records of changes and updation of data in the system as well as the user activities to ensure accountability.
- Increase government revenue through better collections
- Improved decision making and planning through better access to timely and accurate information.

#### **Public Financial Management in Pakistan**

Accountability of the elected officials and the public servants that implement their policies is a cornerstone of democratic government. In Pakistan, the public financial management process starts with

the fiscal planning at the Ministry of Finance. The main functions are preparation of annual budget statements and supplementary/excess budget statements for the consideration of the parliament. The Finance Division consolidates the Budget both Development and Non Development. Estimates for Receipts are primarily prepared by the Federal Board of Revenue (FBR). Economic Affairs Division (EAD) is responsible for preparing estimates of foreign aid and receipts.

The Controller General of Accounts has primary responsibility for the completeness and accuracy of the Federation's financial statements. There are three tiers at which accounts are being maintained i.e. federal, provincial and district. At the federal level, the Accountant General Pakistan Revenues (AGPR) is responsible to maintain the accounts of entities whose accounts maintenance is centralized. The financial information pertaining to self accounting entities is also consolidated by the AGPR. At the provincial level, the accountant general of each province is responsible for the accounting of the provincial government as well as the districts therein under his purview. Each government entity is headed by a Principle Accounting Officer who is responsible to spend the available budgeted amounts according to government rules and regulations.

The office of the Auditor General of Pakistan is mandated to audit government entities at all the three tiers. The government departments and agencies are held accountable for any major departure from the approved budget and for significant violations of rules and regulations. The Auditor General submits audit reports to the President and Provincial Governors who submit them to the National and Provincial Assemblies respectively. The legislatures assign these reports to the constituted Public Accounts Committees for detailed scrutiny. Each PAC holds hearings at which the heads of government entities submit their responses to the Auditor General's observations. Based on this testimony, the PAC makes its recommendations to the legislature. This process ensures that departments and agencies are accountable to government for implementation of policies in accordance with regulations.

### **Initiatives undertaken by the Government of Pakistan**

In Pakistan, information technology has impacted

almost every area of the public financial management.

#### **Accounting and Financial Reporting**

The Government of Pakistan has undertaken various initiatives to modernize the public financial management process and make it more efficient, productive, effective and transparent. In order to improve the financial accounting and budgeting system, the New Accounting Model was developed and implemented through the SAP R/3 system. The system can facilitate expenditure tracking to the lowest level. Legitimate users can access data pertaining to any entity from anywhere in Pakistan. The system interfaces are being developed with key financial management agencies such as AGPR, FBR, EAD and the banking system to eliminate misuse of public accounts.

With the introduction of these reforms:

- The budgets are being prepared through the system at all the three tiers i.e. federal, provincial and district levels.
- Payments to a major extent are being processed through the system. The time duration of processing of contingent bills has been reduced to an average of 04 days averagely.
- Payroll of 1.835 million employees has been computerized.
- All pension cases are being processed through the system.
- The General Provident Fund cases are also being processed through the system. On overall basis, it takes about 7 days to process a GPF case presently.
- Monthly accounts are being prepared using the information system.

#### **Fiscal Planning**

Medium Term Budgetary Framework (MTBF) is being implemented at federal and provincial level with the help of financial management information system. MTBF is a major tool for accountability as it defines the outputs and goals to be achieved by the executive against which they can be held accountable. Because of implementation of MTBF, individual budgetary allocations are more clearly linked to strategic priorities, policies are considered in a medium to long term context, there is greater predictability in the budgetary process, opportunities are created to harmonize recurrent and development spending and government



spending is more clearly related to service delivery and results. Moreover, annual budget documentation, in-year budget execution reports and year-end financial statements are available to the public on the MOF website.

The Project Monitoring and Evaluation System (PMES) has been developed by the Planning Commission with the objective to ensure better management of projects and online availability of data. The PMES is designed to support not only analysis of financial and other resource allocations and utilization but also to facilitate future planning.

#### ● **External Scrutiny and Auditing**

On the auditing side, Audit Command Language (ACL) software has been adopted which has increased the capability of auditors to analyze 100% of large volumes of financial and operational data. The software enables auditors to verify the integrity of data and facilitate to check compliance with applicable rules and regulations through its analysis within possible time. Moreover, ACL is also being used to select statistical samples from large populations of data. Audit Management Information System (AMIS) is being introduced to enable more effective top-down planning, monitoring and control while at the same time improving process efficiency and providing field audit teams with access to comprehensive data and the ability to work in an environment with latest audit tools, approaches and techniques.

