



Institute of Governance Studies

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OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL: POLICY NOTE

The performance of the Office of the Comptroller and Auditor General (OCAG) is pivotal in promoting accountability in managing public resources as well as containing the fiscal deficit at a sustainable level. Both are goals articulated by the Government of Bangladesh in its National Strategy for Accelerated Poverty Reduction (GOB, 2008). By auditing government income and expenditure, the OCAG identifies violations of the law and the standards of ethics, and deviations from the principles of efficiency and effectiveness in public resource management. While a significant amount of the public money is saved from misappropriation each year due to the role played by the OCAG, rampant public sector corruption and inefficiency in Bangladesh indicate the need for further strengthening of the Comptroller and Auditor General (CAG)'s audit functions to act as an effective deterrent. In the last few years the OCAG has already undertaken a number of commendable initiatives to make its role stronger in ensuring stewardship of public money. In order to support these initiatives, the Institute of Governance Studies (IGS) has developed 20 policy recommendations in a participatory manner¹. During formulation of this policy note, priority has been given to reform options which are causally linked to result-based performance as well as practicable in the given context. The policy recommendations cover four thematic areas:

Theme 1- Independence: The OCAG and its individual auditors should remain free from any kind of pressure or influence from the executive, audited entity and other outside interest groups in all matters relating to its auditing function.

Theme 2- Accountability: The OCAG should be accountable for its actions and obligations by external and internal means. External accountability

is to the Parliament, taxpayers and citizens more generally. Internal accountability may require the strict enforcement of its own code of conduct, supervision and other techniques of internal control.

Theme 3- Efficiency: The OCAG, especially its human resources, structure and management should be competent enough for conducting audit related activities in a cost-effective manner.

Theme 4- Effectiveness: The OCAG should meet its mandate² and mission³ by producing standard and timely audit reports and facilitating appropriate actions being taken on report findings and recommendations.

1. INDEPENDENCE

1.1 *The Nature and Content of an Enabling Act for Functional Autonomy*

No enabling law exists at present, describing the authority of the OCAG in relation to other government agencies.⁴ The OCAG enjoys limited functional

¹ IGS organised an international workshop on 7 January 2009 to facilitate a deliberative process to formulate policy recommendations. This Policy Note is based on the workshop discussions, literature review and an empirical study conducted in the preparation for the workshop as well as consultations with the OCAG itself.

² Article 128 of the Constitution of Bangladesh specifies the mandate to audit and report on the public accounts of the Republic and of all courts of law and all authorities and offices of the Government.

³ Annual Report, 2007 of the OCAG stipulates the mission as 'conducting effective audit and evaluating public sector operations to provide reliable and objective information for ensuring honest, efficient and cost-effective governance'.

⁴ The Comptroller and Auditor General (Additional Functions) Act, 1974 and its amendment in 1983 deal with audit jurisdiction of the Office.

autonomy contrary to its constitutional status. It depends on the Ministry of Finance (MoF) and the Ministry of Establishment (MoE) for managerial issues relating to personnel management, reorganisation and finance. The Finance Division controls the Audit and Accounts cadre, an arrangement which deters the OCAG from taking effective administrative decisions.

Policy Recommendation: Parliament may enact an enabling Act for the OCAG, providing it with necessary functional autonomy in personnel management.

The Act should confer the CAG with the authority to recruit and reward officials according to the need of the Office, but excluding the jurisdiction of the Public Service Commission⁵ (PSC). The government will have to enact service rules for the officials of the OCAG including their recruitment, promotion, discipline, etc. in concurrence with the CAG. The rules may provide that the CAG will apprise MoF and MoE, but will not need to seek their approval about personnel matters, except matters relating to major structural and legal reforms. Concerning career management of class I (cadre and non-cadre) officers working in the Office, the CAG might be entrusted with the authority to manage their careers up to a certain level (e.g. grade V or IV of the National Pay Scale). However, legal problems might arise to confer such autonomy to the OCAG as long as it (except for the CAG) remains a part of the civil service, which requires observance of civil service rules and practices. A probable solution is to make the OCAG an independent statutory body.

