

**Effectiveness of Procurement Auditing Conducted by FAPAD in
Ensuring Accountability:
A case study on a Selected Foreign Aided Project**

**Dissertation submitted in partial fulfilment of the requirements
for the degree of
Masters in Procurement and Supply Management**

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Subject: Submission of Dissertation Paper for MPSM Degree

Dear Sir,

I am very much delighted to submit my dissertation paper titled “**Effectiveness of Procurement Auditing Conducted by FAPAD in Ensuring Accountability: A case study on a Selected Foreign Aided Project.**” which was assigned to me to prepare as the partial requirement of the degree of Master of Procurement and Supply Management (MPSM).

I had the honour to work in this area and to explore procurement auditing as a vital tool/ instrument in public procurement to ensure accountability and transparency. Your direct guidance, supervision and advice helped me a lot to research on it and prepare the paper.

I hope that you will be kind enough to accept this work for evaluation and consider the requirement of the degree.

With best regards,

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DECLARATION

I, solemnly declare that the dissertation paper prepared for the partial requirement of the degree for Master of Procurement and Supply Management (MPSM) is my own work and this has not been copied from any report mentioned in various sections of the paper. The analysis and recommendation made are completely of my own. However, the data are taken from different sources and reports.

This paper has not been used in any other purpose other than the purpose of this degree. This is not a confidential paper but the data used in this paper cannot be used in any commercial transaction/ business other than academic purpose.

I wish and support them who are interested in carrying out the study further in public procurement and procurement auditing.

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Abstract

The purpose of the present study is to assess the effectiveness of procurement auditing of Foreign aided projects in Bangladesh, in ensuring the accountability there of. Accountability is the essence of democratic form of government. As a developing country with limited resources, Bangladesh is largely dependent on foreign assistance for its national development. All foreign aid, loan or grant, are part of the consolidated fund of the republic. Therefore it is of utmost importance for a resource-scarce country like ours to maintain financial discipline for the optimum utilization of the borrowed money, which adds burden of debt on the future generation too. Accountability of aided projects is ensured through various GoB organizations. Audit conducted by Foreign Aided Projects Audit Directorate (FAPAD) is one such mechanism, the primary responsibility of which is to audit the aided projects and certify their accounts and issue reports to the donor agencies, besides the parliament and audited entities. The study area is thus FAPAD, which on behalf of the Comptroller and Auditor General (C&AG) of Bangladesh, carries out the assigned task.

Needless to say, accountability enhancement in the public sector is a collective responsibility and each and every institution belonging to this partnership, namely, the parliament, the public sector and the audit institution, has to play their role effectively. Qualitative and quantitative data have been collected through content analysis and interviews of representatives from audit, auditees (project management and line ministry), development partners and members of PAC to record their views and opinions on the state of procurement audit effectiveness of donor funded projects in Bangladesh. The analytical framework is thus developed to examine the factors assumed to influence an effective procurement audit. It was observed during research that there are certain limitations that affect audit effectiveness of aided projects. Apart from putting forward some suggestions for the concerned audit directorate towards the best utilization of its resources, the present study is also expected to leave scope for the stakeholders of FAPAD audit reports (both preliminary reports and C&AG's audit reports) to review their ownership in the chain of the accountability framework.

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ABBREVIATIONS and ACCRONYMS

| | |
|------------|---|
| ADB | Asian Development Bank |
| ADP | Annual Development Programme |
| AIR | Audit Inspection Report |
| BARC | Bangladesh Agricultural Research Council |
| BIGD | BRAC Institute of Governance & Development |
| BSR | Broad Sheet Reply |
| CAG | Comptroller and Auditor General |
| CGA | Controller General of Accounts |
| CGDF | Controller General Defence Finance |
| CONTASA | Convertible Taka Special Account |
| CPAM | Computerization of Project Accounting Manual |
| CPTU | Central Procurement Technical Unit |
| CQAC | Central Quality Assurance Committee |
| DAE | Department of Agriculture Extension |
| DCA | Development Credit Agreement |
| DCAG (A&R) | Deputy Comptroller and Auditor General (Audit & Report) |
| DFID | Department for International Development |
| DD | Deputy Director |
| DG | Director General |
| DLS | Department of livestock Services |
| DOF | Department of Fisheries |
| DOSA | Dollar Special Account |
| DP | Development Partner |
| DPA | Direct Project Aid |
| DPP | Development Project Proposal |
| EAs | Executive Agencies |
| ERD | Economic Relations Division |
| FAPAD | Foreign Aided Projects Audit Directorate |
| FS | Financial Statement |
| FY | Financial Year |
| GoB | Government of Bangladesh |
| GDP | Gross Domestic Product |

| | |
|---------|--|
| Hortex | Hortex Foundation |
| IAs | Implementing Agencies |
| IDA | International Development Agency |
| IFAD | International Fund for Agricultural Development |
| IGS | Institute of Governance Studies |
| IMED | Implementation, Monitoring and Evaluation Division |
| ISA | International Standards of Auditing |
| INTOSAI | International organization of Supreme Audit Institutions |
| MDG | Millennium Development Goal |
| MOA | Ministry of Agriculture |
| MoF | Ministry of Finance |
| NATP | National Agricultural Technological Projects |
| NPM | New Public Management |
| ODI | Overseas Development Institute |
| OACG | Office of the Comptroller and Auditor General |
| PA | Procurement Audit |
| PAC | Public Accounts Committee |
| PAO | Principal Accounting Officer |
| PCU | Project Co-ordination unit |
| PIU | Project Implementation Unit |
| PD | Project Director |
| PPA | Public Procurement Act |
| PPR | Public Procurement Regulations |
| QAC | Quality Assurance Committee |
| RPA | Reimbursable Project Aid |
| SAFE | Special Account Foreign Exchange |
| SAI | Supreme Audit Institution |
| SFI | Serious Financial Irregularity |
| SoE | Statement of Expenditure |
| SWAp | Sector Wide Approach |
| TAPP | Technical Assistance Project Proposal |
| TOR | Terms of Reference |
| UNDP | United Nations Development Program |
| VFM | Value for Money |

Chapter 1

INTRODUCTION

1.0 Context of the Study

Public sector auditing in Bangladesh, though has an illustrious history, its significance and contribution towards achieving public governance of the country are yet to be well recognized by the wider people. One of the cornerstones of democracy is the people's right to know how public money is collected and spent. The Office of the Comptroller and Auditor General (OCAG), the Supreme Audit Institution (SAI) of Bangladesh is responsible for auditing government receipts and public spending and to ascertain whether expenditures have yielded value for money in government. Moreover OCAG performs the function of watchdog in ensuring public accountability and transparency.

SAI Bangladesh, headed by the CAG, was established in 1973 as per provisions of the Constitution of the republic. The auditing functions carried out by the various audit directorates under CAG; contribute to the promotion of transparency and accountability of the government to the Parliament. The area of study of the present research is one of the directorates under CAG, namely Foreign Aided Projects Audit Directorate (FAPAD) with respect to procurement audit.

As a specialized and dedicated arm of the SAI of the state, FAPAD audit aims to provide independent assurance to Parliament as well as to Development Partners (DPs) on the proper accounting for and use of project resources. Therefore the major stakeholders of FAPAD audit are SAI Bangladesh, Public Accounts Committee (PAC) of the Parliament, Development Partners (DPs), line (concerned) Ministries, project management/ Project Directors (PDs) and Economic Relations Division (ERD) of the government.

More often than not, there are reports of dissatisfaction at the slow implementation rate of the development programmes/projects due to inefficient procurement function, the misuse and mismanagement of the public resources and the practice of corruption in procurement process. The reasons often shown for such plight are lack of transparency and accountability. Procurement auditing in this regard is considered a vital mechanism to oversee the best use of public resources and make the executives accountable for their action. It needs not be mentioned that both the government and development partners are increasingly concerned

about the better procurement management, and the effective use of foreign assistance in the procurement process.