#### ● **Resource Mobilization**

On the revenue collection side, the Government of Pakistan launched Tax Administration Reforms Project (TARP) under Federal Board of Revenue (FBR) in January, 2005 in collaboration with World Bank and Department for International Development (DFID). Various tax reforms were undertaken by FBR under TARP which also included increased use of information technology to promote self assessment and prudent audit selection. The purpose of the project was to bring transparency, privacy and accountability in tax administration processes. Integrated Tax Management System (ITMS) and One Customs information systems were developed to implement TARP reforms in direct / indirect taxes and customs duty collection. The taxpayers can apply online for National Tax Number (NTN) and sales tax registration number and check the status of application. They can e-file the income tax and customs duty returns. Tax calculators are available

on website to calculate taxes in a transparent manner. The tax payers can check the status of tax refund claims and rebates from the FBR website. Moreover, all Statutory Regulatory Orders, assessment advices and relevant notifications are published on the website to ensure transparency.

#### ● **E-Government Initiative**

In October 2002 the Electronic Government Directorate (EGD) was established with a vision of achieving an efficient and responsive public sector in Pakistan to bring in transparency in government processes. E-Government is being employed to be an enabler towards accelerating processes, delivering a higher level of service to citizens and businesses, increasing transparency and accountability while lowering costs. The E-Government initiative is expected to be a significant opportunity to move forward with qualitative, cost effective government services and a better relationship between citizens and government. The E-Government is being implemented presently at the federal level with a plan to be replicated at the provincial and district levels. Some of the completed projects are:

- Online Processing of Hajj Applications and Status Tracking for Arrangements
- E-Enablement of Senate and National Assembly of Pakistan
- Online Access to Statutory Case Laws at District Bar Associations
- E-Enablement of Press Clubs
- E-Service for Submission of Documents at Securities & Exchange Commission of Pakistan

#### ● **Public Procurements**

Public procurements have become a specialized undertaking in recent times. There is a strong relationship between transparent public procurements and economic development. Like other developing countries Pakistan is also striving to strengthen its public procurement systems. The Public Procurement Regulatory Authority was established in year 2002 and the regulatory framework for all public procurements has been put in place. It is now mandatory to disclose all procurements above 5 million rupees on the PPRA website.

#### **Challenges for Ensuring Transparency and Accountability**

Significant progress has been made but there

remain certain areas where further improvement is needed to enhance transparency and accountability. Some of these are:

- **Non Reflection of Major areas in the Government Financial Management Information System:** In Pakistan, the IFMIS is largely used by the accounting offices for transaction processing and financial reporting where the results are encouraging with reduced time for transaction processing and financial reporting. Finance Ministries at the national and sub-national level are also using the MIS for budgeting. However, still financial data pertaining to many major areas such as defense, many of the self-accounting entities, autonomous bodies and donor funded projects etc. is not covered by the newly implemented systems. In case of other line ministries and departments, the benefits of these systems have not yet been obtained to a larger extent in areas such as budgeting, expenditure tracking, monitoring etc. This state of incomplete information is a major challenge towards obtaining the objectives of transparency and accountability from these systems.
- **Completeness of Systems Implementation:** An integrated financial management information system is more than an accounting system configured to support budget formulations, management of resources and preparation of financial reports and statements. The integration means communication with other systems such as human resources, payroll, revenue (tax and customs) etc. In Pakistan, the information systems developed for fiscal planning, tax administration, accounting and reporting are not integrated with each other. For example, the interfaces of SAP R/3 with State Bank of Pakistan / National Bank of Pakistan for reconciliation purpose are not effectively developed and used. Secondly, even within these systems, some of the important functionalities have not yet been configured.
- **Transparency of Taxpayers Obligations:** Tax system is automated to a great extent. The tax payers are registered separately for income tax, sales tax and customs duty and issued different identification numbers. Linkages are needed to be developed among the databases in order to have a complete picture regarding payment of different taxes by the same taxpayer. Secondly, the progress regarding rolling the developed systems out to other sites is very slow. For example, the PaCCS has not yet been rolled out to the entire custom ports, throughout the country despite completion of Pilot Project in March, 2006. Thus the desired benefits have not yet been achieved.
- **Fiscal Forecasting:** Cash forecasting is used to estimate likely flows of payments and receipts, and the consequent impact on cash balances and issue of debt instruments. This functionality is a powerful facility for retrieving current and historical data from the accounting system allowing end-users to manipulate the data for forecasting and analysis purposes. An effective and operational system of cash-flow forecasting has not yet been developed. The financial management system has the capability to facilitate cash forecasting but this functionality has not yet been utilized.
- **Debt Management:** The main objective of public debt management is to ensure that the government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk. Debt Management and Financial Analysis System has been installed by the Economics Affairs Division (EAD) but the debt management practices need significant improvements. Presently, the debt figures maintained by AGPR, EAD and SBP are not reconciled. Therefore the challenge is to establish links within the four debt management units in the government (SBP, EAD, NSS and Budget Wing) in order to develop an updated electronic database of all components of debt.
- **Increasing Availability of Information to Public:** The financial information available in the information system is not readily accessible by the public or indeed by the parliament. External audit reports are not being published on the websites of the AGP or PAC.
- **Improving Auditing Processes:** Major improvements have been witnessed regarding reduction in finalization time of audit reports which would result in more effective accountability process. Secondly, the use of data analysis software (ACL) has enabled auditors to cover 100% of data and not just the sample. However, the critical success factor i.e. implementation of Audit Management Information System remains a challenge for the office of the Auditor General of Pakistan. The AMIS is expected to ensure faster, more efficient,

transparent audit execution, reporting and quality assurance processes.

- Change Management: Benefits are not delivered nor are goals achieved by technology alone. Benefit is only delivered when People change what they do or how they do it through revised processes. These three elements (People, Process and Technology) must be kept in balance to ensure success. The change management remains the most critical issue for the effective implementation of IT reforms in PFM. At the initial stages of the implementation of reforms, there was a strong resistance from the stakeholders across the board and consequentially the implementation process became very slow. This resistance to change resulted in problems like lack of ownership.
- Availability of Funding The organizations, where financial management information system has been implemented, have not still made the maintenance expenditure a part of regular budgets and resultantly these expenses are still being borne from the project funding.

Capacity Building of Employees & Retaining Technical Experts IT capability is closely associated with depth of understanding and skills. In Pakistan, although a large number of relevant staff from various organizations have been trained but due to the absence of effective utilization plan, many of these resources were not posted on relevant jobs. Resultantly, a large number of IT professionals are employed for maintaining the FMIS. These professionals are hired on market based salary for the projects as these expertises are not available within government departments. The government pay scales do not offer competitive salaries and retention of the professional staff after closure of the project is a key challenge for sustainability of MIS reforms.

### Conclusion

The purpose of introducing reforms in public financial management in Pakistan is not just to modernize budgeting, debt management, tax administration, accounting and auditing functions. In fact the real purpose of these reforms is to achieve a government wide integrated financial management system and bring efficiency, effectiveness, transparency and accountability in PFM processes. A high standard of service delivery is a fundamental part of the social contract between the government and the community. This improved service delivery is

strongly linked to good financial management practices which have benefited greatly from the IT interventions especially in improving the speed of response, efficiency, and accessibility of public services. However IT is a means to an end and not the end in itself. Secondly, IT should be applied in collaboration with the respective area experts and not in isolation to obtain sustainable results. Thirdly, IT cannot substitute for good management and internal controls.

Therefore, in Pakistan, although huge technological infrastructure has been developed but further improvements are required to strengthen systems wherein true transparency and accountability could be achieved. A strategic approach is needed on a long term basis to address issues such as coverage of financial information pertaining to major areas, completeness of systems implementation, enhancing transparency of taxpayers obligations, effective fiscal forecasting, vigilant debt management and improving auditing processes.

“ICT empowers, benefits and links people the world over, allows global citizens to express themselves and know and respect one another.

It also has immense potential for enabling economies to expand further, countries to enhance public welfare and promote stronger social cohesion and thus democracy to flourish.”

G8 Communiqué, Okinawa, 2000

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