

CHALLENGES OF SUPREME AUDIT INSTITUTES ON ENSURING THE TRANSPARENCY AND ACCOUNTABILITY FOR THE MANAGEMENT OF PUBLIC EXPENDITURE

by

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Along with the trend of global and regional economic integration, public expenditure is increasingly playing an important role in the implementation of macro-regulation of the State; needs and expectations of the people on the transparency and accountability of the Government have increased; the innovative trend of output based administrative management method has continuously developed. To better promote the important role in managing and improving the effectiveness of public expenditure, the Supreme Audit Institutes (SAI), depending on economic, political and social institution characteristics, law system and specific conditions of each country has given appropriate measures to implement.

1. Public Expenditure Trend

Since the economic development of each country, functions and duties of the State to make have been rapidly increasing. Therefore, the State's public expenditure tends to rise continuously, quickly and strongly. However, the increase in public expenditure will vary among countries depending on the socio-economic structure, level of state intervention and socialization level of risk. And in Vietnam, public expenditure follows the same trend.

2. Risks in Public Expenditure Management

In public expenditure management, there are two principal ways: management by the cost of inputs and by the outcomes. Management by the cost of inputs focuses on tightly controlling the cost of inputs following the standards, norms and regulations of the State. Management by the outcomes is to link the budget amount allocated to the outcomes generated; or in other word an increase in expenditure leads to an increase in the outcomes. Management by outcomes enables controlling and evaluating expenditure properly as well as the performance of government agencies based on the objectives and assessment criteria identified in the activity plan and budget. In public expenditure, it is required to identify, analyze and evaluate the risks encountered. Risks in public expenditure management are the economic consequences of increased public expenditure that can be caused in two ways: hinders for the development of the economy and the uncertainty to achieve the objectives. The increase in public expenditure, no mechanism for tight cost control and no competition may

encourage the allocation of resources in a less effective way, which leads to a risk of hindering a more beneficial use of existing resources and hinder for the development of the economy, not to achieve the objectives. On the other hand, increased public expenditure requires an offset source, which may lead to new increased borrowings or collections (taxes) that affects the savings of households and the cumulatives of enterprises, reduces the investment capability of the private sector.

3. The role and challenges of SAV in enhancing the transparency and accountability in public expenditure management

To minimize the risk in public expenditure, to meet the increasing financial needs for the socio-economic growth, to create conditions for economic growth and ensure the social security, to maintain the revenue-expenditure balance, basic requirements of public expenditure management are: transparency, analysis accountability, socio-economic efficiency and the supervision of the people.

The financial transparency has an important position in the public expenditure management; it enhances the people's accountability for the use of Government's financial resources and the quality of financial management; it facilitates the supervision of the Government, National Assembly, social organizations and the people on the allocation and expenditure of public resources of the country, and the improvement of public expenditure management.

The accountability requires an effective oversight, not only from State agencies but also from the public - the taxpayers. The transparency and accountability, budgeting & finalization requirement, and budget audit results must be publicized in time. As the highest-level public finance monitoring agency, SAV plays a very important role in solving these issues.

In developed countries, SAI has a development history for hundreds of years, the experience of those countries confirmed the presence and activities of SAI being a useful tool in establishing and maintaining financial disciplines, following the State Budget Law, detecting and preventing acts of corruption, abuse, over-consumption of resources of the State and the people. The SAI actually becomes a vital component in the inspection and control system of the State; its effects have been widely recognized by the society and it cannot be replaced by any other authorities in terms of enhancing the control, using rationally and effectively public financial resources. The SAI is confirmed as a crucial tool of the power system of a modern society.

In Vietnam, the State Audit Office was established in 1994. It has conducted hundreds of large and small audits across all sectors. Results of the audit found out a lot of violations, violations of policy, economic management, from which the recommendations to increase revenues, reduce costs and back to

the state budget upto several trillion have been given. But the more important thing is the audit report provides the information in a timely, reliable and convincing way to the National Assembly, Government, judicial authority and other agencies of the State for their uses in fullfiling their function; the State Audit has confirmed the role and position in the financial control and inspection agencies system of the State, and the conformity in the administrative reform and the international economic integration in Vietnam today. For the fact of the public finance management, the use of public financial resources in an economical, rational and effective way is one of the fundamental goals of operational activities and management of the State agencies. Also, to meet the requirements to ensure the economic efficiency, and the effectiveness of the economy in the international integration process, the “publicity and transparency” are required to perform, thus the financial information must be audited before the publicity for other countries as well as the residents. Therefore, the challenges for the State Audit in the management of public expenditure are expressed in the following basic aspects:

Firstly, as an institution, the State Audit is an important tool to help the State effectively manage and administrate its budgets, money and assets. The State Audit not only contributes to the close management of expenses to limit the losses, but also better use the people’s taxes to avoid waste and improve the quality, transparency and sustainability of the national finance. Therefore, the task of the State Audit becomes more severe in the warning, prevention risks in public expenditure management of the Government. This is a requirement set for the State Audit to expand the audit scope and quality to strictly manage the expenses. Initially, the capacity of the State Audit is limited, so the top priority is to choose appropriate audit subject, focus on materiality, meet the requirements of public expenditure management, and then to expand the size of the audit, because if the size of the audit is small, it will affect the representativeness of the findings, quality of conclusions and audit recommendations. So the challenge now for the State Audit is to choose a scope, the annual audit subject and the medium-term plan.