Besides, the tendency to rush to complete the projects' annual target – financial and physical – at the very fag end of the financial year, inevitably results in unnecessary wastage of resources and poor quality of goods and work. However, some of this significant information is not always reflected in the audit reports. The purpose of the present study is to contribute to the assessment of FAPAD procurement audit effectiveness in conducting its responsibility and thus securing the accountability and transparency thereof.

1.1 Statement of the Problem

The ADP is the key implementation instrument of the government's development policy. Availability of both internal and external resources and their utilization are considered in the preparation of ADP. It is worth mentioning here that the ADP allocation for FY 2013-14 was Tk.61,000 crore, of which almost 71% was for procurement.

It is needless to say that one single institution cannot ensure accountability in public governance. Accountability and transparency enhancement in the public sector is a collective responsibility and each and every institution belonging to this partnership, mainly, the Parliament, the public sector and the CAG has to play its role effectively. Articulating on the importance of SAIs in curbing corruption, Dye and Stapenhurst (1998) termed SAI as one of the "pillars of integrity", and expressed that audits are fundamental to accountability and transparency. In the case of FAPAD, another major partner in this accountability relationship is the donor agencies. Country representatives of DPs also are accountable, to their authorities – the aid giving country and the head quarter of the agency – for the best practice applied in the utilization of the funds particularly in procurement provided by them to the recipients. And though they have their own mechanisms to monitor this, they rely on FAPAD audit. From this viewpoint, audit reports of FAPAD carry significant values, both for the country itself and for the DPs, in upholding a true and fair picture of development expenditure and proper use of funds. An objective analysis of the situation in this regard will provide an understanding of the level of effectiveness of FAPAD procurement audit and what needs to be done, if gap detected, to make audit more effective to enhance accountability and transparency of foreign aided projects.

1.2 Scope of the Study

The area of study selected for the research is the Foreign Aided Projects Audit (FAPAD) Directorate under OCAG. The study therefore will endeavour to explore the level of effectiveness of FAPAD procurement auditing in upholding the vision and mission of OCAG, on its behalf, in ensuring accountability and transparency. Case study will be conducted on procurement audit activities pertaining to National Agricultural Technology Project (NATP).

1.3 RESEARCH QUESTIONS

The study aims to answer a couple of questions related to the effectiveness of procurement auditing in ensuring accountability and transparency of donor-funded projects.

The key questions that the study attempts to explore are:

1. To what extent has FAPAD procurement audit been effective to ensure accountability and transparency of donor funded projects?
2. How much responsive are the Executing Agencies (EAs) and line ministries to procurement auditing of foreign aided projects?

1.4 Objectives of the Study

Audit as a formal control mechanism can assess the best practice applied, or not applied, by the custodians of the resources. Therefore an effective auditing can ensure that a sound system is in place across the procurement operations.

1. The general objective of the research is to assess the effectiveness of FAPAD procurement auditing in ensuring accountability of foreign aided projects.
2. The specific research objectives are to:
 - Assess the role of FAPAD as per its obligation to and expectation of its major stakeholders, to ensure accountability of donor funded projects;
 - To suggest recommendations for further improvement of FAPAD procurement auditing practice in ensuring accountability of foreign aided projects.
 -

1.5 RATIONALE OF THE STUDY

Audit is viewed as an aid to management. It addresses irregularity of public financial management in three dimensions – detection, correction and prevention. Besides, its recommendation role leaves scope for further improvement in the procurement management and overall project management. Issues of accountability are an increasing concern for policy-planners and funding agencies. An effective audit can ensure the answerability of the public officials who are responsible for the management and custodianship of the public resources they are entrusted with and are thus accountable to the public for the economic and efficient use of fund. FAPAD currently carries out compliance/regularity and financial (certification) audits of project accounts. And since FAPAD is a deadline-oriented organization that has to submit Audit Inspection Reports (AIRs) to DPs and executives on schedule, resource (human resource, time, and budget) constraints make it less viable to conduct performance audit and procurement audit particularly. Work experience of the researcher showed that despite concerted effort of the audit workforce and the importance given to FAPAD auditing by the DPs, the quality and usefulness of FAPAD audit reports have not attained the desired expectation. Against this backdrop, some pertinent questions may subsequently come to the fore for users of FAPAD audit reports - as for example - What are the factors that contribute to and/or affect an effective FAPAD audit? How much effective a mechanism is government auditing to uphold project accountability? What is the degree of usefulness of FAPAD audit reports for its users? Thus a study aiming to examine the areas questioned above, is important. And in this way, the study, through its findings and analysis hopes to assist the appropriate authorities to identify any weaknesses in the system, and thus improve its oversight functions.

1.6 RESEARCH METHODOLOGY

A combination of qualitative and quantitative method will be applied to attain the objectives of this study. Qualitative data is to be collected through interviewing five target groups, comprising of 8 respondents. Quantitative data is to be obtained through questionnaire survey of two groups of respondents, the number being 12. Besides, a particular project under audit coverage of FAPAD is selected as a case of study, to form a comprehensive understanding of the level of effectiveness of procurement audit in upholding its objective. This will help the

research present an in-depth analysis of areas that need attention so as to make the auditing functions more effective.

So, the sample size comes to 22, and a purposive sampling technique will be used to select the population, comprising of members from audit department, representatives of auditees (project and line ministries), PAC personnel, representatives from DPs and ex-CAGs.

Table 1.1: Target groups for interview

| Category of Respondents | Number |
|---|---------------|
| Senior officials of SAI | 2 |
| Ex-Comptroller and Auditor General | 1 |
| Representatives from Ministry and NATP | 2 |
| Representatives from Development Partners (DPs) | 2 |
| Members of Public Accounts Committee (PAC) | 1 |
| Total | 8 |

A semi-structured form of interview will be chosen as the best alternative. Since the study aims to examine procurement audit effectiveness, a case-study approach is followed where the study is focused on measuring and analyzing the effectiveness of FAPAD procurement audit of a specific development programme, namely NATP. Besides, secondary data will be collected through content analysis of various literatures, scholarly writings and documents related to the subject matter.

Table 1.2: Target groups for questionnaire survey

| Category of Respondents | Number |
|--|---------------|
| Audit Officials of SAI | 8 |
| Representatives from Auditee Agencies and Ministry | 6 |
| Total | 14 |

Data Analysis Plan - qualitative and quantitative analysis is to be followed to analyzedata. Use of percentage, some graphical representations will be used.

1.7 Literature Review

1.7.1 Accountability and Transparency

Accountability initiatives are more difficult to define. The clearest and most basic exposition of the concept of accountability is provided by Schedler (1999) in which public accountability comprises a relationship between the power-holder (account-provider) and the delegator (account-demander). There are four elements to this accountability relationship: setting standards, getting information about actions, making judgments about appropriateness and sanctioning unsatisfactory performance. Often initiatives combine some but not all of these four components and have variable impacts on public expenditure. Moreover, accountability for service delivery, public procurement or any of the public spending can be demanded from a range of stakeholders: politicians (over adopting inappropriate policies); public officials (over failing to deliver according to rules or entitlements, or to monitor providers for appropriate service levels); or providers (over not maintaining service levels in terms of access and quality). Furthermore, initiatives to hold these multiple actors to account can be state or citizen-led.

Transparency initiatives in public sectors are relatively easy to define: any attempts (by states or citizens) to place information or processes that were previously opaque in the public domain, accessible for use by citizen groups, providers or policy-makers. Initiatives for transparency can be either proactive or reactive disclosure by government. Although freedom of information laws often play an important part in state- or citizen-led transparency initiatives, this article does not address attempts to legislate freedom of information or the overall impacts of such a law (see Calland and Bentley, this volume, for a discussion of freedom of information).