In terms of finance, the Constitution states (Article 88) that the remuneration of the CAG, the salary of his/her employees and administrative expenses of his/her office are charged under the Consolidated Fund, which can be discussed in the Parliament but not subject to vote therein. This provision theoretically provides significant financial independence to the OCAG. In practice, the budget proposal of the OCAG is treated like that of other government agencies⁶ during approval. The Finance Division exercises budgetary control on the expenditure of the OCAG in order to maintain financial discipline. Once approved, the CAG has only the authority to re-appropriate budget between units of expenditure other than earmarked items in the Appropriation Act. Financial independence and accountability will be improved if the Office plans its targeted performance and activities in advance according to its constitutional mandate and prepare the budget proposal accordingly. Each proposed expenditure in the budget should be clearly linked

to the targeted activities and performance. This will help justify the budget proposal and enhance financial accountability of the Office without the intervention of the Finance Division. On receiving the proposal during budget preparation, the Finance Division may comment on it instead of altering it. A special parliamentary committee may discuss the proposal along with the comments made by the Finance Division. Once approved in the Parliament through the Appropriation Act, the CAG should have the autonomy to disburse the allocation according to the approved budget.

Policy Recommendation: The enabling Act should provide necessary financial autonomy to the CAG subject to proper justification of the budget proposal.

1.2 Appointment and Status of the CAG

While Article 127 of the Constitution provides the President of the Republic with the authority to appoint the CAG, Article 48(3) compels the President to act on the advice of the Prime Minister in relation to this appointment. Moreover, no law at present exists to either stipulate any appointment process or eligibility criteria that candidates must meet. The absence of a transparent process and objective criteria for appointment provides considerable room for politicisation, a significant concern in Bangladesh, where there is a history of public institutions being politicised. Hitherto, the seniority principle has been followed in appointing the CAG except for a few cases. The first eight CAGs were appointed from among officers of the Audit and Accounts cadre, who had left the OCAG to join the Ministry of Establishment at Deputy Secretary level. The ninth and the tenth CAGs were appointed from within the OCAG. These two trends might spur a competition between senior-most officers of the said cadre working within and outside the OCAG. Such competition might result in further politicisation. Moreover, seniority alone cannot ensure the best possible selection since top management positions like the CAG require proactive leadership and superior management skills on top of professional knowledge and experience.

⁵ Article 140(2) of the Constitution has required the President consult with the PSC on matters relating to qualifications and methods of the recruitment; principles to be followed in making appointments, promotions and transfers; matters affecting the terms and conditions of the service; and the discipline of the service.

⁶ The Rules of Business authorises the Finance Division to regulate appropriation, re-appropriation and disbursement of expenditure of all government agencies in order to ensure financial discipline.

Policy Recommendation: A transparent and clearly laid down process of appointment of the CAG, as well as eligibility criteria for this appointment should be introduced through legislation.

As the post is technical in nature, prospective candidates should have considerable experience in government accounting and auditing functions. For ensuring leadership and management capacity, candidates should be Grade I government officers or equivalent having considerable experience of serving in managerial positions within the government. Integrity of the prospective candidates can be assessed through examining whether they have any audit objection pending against them, have a criminal record, have suffered disciplinary punishment or have defaulted loans, utility bills or taxes, etc. A 'Supreme Audit Select Committee' can be formed to identify qualified candidates according to the set criteria for consideration of the President. The Speaker of the House, the Leader of the Opposition in the Parliament and the Chief Justice may comprise the committee to make it credible and non-partisan.

The status of the CAG as given in the Warrant of Precedence (15th position while the Cabinet Secretary holds the 12th position) is derogatory to the independent functioning of the Office. In India, the CAG is placed in the 9th position, which is higher than the Cabinet Secretary and the Members of Parliament. Proper status of the CAG is important to get access to all necessary documents and to accelerate the audit settlement process.

Policy Recommendation: The Government can revise the Warrant of Precedence to confer the CAG with the status that matches the authority and the dignity of the position.

