

The First ASOSAI\_EUROSAI Joint Seminar on  
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accountability in public financial management”

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ensuring transparency and accountability

Country Paper by the SAI Pakistan on

**The importance of enhancing the quality of SAI  
Reports, and their impact on Parliament with  
reference to ensuring accountability and  
transparency**

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## **Country paper on “The importance of enhancing the quality of SAI Reports, and their impact on Parliament with reference to ensuring accountability and transparency” written by Asia Sherazi<sup>1</sup>**

### **Perspective**

#### *Parliamentary financial control*

In Parliamentary Democracies the broad scheme of financial management and control is generally spelt out in the respective Constitution and Acts of Parliament. It envisages, among other things, Parliament's approval of taxation and expenditure proposals of government and submission to Parliament of the annual accounts of government along with the Audit Report of the Supreme Audit Institution(SAI). Generally, Select Committees of Parliament undertake a detailed examination of the budget estimates, accounts and audit reports and make recommendations for appropriate action by the executive. Thus, although the executive takes the policy implementation initiatives on financial matters, it is accountable to the Parliament.

#### *Role of SAIs in accountability and transparency*

The nature of public financial management requires full public accountability which can be guaranteed only through an independent and external audit which in modern times is provided by the SAIs. In this, the SAIs functions essentially as an aid to administration in the overall public interest. Effective scrutiny by the legislature to ensure accountability and transparency needs comprehensive and competent external audits that are underpinned by international standards on auditing. Yet the auditing standards are not static, they are being revised and updated from time to time keeping in view the ever increasing demands of financial management.

**A strong demand for good public sector external auditing is necessary for the supreme audit institution to have any impact.** In case the Reports of the SAIs

- do not conform to the international auditing standards and best practices, or
- are not presented to the Parliament in time ,and
- do not meet the stakeholders’ requirements,

they do not serve as a tool for the Parliament to ensure accountability and transparency. Resultantly, their impact remains limited.

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In Pakistan the Supreme Audit Institution (SAI) is known as the Office of the Auditor General of Pakistan. The Auditor-General is appointed by the President under Article 168 of the Constitution. The mandate requires the organization of the Auditor General of Pakistan (AGP) to conduct annual audit of the accounts of the Federal Government's ministries, divisions, attached departments, subordinate offices, and autonomous/semi autonomous organizations and of the accounts of the Provincial departments, organizations and their subsidiaries. Audit of the accounts of District Governments has also been entrusted to the AGP under the Local Government Ordinance. Additionally, some Field Audit Offices (FAOs) conduct audit of foreign aided projects funded by the World Bank, Asian Development Bank, and other bilateral and multilateral donors. The enactment of 18<sup>th</sup> amendment in the Constitution of Pakistan has enhanced the powers of AGP and now the scope of his audit extends to every single entity and body where spending from national exchequer is involved.

As per his constitutional mandate, the AGP submits audit reports on the accounts of the Federation and Provinces to the President and Governors respectively. The President/ Governor cause them to be laid before the National/Provincial Assemblies, which in turn refer these reports to the respective Public Accounts Committees (PACs)

### **SAIs relationship with the Public Accounts Committees of the Parliament**

The public sector auditing function is an important element in the accountability cycle, which has four elements: a) the legislature, b) the executive, c) the Auditor General, and d) the Public Accounts Committee. The budget proposal is prepared by the executive and is submitted to the legislature for approval. After approval of the budget, the executive is responsible for its implementation and accounting. The SAI is required to audit the accounts and report back to the legislature through the PAC. The PAC comprises selected members of Parliament. This committee examines the SAI Report and requests the executive departments involved to explain any omissions or other irregularities. After listening to their explanations, the PAC makes recommendations to the legislature for the future. This element completes the accountability cycle. Historically, the record of parliamentary review of the AGP Reports through the PAC has been weak both in timeliness (with over 15 years of review back-log) and quality. Currently the PAC is quite active and task oriented. Its spirit and pace of work as an institution by which the Parliament exercises its role in oversight of public finance is encouraging. The present PAC is the 13th Public Accounts Committee of Pakistan and for the very first time in the history of Pakistan, the present Government of Pakistan has given the Chairmanship of the PAC to the leader of the opposition for maintaining transparency in the financial accountability of the Federal Ministries/Divisions/Departments.

## **Organization of the Paper**

This country paper focuses on measures and interventions undertaken by the SAI Pakistan in increasing the impact of public auditing in terms of enhanced accountability and transparency in governmental operations. The Paper has outlined the accountability paradigm in Pakistan in the preceding paragraphs with a view to creating a perspective to discuss the initiatives taken by the SAI Pakistan to enhance the quality of the audit output. Primary measures in this regard highlighted in this paper include the following:

- Project to improve financial reporting and auditing
- Financial Audit Manual and guidelines
- Quality Management Framework
- Code of ethics

The SAI Pakistan's initiatives to improve the quality of its audit processes and product have resulted in bringing about tangible improvement in governments' financial management and performance. The last part of this paper quantifies the impact of quality improvement measures on the outcome of public operations and suggests a way forward.