The impact of transparency and accountability has always been an underlying motif in the literature on service delivery. Accountability took root as a central theme in debates following the World Development Report (WDR) of 2004, which identified failures in service delivery squarely as failures in accountability relationships (World Bank, 2004). By showing how the 'long route' of accountability – via elected politicians and public officials

through to providers – was failing the poor, the WDR argued in favour of strengthening the ‘short route’ – direct accountability between users and providers. The WDR sparked off a spate of work that examined ways of strengthening the short route: from amplifying voice and increasing transparency to enhancing accountability (Sirker and Cosic, 2007; McNeil and Mumvuma, 2006).

What is interesting is that the importance of accountability, and related transparency, comes from two quite different ideological streams. On the one hand, New Public Management (NPM), which emerged in the 1990s, emphasised the use of market mechanisms in the public sector to make managers and providers more responsive and accountable (Batley, 1999). While many of the NPM reforms for accountability focused on vertical accountability within organisations, such as performance-based pay; a sub-set, including citizen charters and complaint hotlines, related to downward accountability to citizens. In keeping with NPM’s intellectual roots, most of these downward accountability mechanisms were oriented to users as individual consumers who could choose either to use these mechanisms or to exit in favour of other providers.

On the other hand, and at the same time, the failure of democratic institutions to deliver for the poor also resulted in calls for deepening democracy through the direct participation of citizens in governance (Fox, 2007). Innovative institutions such as governance councils in Brazil or village assemblies in India were viewed as embodying this spirit (Cornwall and Coelho, 2006; Manor, 2004). In parallel, social movements were arguing that governments had an obligation to protect and provide basic services as ‘rights’ that were protected under constitutions, rather than ‘needs’ which were at the discretion of officials to interpret and fulfil. Advocates of rights-based approaches to basic services identified ways in which rights – for example to health or education – could be legislated and progressively achieved. The rights-based, direct democracy approaches were distinct from NPM in that they emphasised the collective and public-good dimensions of accountability.

1.7.2 Auditing, accountability and the role of SAI

In 1997, Power described a development towards an audit society. His ideas and hypotheses have subsequently been discussed by himself and other authors (Bowerman et al. 2000; Monfardini and Maravic 2012; Power 1997, 2000, 2003a, 2003b). The development towards an audit society is seen as a consequence of New Public Management (NPM). The NPM

'regime' has led to increased delegation which in turn has resulted in more use of audit and control mechanisms (Hood 1991). Audits and evaluations have become important tools for providing information about how public money is spent (Benish and Levi-Faur 2012; Christensen et al. 2002; Hood 1991; Johnsen et al. 2001; Ling 2007).

In democratic countries SAIs acquire an important role in the political and administrative life (Pollitt and Summa, 1997) acting as independent and authorized watchdogs of public accountability (Pollitt and Summa, 1998) and are required to contribute to the defence of the rights of citizens who, represented in Parliament or in the responsible public body, must be systematically informed about the activity of these institutions as well as on the outcome of their actions (SÁNCHEZ, BOLÍVAR et al. 2014) (art. 16.1 of the Lima Declaration, INTOSAI, 1977).

In general, although under different names depending on the country, the powers conferred to SAIs by laws can be grouped into two types of functions: oversight role and judicial functions (IFAC, 2008; INTOSAI, 2006). In recent years, another function, different from the two traditional functions, has been added: the role of driver for the modernization of public sector accounting systems in order to improve accountability (Skærbæk, 2009). In exercising these functions, SAIs are called to act as guarantors of both accountability of governments and transparency in the use of public resources (INTOSAI, 1977; González-Díaz, García-Fernández and López-Díaz, 2013).

1.7.3 Procurement Audit

The gist of public procurement audits is to ensure that public funds are expended for their intended purpose, and with a view to maximizing value received by the public purchaser, ensuring that proper and accountable systems are in place and adhered to, and identifying any weaknesses in procurement (TISA, 2009) and such public procurement audits sought to be adequately sensitive to procurement related issues (PPOA, 2007). The elaborate process of public procurement audit includes a bid process audit, contract audit, bid award audit, contract award audit, performance audit and disposal audit (Achuora, Arasa et al. 2012).

1.8 STRUCTURE OF THE REPORT

The thesis will organize into five chapters as below:

Chapter 1: Introduction- This chapter presents the introductory discussion which contains the background, scope, research objectives, research questions, rationale, and structure of the thesis.

Chapter 2: Literature review

Chapter 3: Research Methodology

Chapter 4 : Data Analysis and result discussion

Chapter 5: Conclusion and Recommendation- This chapter sums up the research findings and throws light on recommendations based on the findings.

1.9 Conclusion

An effective system of accountability of the executive to the Parliament, backed up by rigorous processes of audit, reporting and scrutiny, is fundamental to the proper orientation of a Parliamentary democracy (Gov. of UK, 2002). External audit has an important part to play in the process of accountability. The present document will look at the effectiveness of FAPAD, one of the directorates under CAG, i.e. how effectively it has been able to ensure accountability of donor funded projects in Bangladesh. There are a number of factors that contribute, as well as hinder its effectiveness. The chain of accountability involves all the actors involved in the process, namely, SAI, auditees, Parliament, DPs, and the public. The study will concentrate on the methods and approaches of FAPAD procurement audit process in relation to its working relationship with its major stakeholders, to measure its level of effectiveness. Due to time constraints, a little attempt has been made to make a comparative analysis of public sector auditing and private sector auditing in foreign funded projects. Also there were no attempts made on providing any form of cross-country analysis in the present study.

Chapter 2

Theoretical Perspectives and Analytical Framework

2.1 Accountability: As it is understood

To state very simply, the concept of accountability involves *someone* being held responsible for *something* by *somebody* or *something*, in a particular prescribed way. It may be horizontal, that is between parallel groups (such as the executive and the legislature) or vertical (for instance between the electorate and the legislature). Accountability may result in the allocation of praise or blame (cited in Weisband and Ebrahim, eds. 2007). Accountability for the use of public funds is a cornerstone of good public financial management.

Koehane and Grant (2005) describe accountability as involving justification of an actor's performance vis a vis others, the assessment or judgement of that performance against certain standards, and the possible imposition of consequences if the actor fails to live up to applicable standards. 'Accountability' seems to be an ever-expanding concept, stated Mulgan (2003). Accountability as 'the relationship between an actor and a forum, in which the actor has an obligation to explain and justify his or her conduct, the forum can pose questions and pass judgment, and the actor may face consequences' (Bovens, 2006).

2.1.1 Public Sector Accountability

Accountability is the essence of democracy and good governance. Any government requires a system of accountability, so that it acts in ways that are broadly approved by the community (Hughes, 2003). Hughes argues that there are differences between public and private forms of accountability. Private sector has no real equivalent to political accountability. Political accountability makes the public sector different in kind, rather than in detail. "At its most elementary", articulates Paul (1991), "public accountability simply requires that public bodies give an account of their activities to other people and provide a justification for what has been done in terms of other people's values, in a way that private bodies do not". Public sector accountability, he further states, refers to different approaches, mechanisms and practices that governments use to ensure that their activities and outputs meet intended goals.

2.1.2 Financial Accountability

Efficient and prudent financial administration is the foundation of public sector accountability (Mowla, 2005). Financial accountability is a part of public accountability,

which can be achieved externally through financial reporting and internally through management accountability. An important way to communicate accountability is through financial and related information (Gynn, 1993). Therefore to ensure proper financial accountability, there must be an adequate system of budgeting, accounting and financial reporting, internal control and auditing of all public organizations. With the emergence of NPM, financial accountability is no longer a matter of probity, but also encompasses evaluation of whether project goals were achieved or particular amount or quality of service was derived (Turner and Hulme, 1997). In Bangladesh, the answerability of officials carrying out tasks such as budgeting, accounting and auditing is called financial rather than managerial accountability (Mowla, 2005). There are several parliamentary committees for ensuring financial accountability, such as the Public Accounts Committee (PAC), Public Undertaking Committee (PUC), Public Estimates Committee (PEC), etc. The statutory audit of government organizations and enterprises are carried out by CAG (cited in Mowla, 2005).