1.3 Separation between Audit and Accounts

The fundamental logic for a separation between audit and accounts is that the organisation and persons responsible for keeping the accounts should not audit them. Within the OCAG as it exists today, this separation does not exist, as there is one Audit and Accounts cadre making it possible that the person responsible for keeping the accounts to, at a future date, be responsible for auditing them. Since July 2002, there has been partial separation, when the responsibility of keeping government accounts was entrusted with the Office of the Controller General of Accounts (OCGA), part of the Finance Division administratively. But the personnel have not been separated as officers of the Audit and Accounts

cadre serve both the OCAG and the OCGA. This partial separation has not, however, been applied in all cases, as the officials of the OCAG still continue to keep, prepare financial statements, and audit the accounts for the Railway and Defence services.

The OCAG claims that they are aware about possible conflict of interests and they avoid it by ensuring that the personnel who audit the accounts do not maintain them. For example, Civil Audit Directorate of the OCAG audits the OCGA and personnel in the OCGA are usually not placed in that Directorate and vice versa. They also argue that as the Office has a generalist recruitment system, officers can learn government accounting techniques by serving in accounts positions, which helps them to become better auditors at a later point; and second, integration of audit and accounts provides the CAG with some control over the pre-audit⁷.

However, partial separation as it exists today has led to three main problems. First, pre-audit, which was under the purview of the OCAG before separation and now placed under the OCGA, has been weakened⁸. Second, entrusting power of audit and accounts with the same cadre personnel weakens checks and balances in the financial control process. Third, the Office has to spend extra managerial resources for managing conflict of interests. The OCAG is of the opinion that it should have control over the pre-audit through keeping accounts personnel under its supervision so that financial irregularities can be prevented before payment takes place.

Policy Recommendation: The OCGA should be strengthened by awarding proper status and functional autonomy in a bid to strengthen pre-audit. Effective internal control system and internal audit should be in place in all auditees. Subject to fulfilment of these two conditions, audit should be completely separated from accounts within an agreed timeframe.⁹

⁷ Pre-audit takes place before the payment is made to ensure that the expenditure has been made following due process.

⁸ The Controller General of Accounts (CGA) who is entrusted with the pre-audit functions is an Additional Secretary level officer and works under the Finance Division. Therefore, s/he remains under immense pressure for passing bills.

⁹ The CAG Office disagrees over the separation of the Audit and Accounts cadre and opines that cadre separation will increase corruption and reduce career prospect of the Audit and Accounts cadre. It claims that conflict of interests exists in the functions of other cadres too.

2. ACCOUNTABILITY

2.1 Transparency

Transparency leads to accountability. If people have easy access to information about what the OCAG does, its rationale and approaches, they can evaluate the activities of the Office and support it for better results and question it when it performs below the mark. Unfortunately, the public is not aware of the activities of the OCAG, suggesting a large communication gap. The activities of the Office, its reports and other documents of public interest are not available in the public domain. Audit reports, which are laid before the Parliament, are not accessible to the public and are outdated. Section 4 of the Code of Ethics for Government Auditors issued by the CAG provides that the Audit Office can communicate audit reports to the public after their submission to the Parliament. But this provision is yet to be adhered to.

Policy Recommendation: The OCAG should upload complete audit reports on its website (and on the websites of the concerned auditees) and arrange a press conference to inform the public about important findings on the same day reports are presented to the Parliament.

The proposed enabling Act should clearly mention this responsibility of the CAG. The Office should also inform the public how to obtain its documents. The OCAG publishes an annual report and quarterly newsletters regularly highlighting its achievements and programmes. These rarely include critical analysis of its own performance. If the annual report presents a comparison between achievements of the current year and the previous year, it will help the public assess the performance. Further, the report should include achievement against the target set, analysis of reasons if the target is not met, current budget expenditure for each target, plan for the next year and subsequent budgetary allocation, and challenges that might hinder the achievement of the target.

Policy Recommendation: The annual report of the OCAG should be more transparent and candid through a critical analysis of different aspects of its performance, trend analysis of achievements, statement of income and expenditure and future challenges. Wider circulation of the annual report should be ensured.