## **Initiatives taken by the SAI Pakistan for enhancing the quality of Audit Reports**

The following paragraphs of this country paper briefly introduce the measures taken by the SAI Pakistan in the recent past to align its processes, procedures, and output with the international best practices.

### ***Project to improve financial reporting and auditing (PIFRA)***

To address the shortcomings of the financial reporting system and to ensure good governance, the Government of Pakistan sponsored a country-wide project. The International Monetary Fund (IMF) carried out a survey on Government Accounting in early 1990s, followed by a diagnostic study sponsored by the World Bank. As a result PIFRA was introduced by the Auditor General of Pakistan in 1994.

The audit component of PIFRA facilitated Department of Auditor-General of Pakistan to modernize its auditing processes and to bring them at par with International best practices. Its focus was on audit systems improvement and systems development. Under this component:

- Financial Audit Manual based on international best practices, was prepared and implemented
- A risk based audit methodology was introduced at all the three tiers of government
- Certification audit cycle was reduced from 22 to 8 months
- Audit Command Language (ACL) was introduced in field audit offices where computerized data was available, and
- The AGP staff had been equipped with modern working accessories

### ***Financial Audit Manual & Sectoral Guidelines***

The Financial Audit Manual (FAM) was commissioned in June 2006 by the Auditor-General of Pakistan for use in Field Audit Offices for conducting Certification and Compliance with Authority audits. The Manual is based on the INTOSAI Auditing Standards and the international best practices. Accompanied by the Sectoral Guidelines, it covers the entire Audit Cycle and provides guidance with regard to the methods and approaches to audit that can be applied by auditors for conducting the audit of government entities in Pakistan.<sup>2</sup>

### ***Quality Management Framework (QMF)***

For a long period of time, the AGP's organization worked with a central Quality Assurance Committee for ensuring the quality of the final audit output. The committee used to review the final Reports produced by various Field Audit Offices before their approval by the AGP. Subsequently, it was realized that *“the quality of an end-product cannot be ensured unless quality assurance procedures are diligently followed at all stages during a process”*.<sup>3</sup>

Learning from the history of quality assurance in the SAI Pakistan, a comprehensive Quality Management Framework (QMF) for Public Sector Auditing was launched in 2010. The QMF is a manifestation of the SAI Pakistan's resolve to manage quality in all types of audits falling in its mandate. This Framework draws on ISSAI 40, which is an adaptation of the International Standard on Quality Control (ISQC 1)<sup>4</sup>. The framework applies to the entire audit cycle of all audit assignments conducted by the Department of Auditor General of Pakistan (DAGP).

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<sup>2</sup> *Financial Audit Manual and Sectoral Guidelines*, by Office of the Auditor General of Pakistan, 2006

<sup>3</sup> *Quality Management Framework for Public Sector Auditing in Pakistan*, by Office of the Auditor General of Pakistan, 2010, pg 05

<sup>4</sup> *Ibid*, pg 07

The AGP has also introduced a standardized “Template for Audit Report” for the FAOs. Standardization of the audit products is expected to facilitate the stakeholders in identifying governance issues on a consistent basis across the governments.

The FAM, the Sectoral guidelines and the QMF have introduced changes and improvements in the audit processes with a view to enhancing the quality of Audit Reports. Some of them are as tabulated below:

<b>Sr. No.</b>	<b>Quality indicator</b>	<b>Procedure adopted</b>
1.	Significance of audit coverage	Under the FAM auditors are required to sufficiently plan their audits so that all significant issues could be addressed in the audit execution and reporting
2.	Reliability & Objectivity of audit	The revised procedures emphasize that audit must be fairly conducted and the results thereon, should reflect the actual conditions of the auditee organization
4.	Scope limitations	Scope of audit is required to be determined invariably in the planning phase, and any limitation on the scope of audit is to be reported
5.	Completeness of audit effort	The auditors are now required to ensure that all the components of audit as determined in the ‘scope’, have been properly considered and documented
6.	Timeliness of report	Observance of statutory deadlines, like certification of accounts, submission of audit reports etc. needs to be ensured
7.	Clarity for the stakeholders	Scope, findings and any recommendations should be readily understood by busy executives and parliamentarians
8.	Efficiency to avoid wastage of resources	Auditors are required to match the resources with significance and complexity of audit
9.	Effectiveness as the ultimate aim	Follow up procedures recommend vigorous efforts in compliance with all audit issues addressed in the audit

		reports
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### ***Code of ethics***