2.2 Foreign Aid and Donor Agencies

Foreign aid comprises external loans given on concessional terms and grants, both tangible and intangible, available from a foreign source. These resources can be cash foreign currency, technical or consultative asset, commodity, food and local currency. In terms of economic classification, these are either loans or grants (ERD, 2002). According to Arnold (1985), foreign aid is the flow of resources of capital and technical assistance, from more advanced economies to less advanced or developing countries. Loans and credits are those foreign resources that have to be repaid to source, and carry a rate of interest calculated on annual basis. Some of these include late charge or penalties and commitment charges. Grant means foreign resources bearing no interest, penalties or commitment charges, and is non-repayable. On account of their repay ability, loans can be soft and hard. The former denotes loans whose interest rate is 0.75% to below 5% per annum and repayable within 32 years plus a grace period of up to an additional period of 10 years. The hard ones' interest rates are above 5% per annum and repayable within years entertaining no grace period (Ahmed, 2008).

About 33 international government agencies, banks and other organizations are extending aid to Bangladesh. Of these the WB, ADB and Japan provide about 72% of total foreign aid. Fortunately, each of these three provides soft loans. A donor agency is an organization that gives funds for projects of development nature. Mostly used in development management

arena, donors refer to the supplier of the resources in the form of external assistance to the recipient (ERD, 2002). Developing and under-developed countries rely heavily on donor assistance for socio-economic development as well as for technical know-how. At present though, the donors are addressed as Development Partners (DPs).

2.3 Development Projects

A project is a planned hypothesis, with a starting time, a closing time, a cost and geographical location for the achievement of a purpose (Mowla, 2005). Projects are the key elements of the development process in Bangladesh. Development projects are the pillars of socio-economic uplift of the country and of national development plans. This fall under basically two categories: Investment Project and Technical Assistance (TA) Project. Format/proposal for Investment Project is termed as Development Project Proposal (DPP), while Technical Assistance Project Proposal (TAPP) is the document for TA Project (Haq, 2007). The projects included in the ADP are financed:

- i. entirely by GoB fund,
- ii. both by GoB and DPs in the form of a) bilateral, b) multilateral assistance, and
- iii. completely financed by DPs.

In the present study, projects refer to the development projects that fall into the latter two categories, i.e. the foreign aided projects, and which are under the audit purview of FAPAD.

2.4 Public Sector Auditing

The Canadian Comprehensive Auditing Foundation (CCAF, 1991) defines public sector audit as, "...the independent, objective assessment of the fairness of management's representations on performance or the assessment of management's systems and practices, against criteria, reported to a governing body or others with similar responsibilities." The purpose of auditing, says Noseworthy (1999), is to give an independent assurance that public sector operations are reflected 'fairly' in accounting statements and reports prepared by management, and to obtain the information needed for reports on performance. The objective of reporting is to provide facts, comments and recommendations which will firstly, help Parliament review the operations of Government, secondly, help Government review the operations of

Management, and thirdly, help Management review the operations of the Authority or Department (Noseworthy, 1999).

2.4.1 Procurement Auditing

A large amount of money is spent on procurement of works, goods and services by ministries, government departments, autonomous bodies and government-owned companies. Some large departments and autonomous bodies like the Roads and Highways Department, Local Government Engineering Department, Power Development Board and Water Development Board etc spend in some years around up to 90% of their development budget on procurement. Similarly every organization uses significant fund for procurements for maintenance and repairs every year under their revenue budget. Procurement management — needs assessment, processing , approval, awards , procurement performance and bills payment after satisfactory performance etc— must be efficient, cost-saving (through competitive price) and effective to ensure better and efficient delivery of services to the citizens of the country .

Procurement is the process of acquiring works, goods and services from external sources by individual entities. Procurement means, as defined in Public Procurement Rules 2008(PPR), “the purchasing or hiring of Goods, or acquisition of Goods through purchasing and hiring and the execution of works and performance of Services by any contractual means.” The procurement process encompasses, per UK National Audit Office (NAO), “The whole life cycle process of acquisition of goods, services and works from third parties, beginning when a potential requirement is identified and ending with the conclusion of a service or contract or (the end of the useful life of an asset through) ultimate disposal of an asset.”

So unless procurement is conducted in a proper and appropriate manner following sound procedures, that will result not only in wastage, over-expenditure, corruption and drain-out of public resources leading to inefficiency and non-performance of public entities on the one hand , but also sufferings and over-pricing of services at the end of service-receiving public, on the other end. The primary objective of procurement audit is to “reveal deviations” from accepted standards under the Procurement Act and PPR early enough to make it possible for the procuring entities to take corrective steps in individual cases, to make those accountable accept responsibility, to obtain compensation and at length, to adopt overall measures, where necessary, “to prevent—or at least, render more difficult—such breaches” in future.

The procurement audit processes, findings and their follow-up will aim to have the ultimate impact that individual entities are driven to consider and reshape their procurement management and operations to achieve the following :

- i) **Saving in purchase cost:** Entities consider all the costs through the life of a project and conduct purchasing through competition and regular benchmarking of prices to make a saving in purchase expenses.
- ii) **Improvement in Quality:** Quality and service requirements need to be clearly determined up-front and the performance of contractors, suppliers and service providers monitored to avoid delivery of sub-standard works, goods and services.
- iii) **Improvement in delivery:** Works, goods and services must be delivered and received on time and at the right quantity and quality to avoid disruption in public services.
- iv) **Elimination of Impropriety or fraud:** If proper procurement process are not followed and internal control systems are non-existent awards may be given unfairly and standards expected of public servants may not be upheld; and
- v) **Gaining up-to-date market knowledge:** Entities will need to be aware of new and recent arrival of technologies and goods and services which may provide better value to them, otherwise they may miss opportunities to deliver services more efficiently.

2.4.2 Mandate and jurisdiction for Procurement Audit

Articles 128(1) of the Constitution of Bangladesh empowers the Comptroller and Auditor-General to audit government expenditure and The Comptroller and Auditor – General (Additional Functions) Act, 1974 empowers the Comptroller and Auditor-General to audit expenditure of statutory public authorities (like Water and Sewerage Authority, Bangladesh Chemical Industries Corporation etc), public enterprises (like factories under corporations) and local authorities (like City Corporations, Upazila Parishads etc).

The representatives of the Comptroller and Auditor-General while conducting an audit on procurement activities will be guided by provisions of the Public Procurement Act, 2006 and Public Procurement Rules 2008 and jurisdiction will cover under Section 3 of the Procurement Act the following areas namely-

- a) Procurement of goods ,works and services by any procuring entity using public funds;
- b) Procurement of goods ,works and services by any government or semi-government body established under any law;
- c) Procurement of goods ,works and services by any procuring entity using public funds by a company registered under the Companies Act,1994; and
- d) Procurement of goods ,works and services under a loan, credit or grant agreement or under any other agreement with a development partner or with a foreign state or organization

Provided that if there is anything to the contrary in any such agreement entered into, the provision of that agreement shall prevail.

Generally an agreement between development partner and Government of Bangladesh incorporates provisions that when the value of procurement for certain categories of items would exceed a certain threshold described in the agreement , the procurement guidelines of the development partner will prevail and the procuring entity will need to obtain clearance from Development Partner at different stages in the procurement process viz. determination of specification, preparation of bidding documents, approval of tender etc. Procurements of value below the prescribed threshold would require to be processed according to PPR 2008.

2.5 Some important and relevant theoretical concept

To formulate framework for analysis, the principal-agent concept of relationship have been drawn upon as the conceptual framework for the present study. It is intended to analyse the auditor’s role in parliamentary democracy. In addition, the Government Auditing Standards (1999) and Code of Ethics for Government Auditors (2001), issued by authority of CAG, Bangladesh are also used in this regard to review the themes/indicators of audit effectiveness.