According to the Right to Information Act 2009, the OCAG needs to segregate and index its information related to audit activities, administrative issues, financial and personnel matters in order to provide the public the demanded information in time. The Office can use its website and print media to circulate such reports. It will be better if the Public Accounts Committee (PAC) of the Parliament discusses annual reports and provides the Office with necessary recommendations.

2.2 Audit of the OCAG

As the OCAG facilitates financial accountability of other government agencies through an audit, the question arises as to who ensures the financial accountability of the OCAG. The Constitution authorises the CAG to audit public accounts. Therefore, there is no other authorised body to audit public accounts, which naturally puts a bar on an external audit of the OCAG. However, Parliament may enact a law allowing for an external audit of the OCAG in accordance with Articles 81 and 85 of the Constitution¹⁰. In the UK, Canada and Australia, designated parliamentary committee appoints an external audit firm and discusses the resulting audit report. Apart from an external audit firm, a peer review audit is a possibility - thus the OCAG, which is the Supreme Audit Institution (SAI) of Bangladesh, may be audited by a SAI of another country.

Policy Recommendation: Parliament may, by way of legislation, introduce an external audit of the OCAG¹¹. The OCAG can promote the idea of a peer review audit in the International Organisation of Supreme Audit Institutions and the Asian Organisation of Supreme Audit Institutions.

If a peer review audit is pursued, a reciprocal audit should be avoided, i.e. if the Indian CAG audits its Bangladeshi counterpart, the latter should audit SAIs other than that of India. Such peer review audit reports should be made public, and preferably be discussed in the Parliament. Peer review audits should concentrate more on internal control system audit and performance audit rather than on compliance and financial statement audit.

¹⁰ According to Articles 81 and 85 of the Constitution, Parliament has the authority to regulate public monies and enact laws relating to audit of government accounts.

¹¹ The OCAG disagreed on this issue. It is of the opinion that its accountability is ensured through internal control and PAC's review of audit reports.

3. EFFICIENCY

3.1 Human Resources

Undertaking an audit is a complex technical task that requires not only specialised knowledge, but also an analytical mind and sound professional judgment. Therefore, the OCAG requires a blend of professionally capable manpower from various academic disciplines to conduct a quality audit in a cost effective manner. At present, class III officials of the Office comprise 61.52% of the total manpower (OCAG, 2008), and form the main entry point for recruitment into the organisation. Class II employees comprise 14.16% of the manpower, and are mainly promoted from class III after passing the Subordinate Accounts Service Examination. Very few class I cadre officers are recruited each year. In the administrative culture of Bangladesh, class III employees are considered clerks, with a poor salary and low status, hardly a recipe to attract the best candidates. They have a mindset that is not resonant with a performance culture (World Bank, 2002). If the Office can attract better candidates, it will have better auditors with higher productivity at a lower training cost.

Policy Recommendation: The Office should reassess its manpower composition in terms of technical efficiency, training and compensation cost, effect on organisational culture and size of the organisation.

The Office may consider a reasonable reduction in class III posts through attrition¹² and increase class II posts instead. A significant ratio of class II posts should be directly recruited according to the needs of the Office. The newly established Human Resource Cell may undertake a baseline study for such reorganisation.

3.2 Better Utilisation of the Existing Human Resources

3.2.1 Training

The Office has no shortage of training programmes. Nevertheless there is room to extract better results out of current expenditure on training, through the formulation of a training policy and an action plan that will address the objectives of the OCAG's strategic plan and the professional needs of its officials. The Office can measure periodically the need for different skills at various levels of the organisation to achieve its strategic goals. The training policy should clearly lay down development of training for trainers and creating a pool of such trainers as well, and be revised periodically in accordance with changing needs.

Policy Recommendation: The Office should formulate a training policy after analysing skill needs at various levels of the organisation and considering the objectives of its strategic plan. Training policy should incorporate strategies for better utilisation of training.

Since training produces better results if linked to career planning, placement and promotion should be linked with training, with relevant training programmes functioning as a minimum qualification for appointment to various positions.