Ensuring accountability within the SAI is another important area for enhancing the quality of audit reports. Therefore Code of Ethics (COE) produces the very basis of effective quality management in audit process. The SAI Pakistan accordingly formalized the adoption of the COE in 2002. Efforts are consistently being made for embedding the code of ethics in the practices of the SAI Pakistan. COE Plan is being devised which proposes steps to ensure adherence to the following areas;

- Integrity
- Independence
- Objectivity and Impartiality
- Professional Secrecy & Non-disclosure
- Competence

The envisaged outcomes of this plan would be widespread awareness of COE among the staff of DAGP and its strict implementation as all the Heads of Offices will obtain declarations/certificates from their staff before and after audit execution, ensure proper training of staff and make reward system more performance focused. The plan also provides for monitoring strategy and the way to combat challenges.<sup>5</sup> All these efforts are focused to ensure that audit is conducted in a professional manner and in line with best practices prevalent across the world.

### **Impact of the SAI Reports**

The measures to improve the quality of audit taken by the SAI Pakistan discussed in the preceding paragraphs of the paper involved a lot of material and human resources. Gratefully, these initiatives have created a significant impact on the parliamentary oversight of the government departments. The impact of the improved auditing practices has been witnessed both in the monetary terms, as well as in the improvement of systems.

During the audit year 2010-11, the FAOs working under the supervision and control of various audit wings of the AGP, carried out the audit of 8746 offices of the Federal, Provincial and District Governments. The audited outlays totaled up to Rs.15.278 trillion representing revenue

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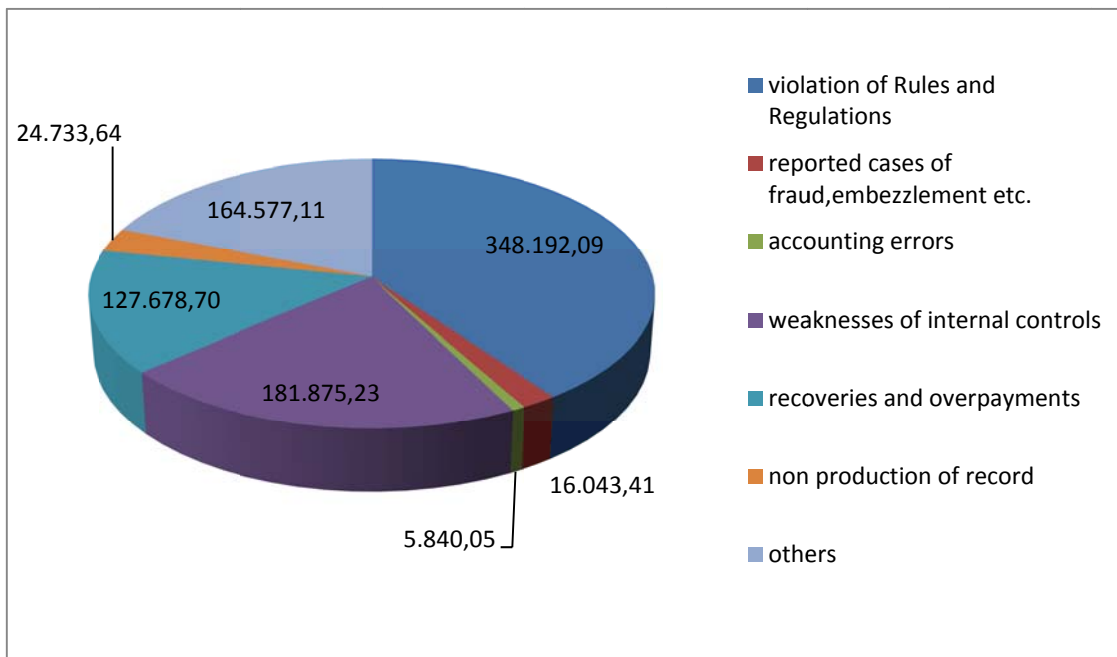
<sup>5</sup> *Embedding the code of ethics in the practices of SAI Pakistan*, A draft report by Human Resource Management Wing, OAGP, 2011



receipts, disbursements and expenditures. Out of this, an amount of Rs.868, 940.234 million was placed under audit objection.<sup>6</sup>

The detailed breakup of the amounts placed under audit observations are given in the chart below:

Rs.in million



The above figures show volume of business undertaken by the Organization of AGP. The monetary impact of the operations of the SAI Pakistan can be gauged from the fact that with an annual expenditure of Rs.1.59 billion (2009-2010), the SAI Pakistan has effected recovery of Rs. 69.62 billion (July 2010-May 2011).<sup>7</sup> This indicates a benefit-cost ratio of approximately; 44:1. The following table highlights the impact of the audit of governmental operations by the SAI Pakistan:

<sup>6</sup> Draft Annual Report 2010, by Office of the Auditor General of Pakistan, pg16,17

<sup>7</sup> Ibid, pg18

Rs.in million

Sr. No.	Wing	Total amount Audited	Amount placed under audit observations	Recovery made at the instance of audit
1)	Federal Audit	534,700.47	27,064.45	1,195.69
2)	Corporate Audit	4,087,080.34	220,798.43	9,193.96
3)	Provincial Audit	828,497.15	18,3602.26	2,527.66
4)	District Audit	186,107.57	103,830.33	870.87
5)	Defense Services Audit	126,648.19	56,452.28	397.85
6)	Revenue Receipts Audit	9,515,157.61	277,192.50	55,434.14
	<b>Total</b>	15,278,191.33	868,940.25	69,620.71

Regarding the improvements in the systems, the enhanced quality of the SAI's audit reports identify weaknesses of systems, procedures and laws. The SAI Pakistan's audit reports have been able to bring about many changes in legislation also. Data for one year i-e 2010-2011 is summarized below:

Sr.No	Audit sectors	Systemic improvements
1	Foreign Affairs	The Ministry of Foreign Affairs revised the rules regarding utilization of Pakistan Community Welfare & Education Fund (PCW&EF) and Fund for improvement of Government Owned Buildings (FIGOB)
2	Federal Government	The Ministry of Law, Justice and parliamentary affairs is working on amending the Legal Practitioners and Bar Councils Act for more transparent disbursement of grants to the Bar by the Federal and Provincial Governments Rules are being framed to regulate regimental funds of the

		Civil Armed Forces
3	Works	Provincial Engineering Departments have adopted Public Procurement Regulatory Authority (PPRA) Rules and the practice of first sanctioning technical estimates before start of procurement activity. Civil Aviation Authority (CAA) and Pakistan Rangers have adopted the PPRA Rules. CAA is formulating Standard Operating Procedures to streamline its posting/transfer procedures
5	Public Sector Enterprises	The practice of salary advances made in the Pakistan Housing Authority contrary to the government policy has been stopped. Sui Northern Gas Pipelines Limited (SNGL) stopped paying motivational incentives not admissible under rules. Further, the SNGL is amending its Project Manual to recognize revenues from disposal of falling trees
6	Telecom	Service Rules of Telecom Sector including pay packages have been formulated for government telecom entities. Further, these entities have adopted PPRA Rules
7	Postal	Post masters are required to use Imprest Fund rather than drawing cash on paper chits. Similarly, incentives and allowances offered in isolation by the Pakistan Post Office Department have been rationalized
8	Revenue Receipts	Federal Board of Revenue issued Statutory Regulatory Order restricting the sale of filter rods for cigarettes to registered persons only in order to plug evasion of federal excise duty and sales tax on cigarettes

**Note:** This information is based on Audit Reports for the Audit Year 2010-11. In addition to these, there had been many significant minor changes in the systems, procedures, ,which have not been presented here.

## Way forward

Public audits should identify public concerns, and corresponding audit reports should address those concerns promptly. Guidance, standards, and methodologies should be developed to ensure that the SAI provides adequate and credible reporting. It is understood that for the continued success of audit efforts in Pakistan, as elsewhere, there would be a need to be alert to the challenges of incorporating the cutting edge practices into the day to day work of the SAI. Some of these challenges are highlighted here.

The INTOSAI Code of Ethics has been adopted by the Auditor General of Pakistan and should be followed by staff doing audits and maintaining accounts. The code of ethics should be made

a part of staff contracts upon acceptance of a job, or separately signed by the employees as a legally enforceable document.

Accountability in the Supreme Audit Institution is also extremely important. The Inspection, Regulation, Vigilance, and Monitoring of the Training Wing are independent branches of the Office of the Auditor General of Pakistan. This function is a kind of internal audit within the Office of the Auditor General that conducts inspections of all activities, including field audit offices.

Under PIFRA, a comprehensive plan was developed to initiate the internal audit function in the government agencies for which a center of excellence is envisaged. More efforts should be made to enable an effective internal audit function.

The legislative scrutiny is not supported by public scrutiny due to un-disseminated audit. Necessary dissemination arrangements for the audit reports should be clearly laid down in the legislation.

Improved processes of the Public Accounts Committee and departmental administrations are needed for following up audit reports.

The SAI Pakistan is undertaking enormous audit activity each year. Along with that it is also putting in all out efforts to generate quality audit reports in order to play its vital role in Public Financial Management. Yet to create its rightful impact, more needs to be done. This includes immediate consolidation of improvements that have been put in place and constant and stable liaison with the Parliament. **An effective channel of communication between the civil society and the accountability institutions, like the SAIs and the Public Accounts committees, is the need of the hour for Audit to play its envisaged role for impacting the public service delivery.**