2.5.1 Principal-agent relationship

The principal-agent concept of accountability relationship, and the role of oversight agency in this connect, is found in a number of scholarly writings. Numerous authors have, in their

portray of the nature of accountability, identified it as, “the process of holding actors responsible for actions” (cited in Weisband and Ebrahim, eds. 2007) or “the means by which individuals and organizations report to a recognized authority and are held responsible for their actions”. These and others point to a “core sense” of accountability which Mulgan (2000) identifies as having a set of three key features; i) it is external; ii) it involves social interaction and exchange; and, iii) it implies rights of authority. This is essentially a principal-agent view of accountability in which the lead actor or principal sets goals and employs agents to accomplish them (Weisband and Ebrahim, 2007).

The key accountability problematic thus lies in “constraining opportunistic behaviour” of agents. And the logic of accountability flows from this. For Mulgan (2000) this “original core of accountability” is based on external scrutiny, supported by justification, sanctions, and control. In public institutions, particularly in modern democracies, such forms of accountability can be applied to two broad sets of relations: between citizens who, as principals, elect candidates to office as their agents; and, between those elected politicians who oversee the work of public administrators and other bureaucrats who act as their agents and, by extension, as agents of public. The present study will analyse the second set of relations. The literature further identifies 4 core components of accountability in overall governance (cited in Weisband and Ebrahim, eds. 2007): Transparency, Answerability or Justification, Compliance and Enforcement or Sanctions. As each of these components builds on the others, accountability relies on the presence of all four.

The role of audit in the principal-agent accountability relationship is also found in the literature of Canadian Comprehensive Auditing Foundation. The auditor's role in the public sector in a democratic state, articulates its contributor Jacques (2008), derives from the principal/agent relationship between elected bodies and public servants. Elected bodies (principals) provide resources and authority to government officials (agents) to implement government policies. The officials account to the elected bodies on their performance and for their stewardship of resources. The auditor provides independent objective assessments of the agents' performance. A government's success is measured to a large extent by its delivery of programs and services to its citizens, and by its ability to carry out its programs properly. Government auditors, therefore, must have both the ability and authority to assess the integrity, effectiveness and efficiency of that delivery as well as its management of citizens' financial resources.

Illustrating on the system of “legislative control of the public purse”, Sahgal pointed to the “three critical relationships” involved in the process of holding the executive arm of government to account in pursuit of democratic governance. In relation to the present study, the government auditors (FAPAD auditors, as representing CAG), are assisting the principal, i.e. the parliament (PAC), thus acting on its behalf, in providing independent objective assessments of the agents’ (executive agencies) performance as regards to the fund management of programs/projects aided by development partners. The development partners are among the stakeholders of the accountability chain, since they are also providing resources, the co-financiers of the principals in the implementation of the government’s policies. The underlying significance is the concerted effort of the actors (both principals and agents) involved in the relationship to sustain the accountability in the public financial management.

2.5.2 Standards forming theoretical base

The constitution of the republic gives CAG wide discretionary powers in interpreting and applying his mandate in deciding what, how and when to audit. This unique position of trust places a responsibility on his Office to carry out its work in accordance with the highest professional standards. These standards provide a framework for the establishment of procedures and practices to be followed in the conduct of audit (OCAG, 1999). Government Auditing Standards (1999), that lay down the basic standards that auditors are expected to meet in conducting their audits, put stress on the importance of independence and professional competence of staff; exercising due care; proper planning and supervision; reasonableness of criteria; sufficiency, reliability, and relevance of evidence to support conclusions; and fairness and completeness in reporting. As a result of adoption and application of these standards and values, the Office is believed to be able to play a more effective and enhanced role in promoting greater transparency, accountability and good governance in the public administration of Bangladesh (OCAG, 1999).

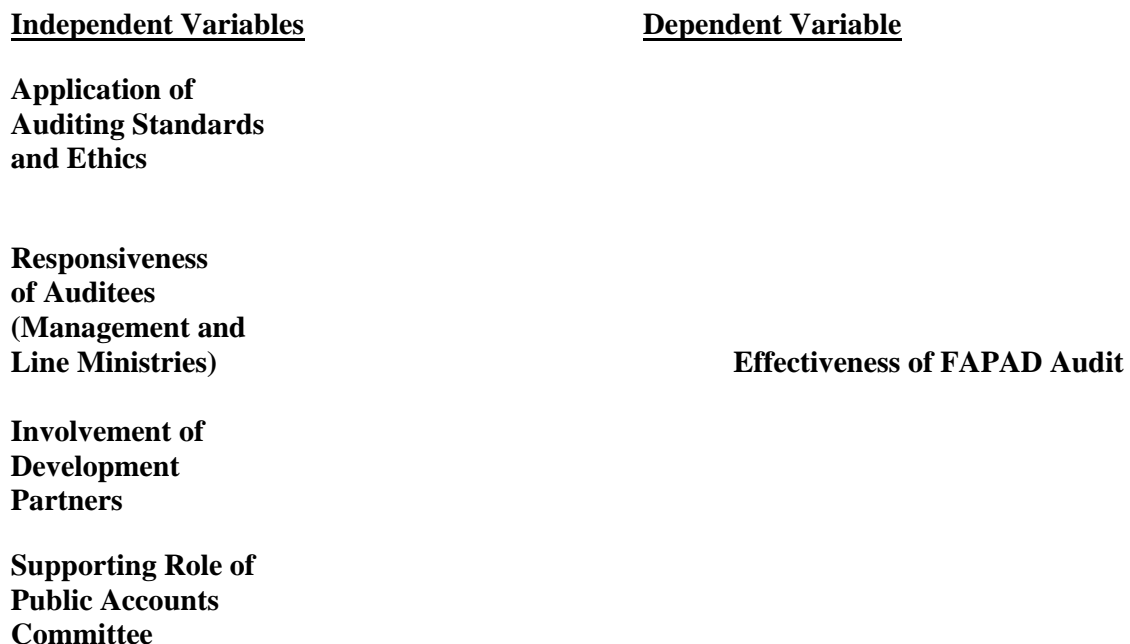
Besides, conduct of moral standards and ethical values would ensure a credible environment of professionalism, and earn trust, credibility and respect from the stakeholders of audit (OCAG, 2001). Code of Ethics for Government Auditors (2001), which is a comprehensive statement of the values and principles guiding the daily works of auditors, should be viewed as a necessary complement reinforcing the Government Auditing Standards in the discharge of auditing function. Any deviation or delinquency in the professional conduct or any

improper conduct in their personal life places the integrity of auditors and the quality/validity of their audit work in an unfavourable setting, and may raise doubts about the reliability, effectiveness and competence of the SAI, itself. The general principles of this Code are integrity, independence, objectivity and impartiality, competence, mandate, economy, efficiency, effectiveness of operations, political neutrality, substantiation, clear communication, professional secrecy (OCAG,2001).

2.6 Analytical Framework of the Study

The analytical framework of the study has been formed on the basis of the auditors’ role in the principal-agent relationship as well as the general standards of auditing provided in the government auditing standards. It needs to be stated clearly that from functional viewpoint, the performance of FAPAD may depend upon two kinds of activities: first, functions directly related to the audit process, e.g. audit planning, programming and processing, audit methodologies, etc. and second, functions needed to perform to acquire environmental support in favour of the audit activities. The prime environmental actors for FAPAD are the auditees (project management and line ministries), the Parliament, and the Development

Figure 2.1: Framework for Analyzing FAPAD Procurement Audit Effectiveness



Partners. The present study takes as the dependent variable, the effectiveness of FAPAD audit. Apart from the professional skill and the strategies of audit exercised, the factors leading to the effectiveness of FAPAD audit are the roles played by the major stakeholders of FAPAD audit reports – the Development Partners (DPs) who assist the GoB in co-financing the development programs/projects, the executives of the republic and the auditee agencies whose attentiveness regarding the objectives of audit makes audit meaningful, an active and effective PAC upon which depends the effectiveness of audit.