3.2.2 Use of Technology

The use of information technology (IT) can increase efficiency if the staffs have the appropriate skills to utilise new systems and programmes. The OCAG introduced a computerised audit tracking system known as Audit Monitoring System (AMS) to compile information about the follow-up of audit observations. In addition, the Office has recently decided to introduce CAAT (Computer Assisted Audit Technique) to enhance audit efficiency. However, the two systems lack IT capacity, both in terms of infrastructure and trained human resources. The strategic plan 2007-2012, has taken enhancement of IT capacity as a pillar.

Policy Recommendation: The OCAG should reassess the IT needs of the Office and formulate an IT capacity development plan.

3.3 Building Corporate Knowledge

Each year, a significant number of officials of the OCAG get overseas scholarships and training, which could be better used to benefit the Office. For instance, on their return, they could organise a workshop and submit a report, highlighting what they learnt and how they can be applied here. The Office can also store learning from unique cases, good practices, experience of deputed officials, and ground breaking research work. Audit trails of a particular auditee can be a vital generator of knowledge, which can be an efficient means of audit planning.

Policy Recommendation: The Office can invest in developing a corporate knowledge storehouse to utilise in its training programmes and to facilitate the audit planning process.

¹² Attrition is a manpower rationalisation technique that stops recruitment in a certain position and abolishes it when the official serving the position at present is promoted, leaving the position vacant.

4. EFFECTIVENESS

4.1 Quality of the Audit

The Office has introduced a number of measures over the years to enhance the quality of the audit. A Quality Assurance Committee has been established in each Directorate and a Central Quality Assurance Committee has been established in the CAG's Office. Quality checklists have also been issued. The Government Audit Standard prescribes a particular standard of quality at each stage of audit; unfortunately, these measures are not strictly adhered to. The main reasons identified are the lack of skill and awareness among the auditors, lack of supervision and limited resources invested for quality assurance.

Policy Recommendation: Auditors should be trained in different aspects of audit quality, and made familiar with tools and techniques to ensure such quality. Senior officials can be engaged in supervising high-risk entities.

In addition, the quality of audit observations should be considered during performance evaluation. Periodic discussions with concerned stakeholders can be arranged to get their feedback on audit quality.

4.2 Risk and Demand based Audit Planning

Risk and demand based audit planning can result in better and more efficient auditing. The Office follows a risk based audit approach whereby over 22000 audit entities have been categorised into A (20% of auditable entities audited each year), B (20% of auditable entities audited every three years) and C (the rest 60% of auditable entities audited every 5/7 years). Such categorisation is based on volume of transaction and budget allocation. Apart from these two, the nature of the activities of the auditee is a material aspect of audit. For example, a large spending auditee might spend the lion's share of its budget in salary payment, which is a low-risk area. On the other hand, a medium spending auditee might spend more in procurement, construction, transportation, and storage, which are high-risk areas. This process is not very systematic. It is, therefore, imperative for the Office to have a database on the revenue and expenditure trail of all auditable entities for risk-based planning. Auditees often complain that auditors hardly take account of the contextual needs of the audited body. To address this issue, the audit trail of each auditable entity has to be researched

and updated so that high-risk areas of transaction, internal control status, critical contextual factors and follow-up of audit objections can easily be identified.

Policy Recommendation: The Office should develop a database on each auditable entity for better risk-based audit planning.

The Office can periodically review the risk-based audit techniques that it follows in order to improve its techniques.

The internal control system of the auditee is a critical factor for assessing risk. A better internal control system reduces the cost of a test audit by reducing the number of verifications. The Office conducted an internal control system survey in 2000. Thereafter the government introduced an internal control system manual for government agencies. However, the Office has not audited the internal control system of auditees since then.

Policy Recommendation: The Office should resume conducting audits of the internal control system of some selected bodies each year.

Apart from the risk-based planning approach, the Office can introduce a demand based planning where the OCAG can audit some entities and projects which are of significant public interest in the current year. This will make the Office more responsive to the need of the society. To identify such issues, the CAG can form a committee under his/her leadership.