Secondly, the State Audit as the role of supporting the management and control of public expenditure by the cost of inputs and the outcomes is an important tool for coordinating, coherencing fiscal and monetary policies, limiting the adverse interaction of the two policies. In terms of management of public expenditure by the cost of inputs like in Vietnam now as well as in most developing countries, the State Audit inspects, considers ways to budgeting, the compliance with norms, standards and regulations. As the economy develops in-depth, the management model by the outcomes, budgeting by medium-term expenditure framework, in addition to audit the compliance with laws, standards, and norms, the State Audit conduct the performance audits to analyze and evaluate the socio-economic effectiveness in the use of public resources,

especially for investment projects, the national target programs aim at giving reliable, appropriate, and prompt information to better meet requirements of the management and administration of finance - the State's budget and the administration in public-sector.

To meet this requirement, the State Audit needs to analyze and evaluate policies (especially fiscal policy and monetary policy), analyze and forecast the economy and finance to help the Government get further information during the process of policy building and decision, which sets out a synchronizational, comprehensive and efficient solution package; improve quality; check, analyze and evaluate the state budgets to help the National Assembly have reliable, independent and objective information sources to determine the state budgets and the central budget allocation. At the same time, the State Audit needs to give a warning, the sustainable assessment of economic groups, State-owned Enterprises, banks and financial institutions; help the units overcome these limitations in order to successfully implement sustainable development goals. So the State Audit needs to be sensitive to changes, fluctuations and trends of the economy to have timely information to assist the Government and the administrators. This requires the team of auditors to have an extensive knowledge in all fields, especially the ability to analyze, synthesize and evaluate the macro-economic policy. Therefore, the challenge for the State Audit is to build and develop human resources.

Thirdly, the State Audit contributes to the prevention of risks and errors, the improvement of efficiency in public expenditure when auditing public expenditure items through pre-audit and post-audit. The pre-audit is to prevent the damage even before it occurs, to avoid wasting resources; the post-audit is to specify the responsibilities of reporting agencies which may lead to a compensation for loss occurred, and is a suitable job is to prevent relapse later. In addition, the State Audit also considers and evaluates legislation documents, standards system, norms and the expenditure regime on inadequate issues, legal risks ... to contribute to the improvement of the legal system, management policy, budget allocation system, norms, standards and expenditure regimes; and also to be a basis for the management bodies to outline appropriate management practices to improve the effectiveness and efficiency of the management and the control of public expenditure. Therefore, it is required that State Auditors have expertise, ethics, independence and objectiveness when performing the tasks, so that they can fully outline violations, especially in the increasing trend of public expenditure now when violations are unavoidable. While the auditing activity is a sensitive area, auditors often face the temptation or bribery from auditee units. As a result, the audit risk and ethics of auditors are always a challenge to the State Audit.

Forthly, together with auditing public expenditure, auditing public debts also helps the Government get a comprehensive picture of Government's revenues, expenses and debts, especially contingency debts, which hereby limits the risks of provisions. Auditing confirms the debt figures, evaluate the sustainability of Government's debt payment possibility compared to GDP, in relation to securing the national finance, debt structure, the foreign - borrowing rate out of total debts, debt management mechanism, use of debts (especially foreign debts), and the transparency and fullness of debts ... in order to assist the Government get practical data on the national debt status then to propose overall solutions for ensuring the overall sustainability of the state budget.

Fifthly, the publicity of the audit results helps communicate and disseminate the management knowledge and experience; provide information affecting the society and businesses so that they are more aware of and pay more attention to the prevention and limitation of the damage caused by the waste of resources. In addition to the above values, the audit results also has a strong impact on creating widespread public opinions and encouraging the people to involve in the inspection and monitoring process of economic and financial activities; contributing to the fight against corruption and wastefulness in public finance use and management. However, when the audit results publicized places a huge pressure on the State Audit. It is required that audit results reflect the accuracy, truth, and objectiveness; the audit conclusions and recommendations must have a clear, specific and feasible argument. Thereby, enhancing the audit quality is the core issue in the audit activities of the State Audit.

Sixthly, through the implementation of the compliance audit, performance audit and other forms of audit, the State Audit will help the Government relieve its responsibility prior to the National Assembly and the people on aspects of: (i) Assess the development and implementation of operation policies and program of the Government; (ii) Audit the operations of the Government agencies to evaluate the economy, effectiveness, and efficiency of public expenditure and the use of state property, (iii) Investigate frauds and errors, actively contribute to the corruption combat ; prevent the misuse of public funds and national property, (iv) Advise the auditee units in the financial and accounting operation and management.

Responding to the above challenges, along with the needs and expectations of the people of the transparency and accountability from the Government have increased, the State Audit is required to: (i) Step-by-step implement its operation audit function, better pay attention to the deep thematic audit and early implement the pre-audit when the economy is developing in depth and manage by public expenditure is transferred to by the outcomes. At the same time, the State Audit needs to reach the economic responsibility audit for leaders and heads of

economic units, (ii) Improve the operation capacity and quality, develop an audit team with ethics, knowledge and skills in line with the professional requirements, improve audit processes and standards; regularly train auditors; recruit officers with professional qualifications, and have appropriate treatment policies in order to attract talents and retain qualified personnels as well as reduce the brain drain; (iii) further inspect and control the audit quality for each audit and each auditor ... to best promote the role in managing and improving the effectiveness of public expenditure; (iv) Strengthen and improve the coordination among the State Audit and the National Assembly, Government, Ministries, Localities and auditee units, help the State Audit increasingly succeed, improve the audit quality, effectiveness and efficiency and meet the requirements of public finance supervision and socio-economic decisions; (v) Apply new audit methods, involve in transnational audits; enhancing the extensive application of advanced, modern and computerized techniques in audit; comply with the development and integration trend in order to provide reliable, appropriate and timely information as well as better meet the requirements of finance-budget management and administration of the State./.