2.6.1 Operational definition of dependent and independent variables and their indicators

Accountability is one of the key principles of good governance. At present, parliamentarians, civil society, executives, the DPs and the public are giving more emphasis on accountability and transparency in the public sector for economic development as well as human development (Azad, 2007). To ensure good governance in public sector is a collective responsibility. Among the institutions that can contribute to ensure it, are parliament, executive branch, audit institution, judiciary, law enforcing agencies, anti-corruption institutions, international organizations, civil society, and media.

The present study takes as the dependent variable, the effectiveness of FAPAD auditing. Apart from the professional skill and the standards of auditing exercised, the conditions leading to the effectiveness of FAPAD audit are the roles played by the major stakeholders of FAPAD audit reports – the Development Partners (DPs, the executives of the republic, and PAC. Therefore, the role of DPs, role of auditee entities and line ministry, role of PAC and the audit process itself, are the independent variables and will be assessed in the current study to examine the effectiveness of FAPAD audit. For a sound comprehension of the study, it is appropriate to elucidate the variables (Dependent and Independent) and the determining indicators.

2.6.1.1 Effectiveness of FAPAD Auditing as a Dependent Variable

Effectiveness of government audit means how well the end results of audit are meeting the intended outcomes. It may be mentioned here that the intended outcome of government audit is to ensure accountably and transparency across the government. In the current paper, FAPAD audit effectiveness is meant to be concerned mainly with the role of audit in ensuring accountability of the foreign-aided projects (project management and line ministries), mainly in the use of financial resources. In assessing this, the current paper has taken four factors or

independent variables and their indicators that are understood to have an influence on making effective the auditing of donor assisted projects.

TABLE 2.1: Indicators for the Independent Variables

| Independent Variables | Indicators | Assessing Scale/Criteria |
|---|--|--|
| Application of Auditing Standards and Ethics | -Exercise of independence, competence, and integrity. -Types and process of Auditing. - Resource of auditing - Quality control/assurance of auditing and reporting. | <ul style="list-style-type: none"> • Extent of independence, competence and integrity exercised in auditing • Effectiveness of the type and methods followed in auditing functions • Adequacy of human resource, time, and budget of auditing • Effectiveness of quality control and quality assurance mechanisms. |
| Responsiveness of Auditees (Project and Line Ministries) | -Co-operating in audit objectives and activities. -Responsiveness to audit recommendations | <ul style="list-style-type: none"> • Extent of assistance to audit function as aid to management • Seriousness of auditees towards audit recommendations |
| Involvement of Development Partners (DPs) | <ul style="list-style-type: none"> • Monitoring of project management • Meetings /Capacity building programs for auditors and auditees. | <ul style="list-style-type: none"> • Follow-up mechanisms (for improvement of management practice based on audit recommendations) • Effectiveness of meetings/trainings |
| Supporting Role of PAC | <ul style="list-style-type: none"> • Timeliness in examination of audit reports • Follow-up of PAC recommendations. | <ul style="list-style-type: none"> • Frequency/ promptness in reviewing audit reports • Effectiveness of Follow-up mechanisms to see implementation of PAC recommendations. |

2.6.1.2 independent variables

The indicators selected for the independent variables and the assessing criteria can be broadly categorized into three groups. The indicators in the first groups are related to the role, methods and process of auditors, FAPAD and the OCAg together with their adoption of standards, ethics and integrity. The second group indicators focus on the responsiveness of auditees, and other stakeholders like development partners. The third group of indicators is about the role of PAC and parliament. The indicators of the three groups can be listed as below:

Variables relating to auditor, FAPAD and OCAg:

- Exercise of independence, competence, and integrity.
- Types and process of Auditing.
- Resources for auditing
- Quality control/assurance of auditing and reporting.
- Extent of independence, competence and integrity exercised in auditing
- Effectiveness of the type and methods followed in auditing functions
- Adequacy of human resource, time, and budget of auditing
- Effectiveness of quality control and quality assurance mechanisms
- Application of Auditing Standards and Ethics

Responsiveness of Auditees (Project and Line Ministries) and Development Partners:

- Co-operating in audit objectives and activities.
- Responsiveness to audit recommendations
- Extent of assistance to audit function as aid to management
- Seriousness of auditees towards audit recommendations
- Monitoring of project management
- Meetings /Capacity building programs for auditors and auditees.
- Follow-up mechanisms (for improvement of management practice based on audit recommendations)
- Effectiveness of meetings/trainings

Supporting Role of PAC:

- Timeliness in examination of audit reports

- Follow-up of PAC recommendations
- Frequency/ promptness in reviewing audit reports
- Effectiveness of Follow-up mechanisms to see implementation of PAC recommendations.

The independent variables and their themes are further elaborated as follows.

a. Application of Auditing Standards and Ethics

The auditing standards as laid down in the Government Auditing Standards (1999) are meant to be followed by the Office and its staff in carrying out audits of public sector organizations and their programmes and activities. The Code of Ethics covers the ethical requirements of government auditors, including their professional obligations in particular. The explanation of the particular themes/indicators taken in the context of the present study in order to measure the variables are:

b. Exercise of independence, competence, and integrity

The indicators mentioned above to assess the level of FAPAD audit effectiveness are three of the core standards and values to be practiced by auditors. These three indicators may be explained thus. By independence it is meant that in all matters related to audit work, the auditor and the Office should be free from personal and external impairments and be organizationally independent. The staff assigned to conduct the audit should collectively possess adequate professional proficiency or competence for the tasks required. Moreover, auditors have a duty to adhere to high standards of behaviour or integrity (e.g. honesty, fairness, truthfulness) in the course of their work and in the relationship with the audited bodies.

c. Types and process of auditing

The different strategies in the conduct of audit and/or the types of audit approaches undertaken enable how effectively audit can attain its objective to uphold project accountability. These nature and standards of auditing are provided in Government Auditing Standards (1999). The type of audit indicates the full scope of the Office's mandate which includes Financial Statement audits, Regularity/Compliance audits, and Performance audits. Process of audit implies the audit process of FAPAD, which incorporates the planning stage, the field execution, the reporting phase and the settlement of observations. Proper planning and supervision; reasonableness of criteria; sufficiency, reliability, and relevance of evidence

to support conclusions; and fairness and completeness in reporting, implementation of audit recommendations, etc. are suggestive of effectiveness of FAPAD audit.

d. Resource for auditing

The strength of FAPAD is its resource and the best utilization of it. Resource includes human resource, time and budget sanctioned for the office. The study will assess the adequacy of the resource. Since FAPAD is a deadline oriented organization, it needs to utilize the maximum benefit that it can derive from its resources. It may be reiterated that FAPAD has to audit and certify the accounts of 400 units plus, on an average, in a given financial year. Thus its audit effectiveness depends, to a great extent, how much qualitatively its resource has been utilized.

e. Quality control/assurance of auditing and reporting

OCAG aims at producing quality assured credible audit reports with improved audit management (OCAG, 2007). Quality control/quality assurance is ensured both at the audit directorate level as well as in the OCAG. At present, there is a two-tier quality assurance procedure in FAPAD. Firstly, the Quality Assurance Committee 1 (QAC 1) headed by a Deputy Director, is responsible for overseeing quality of the initial audit observations included in the AIRs. And secondly, after issuance of AIRs, the QAC 2, headed by Director, is responsible for selecting the SFIs* that are transmitted to Principal Accounting Officers (PAOs) for taking necessary actions at their ends. Further, there is a Central Quality Assurance Committee (CQAC) in the office of CAG to scrutinize the standard and quality of CAG's audit reports meant to be placed to parliament. Added to this, integrated quality improvement initiatives that the directorate undertakes as part of CAG's strategic planning include, among others:

- checklist for briefing audit teams;
- man-days rationalization guidelines for audit teams based on volume of work and experience;
- checklist for preparing local audit report which is the initial output of field level audit teams;
- sampling guidelines for audit teams;
- checklist for monitoring, supervising and inspection of the work of audit teams;
- guidelines for assessing, controlling and enhancing the quality of audit observations and audit reports by mid and senior level managers.