Policy Recommendation: The CAG can form an Audit Advisory Committee to advise the Office in identifying organisations and projects that are of significant public interest in the current year.

The committee may comprise of the former CAGs and bureaucrats, civil society members, representatives from Institute of Chartered Accountants, think tank organisations and NGOs.

4.3 Compliance and Cooperation by Auditee

The effectiveness of the audit to a great extent depends upon how the auditees cooperate with the auditors. Unfortunately, non-cooperation by the auditee takes many forms - for instance, they may not preserve documents in an audit-friendly manner. This would lead to inefficiency where more time is spent finding the documents than auditing them.

Policy Recommendation: The OCAG may recommend modes of documentation to government agencies. The proposed enabling Act should make such recommendations binding on the government.

Most of the time, auditees delay in responding to the queries of the OCAG. Usually the Office provides 45 days for responding after issuing the Local Inspection Report, although this appears to be more an administrative requirement than a legally binding one. That's why the 45 days timeline is not followed.

Policy Recommendation: The proposed enabling Act should provide that failure to respond against audit queries in bad faith would be considered as misconduct, subject to disciplinary action.

4.4 Enforcement and Follow-up of Audit Observations

The OCAG reports a large number of audit observations involving huge amounts of money each year. The Office also follows up recommendations of the Public Accounts Committee (PAC) made on audit observations but does not report findings of such follow-up to the PAC. Moreover, there are cases in which the auditee took more than 15 years to respond to the recommendations of the PAC (IGS, 2009).

Policy Recommendation: The proposed enabling Act should make the submission of follow-up audit reports to the PAC mandatory. At the same time, follow-up reports should be made public. A penalty against the Head of an audited entity can be introduced if s/he fails to implement the recommendations of the PAC in time.

4.5 Relationship between Auditors and Auditees

An audit should be considered as an aid to better management of the auditable entity. In practice, the relationship between the auditors and auditees is strained, due to a number of reasons: auditors' attitudes are grounded in "fault-finding"; there is a lack of understanding about financial rules and regulations among both auditors and auditees; and auditees have a poor understanding about the audit process. Interaction between the Finance Division, auditable entities and the OCAG is critical to developing a healthy relationship.

Policy Recommendation: There should be separate audit cells in the Finance Division and all auditable entities and a stakeholder management cell in the OCAG to make their interaction timely and easier.

CONCLUSION

In a resource constrained country like Bangladesh, the audit plays a critical role to ensure better utilisation of public money and prevent fraud. Commitment from all sides, i.e. government, PAC, and auditable entities is required to set the stage for the OCAG to play its due role. Instead, what is seen is lack of commitment. The government is undermining the OCAG by making it dependent for resources. Auditable entities are hampering the audit process, causing considerable inefficiency to the OCAG. Most importantly, the OCAG lacks initiatives to be more focused in the public domain, which is critical to its independent and effective functioning. The policy recommendations as mentioned above are expected to address these barriers through institutionalising proactive leadership at the top and effective interaction with the Parliament, the government, media, civil society and people.

FOR FURTHER READING:

Government of Bangladesh (2008). *Moving Ahead: National Strategy for Accelerated Poverty Reduction 2009-2011*. Dhaka: Planning Commission.

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Office of the Comptroller and Auditor General (2008). *Changes Foreseen- Results Achieved*. Annual Report- 2007, Dhaka.

World Bank (2002). *Taming Leviathan: Reforming Governance in Bangladesh*, Dhaka.

www.igs-bracu.ac.bd

The Institute of Governance Studies, established in 2005, is affiliated with BRAC University, a private institution of higher education in Dhaka, Bangladesh. The University, established in 2001, has a goal to provide a high quality, broad-based education with a focus on professional development to equip students with the knowledge and skills necessary for leading the country in its quest for development.

The mission of the University - to promote national development process through the creation of a centre of excellence in higher education that is responsive to society's needs - is consistent with the long-term development objectives of its sponsoring institution, BRAC.



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