Responsiveness of Auditees (Project Management and Line Ministries)

It was not the lack of resources that hindered project implementation, pointed out Choudhury (2005), rather misuses and underutilization of funds that posed serious challenge towards reducing poverty and accelerating economic growth. Drawing attention to “audit awareness” on the part of Principal Accounting Officers (PAOs) who are the permanent secretaries of ministries or divisions, and the budget recipients, Ali(2005) stated that they have to take care of budgetary control and appropriate response to audit to achieve the targeted goals of development through ensuring economy, efficiency and effectiveness of public expenditure. The indicators to assess the above variable include:

a. Co-operating in audit objectives and activities

A pre-requisite of audit effectiveness is the extent of response or support that the executing agency/ auditee entity provide to audit functions during the field audit. The cooperation begins with providing audit with all the necessary preliminary data, along with supporting in the overall audit activity as an aid to management. Ali (2005) emphasized on a “complementary” relationship between auditors and the auditees in order to produce meaningful and effective audit reports.

b. Responsiveness to audit recommendations

Responsiveness means responding to or acting on audit recommendations against the observations or audit queries raised in the audit process. This not only establishes accountability in government operations, but also aids in the management performance.

Involvement of Development Partners (DPs)

DPs are one of the important stakeholders of FAPAD audit reports. DPs review the AIRs produced by FAPAD thoroughly. On the basis of audit findings, DPs take important decision about their assistance (Datta, 2007). Accountability enhancement in the public sector is a collective responsibility and each and every institution belonging to this partnership, has to play its role effectively (Ali, 2004). As public expenditure in developing countries is also funded by multilateral and bilateral donors, these agencies too become “stakeholders in the public accountability domain” (Kaul 2004). Involvement of DPs in the auditing process, particularly in some specific areas, would add to the usefulness of FAPAD audit. Indicators for this variable are:

c. Monitoring of management

An effective monitoring of the project management by the DPs, contributes to a positive impact of the audit function for improvement of management practice based on audit recommendations. As an aid to management, audit can help reduce irregularities through detection, correction and prevention. Pressure from DPs to act upon audit recommendations would help ensure accountability of the public sector development expenditure.

d. Meetings /Capacity building programs for auditors and auditees

Trainings for capacity building of auditors and auditees and meetings like entry meetings and exit meetings would help to expedite carrying out of quality audits, minimizing gaps and stimulating due co-operation and understanding between the auditor and auditee(OCAG 2005). These will help in the enhancement of professional expertise of the workforce involved in the accountability chain. Capacity building programs facilitated by DPs would render both auditor and auditee to understand the requirements of donors as well as review the auditing standards in line with the accepted local and international norms.

Supporting Role of Public Accounts Committee (PAC)

Bangladesh provides a typical case, expressed Ahmed and Ahmed, where the task of securing the accountability of officials remains extremely difficult. This necessitates the introduction and strengthening of external control over the activities of government and administration. Despite certain shortcomings, parliamentary surveillance still provides one of the best external means of guarding against the abuse of administrative power in Bangladesh (Ahmed and Ahmed, 1996). The Auditor General's reports are placed before the Parliament as per constitutional requirements. Traditionally, the audit reports are considered to be the domain of the PAC (OCAG 1997), which are scrutinized to make the executives accountable for the public expenditure. PACs are usually the main stakeholders of SAI reports, to which their purpose is to add value through a thorough discussion giving hearing to the PAOs of ministry/division, making recommendations and following up the implementation of those recommendations by government. Simply said, OCAG is the producer of audit reports, and PAC on behalf of the Parliament, is the user of those audit reports. Relationship between CAG and PAC is mutually supportive to achieve good governance in public sector (Azad, 2007). The indicators are:

a. Timeliness in examination of audit reports

CAG's reports provide information, advice and assurances to Parliament and the public about all aspects of financial operations of the donor-assisted programs/projects. Thus regular and

timely discussions of audit reports and findings would ensure transparency and accountability in the project activities. Experiences have shown, due to delay information of PAC, or absence of it, huge number of audit reports remains pending.

b. Follow-up of PAC recommendations

Strong parliamentary oversight is essential to promote good governance. Scrutinizing the audit observations and making recommendations and reviewing settlement of audit observations will ensure transparency and accountability (OCAG, 2007). PAC recommendations on the audit findings are by convention, accepted by the executive departments. Implementation and follow up of these recommendations render the audit work effective and meaningful.

To conclude, it may be mentioned again, FAPAD's working nature is different, compared to the other directorates under CAG. It has to fulfil two-fold responsibility. Its effectiveness depends on the good working relationship with its major stakeholders, particularly the auditees. This study will examine how the other two independent variables (role of DPs and PAC), apart from role played by audit and auditee, exert influence in making audit activities effective. The above discussed four independent variables thus should not be viewed as isolated factors; rather they are jointly to be considered to determine the performance of FAPAD audit. It is therefore important to identify how these factors impact on the effectiveness of FAPAD audit. The study will assess this in the light of the given indicators to analyze FAPAD performance in meeting its objective of ensuring accountability of the donor funded development programs and projects of Bangladesh.

Chapter 3

Foreign Aid and Accountability Mechanisms

Bangladesh, since its independence, has been making all out efforts to accelerate the pace of its socio-economic development in rapid strides through resource mobilization and investment in the most economic, efficient and effective manner. The government of Bangladesh prepares long-term, mid-term plans and annual development programme to rotate the wheel of economic development (Haq, 2007). The financing for ADP is done from two basic sources i.e., Domestic Resources and Foreign/External Aid. The direct taxes and indirect taxes constitute the major national income for the government and are reflected in the ADP. Domestic resources required for the development activities are not sufficient to implement all the programmes necessary for improvement in the quality of life and its sustainability. This financing gap requires external resources through assistance in order to supplement the budgetary need for the development process. External assistance is considered a significant factor in the economic development of Bangladesh in order to bridge the gap between savings and investments and balance of payment (ERD, 2011).

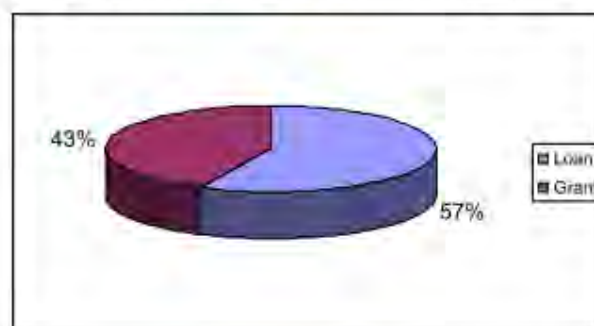
3.1 External Assistance in Bangladesh

As remarked in the previous paragraph, the financing gap of the domestic resource is supplemented by foreign aid. For the period since independence up to 30 June 2010, a total amount of about US\$ 52.59 billion of foreign aid was disbursed (ERD, 2011), comprising both loans and grants.

3.2 Aid Scenario

Over the years, Bangladesh has been receiving different types of external assistance. If classified by purpose, foreign aid falls into three broad categories: Food Aid, Commodity Aid and Project Aid (ERD, 2011). Among the aid disbursed till June 2010, 12.52 % was disbursed as food aid, 20.74 % as commodity aid and 66.74 % as project aid (ERD, 2011). The largest share of foreign assistance, and the most known and popular type

Figure 3.1: Foreign Aid, loans and grants



Source: ERD, 2011

comprises of project aid - foreign currencies of the host country as well as of other countries. It is extended by the development partners primarily to finance the projects included in the ADP.

In Bangladesh, project aid is received from DPs in mainly two forms, grants and loans. Significant changes have taken place in the total aid package to the country over the years. The share of grant is declining gradually. The decreasing volume of grant has resulted in a larger proportion of loan in the total aid package. The share of grant which was 88.2 % in 1972/73 declined to 53.2 % in 1979/80, 55.4 % in 1984/85 and 28.69 % in 2009/2010. Furthermore, the flow of Food Aid and Commodity Aid has drastically declined. Food Aid has declined consistently from 47.9 % of total aid in 1971/72 to 4.19 % in 2009/2010, Commodity Aid has similarly fallen from 50.8 % to nil during the same period, while project aid has increased sharply from 1.3 % to 95.81 % over the same period.

Among the bilateral donors, Japan tops the list in terms of cumulative disbursement followed by USA and Canada. International Development Association (IDA, the soft lending window of the World Bank) is the largest amongst the multi lateral development institutions followed by the Asian Development Bank (ERD, 2011). The aid package, covering both grants and loans, has undoubtedly contributed to the development of the economy, but is also leading to growing external indebtedness.

3.3 Per Capita Debt Obligation

External borrowing and dependence on it for financing the development projects to attain the objectives of national plans, has put Bangladesh into an additional burden on its resources with increasing debt liability. The per capita debt obligation of the country has increased from US\$ 6.59 in 1973/1974 to US\$ 146.80 in 2009/2010 (ERD, 2011). With the shrinkage of share of grant in the external aid package in recent years, the volume of external borrowings is increasing at a rapid pace every year and this has resulted in a progressive increase of per capita debt obligation. The total debt service payment in 2009/2010 represents 10.49 % of the country's merchandise exports, 5.7 % of exports of goods and services (including workers' remittances) and 1.7 % of GDP (ERD, 2011).

Development partners' assistance to Bangladesh is now visibly contingent on the implementation of reform programmes and better utilization of foreign aid. This was clearly indicated in the Bangladesh Development Forum meeting held at Dhaka on 15-16 February 2010 (ERD, 2011). The development partners emphasized the need for accelerated policy reforms and a more efficient use of available resources. The government has to enhance the implementation capacity for a better utilization of development assistance. Improving the process of preparation and approval of DPP or TAPP is also important. In addition, the possible impact of the global financial crisis has to be taken into consideration.

3.4 Foreign-aided Projects and the Funding Mechanisms from Development Budget

The Annual Development Programme is contributing to GDP growth rate and GDP growth rate has scaled from 3.5% in 1972 to 5.7% in 2010 (MoF, 2010). The need for sustainable development requires a sound and pro-people oriented development programme. Projects are smallest units through which objectives and outputs of national plans are achieved (Haq, 2007). Bangladesh is a resource-constrained country and to address the poverty alleviation, it is essential to maximize the benefit out of this scarce resource. Moreover, the country has to bank on international assistance to drive the wheel of economy through project implementation. As stated earlier, projects included in the ADP are financed either entirely by GoB fund, or/and financed both by GoB and Development Partners in the form of i) bilateral, ii) multilateral assistance. There are also some projects completely financed by donor(s). The main modes of funding mechanisms for the disbursements of funds for the aided projects are discussed below:

i. Reimbursable Project Aid (RPA) through GoB: This mode of funding is in respect to the project agreement, where the expenditures are to be initially incurred by GoB, and are subsequently reimbursed by the donor(s) and credited to the government bank account. In that case, the Project Director (PD) is required to follow this procedure at the time of payment to respective payee. Thereafter PD prepares withdrawal applications submitted to donors for reimbursement, requesting reimbursement to government account in Bangladesh Bank.

ii. Reimbursable Project Aid (RPA): In this mode of fund management, project specific expenditures are incurred by PD and funded by donor. The donor credits the Special Bank Accounts with an imprest amount of fund. Whenever this imprest balance has been expended by the project, PD submits claim through withdrawal

applications to the donor, who would then replenish the imprest amount. This transaction is done through a commercial bank account under the project and is operated by PD. The four types of bank accounts in operation for RPA are SAFE; CONTASA; DOSA and IMPREST Account.

iii. Direct Project Aid (DPA): This relates to expenditures incurred directly by the donor as laid down in the project agreement, and the donors have control over the expenditure. DPA funds can be spent by DPs outside Bangladesh or inside the country through their project managers. Therefore, these transactions cannot be directly included in GoB accounts since source data is not readily available to accounts offices or even to Project Directors (Mowla, 2005). If only when informed by the donor, the PD will record it in the project accounting. The information can only be gathered from Statement of Expenditure (SoE) provided by donors. DPA is the grey area of development assistance (Datta, 2007). Due to scope limitation auditors (here, FAPAD auditors) cannot make any comments on the DPA amount spending.

3.5 Aided Projects and Accountability Mechanisms

Foreign aid in Bangladesh is generally utilized through development projects executed by public and semi-public agencies (Mowla, 2005). Although projects are formulated under administrative control of line ministries, the actual responsibility of project implementation lies with project management. Therefore, GoB has established an institutional arrangement through which different public agencies ensure accountability of project management. These agencies include:

i. Ministry of Finance (MoF) : The overall responsibility for preparation of national accounts lies exclusively with Finance Division, Ministry of Finance. Moreover, the Economic Relations Division (ERD) under the same ministry has the formal responsibility of interfacing with the development partners as well as for co-ordination of all external assistance inflows into the country. Therefore, MoF needs to monitor detail expenditure against budget, position of ADP fund release, and source of funding before actual release of funds and to facilitate aid coordination and repayments (Mowla, 2005).

ii. Implementation, Monitoring and Evaluation Division (IMED): IMED under Ministry of Planning is the central and apex organization of the Government of the

People's Republic of Bangladesh for monitoring and evaluation of financial and physical performance of the public sector development projects included in the ADP. The Central Procurement Technical Unit (CPTU) of IMED acts as a central organ of the government for policy formulation, coordination, monitoring and improvement of the public procurement process in Bangladesh.

iii. Executing Ministry: Budgetary allocations in Bangladesh are made against different line ministries. The Principal Accounting Officer (PAO), permanent secretary of line ministry is accountable and answerable to PAC of the Parliament for any irregularities. Financial and physical (monthly, quarterly and annual) progress reports provided by projects and meetings held at line ministries headed by PAOs and/or minister are mechanisms that make project management accountable to line ministries.

iv. Accounts Office: Office of Controller General of Accounts (CGA) has the responsibility for compilation and consolidation of government accounts as a whole. It prepares Monthly Accounts, Finance and Appropriation accounts of the Government of Bangladesh. Monthly accounts work as a tool for managerial accountability. Annual accounts on the other hand, fulfill legislative accountability functions (Mowla, 2005).

v. Public Audit: CAG has the constitutional obligation to audit all public funds. FAPAD, on behalf of CAG audits all foreign aided programs/projects included in the ADP, and at the request of Donor(s). As a specialized arm of the SAI Bangladesh, FAPAD provides independent assurance to Parliament as well as to DPs on the proper accounting for and use of project resources (FAPAD, 1996). FAPAD reports are communicated to PAC, respective Donor(s), PDs and line ministries for making a transparent and accountable project management and to ensure the effective utilization of the available resources pumped by GoB and DPs.

The current study attempts to assess the effectiveness of FAPAD auditing of aided projects. This has been dealt in detail in the ensuing chapters. This chapter may be concluded with a note on audit's three roles – oversight, insight and foresight – that define the ways in which public sector auditors add value to the operations of government, government agencies, and the broader public sector (Jacques, 2008). Through these roles, auditors help the public sector operate with greater transparency, probity and equity. They help reduce risk, improve accountability and maintain the public trust.

Chapter 4

Procurement Auditing of Foreign Aided Projects

The current chapter aims to provide an overview of procurement auditing in Bangladesh. It is divided into three sections that will sequentially explicate the Supreme Audit Institution of the country, to be followed by the study area – FAPAD. And the concluding section is a description of the project taken as a case study.

The implementation capacity of the development programs/projects are a testimony to a government's commitment towards socio-economic uplift. As a developing country with limited national resource, Bangladesh needs all the more to apply best practice in the proper utilization of these resources. Ensuring accountability of foreign aid utilization has become an important consideration for both DPs and recipients. On one hand, donors are accountable to their taxpayers, and on the other hand, foreign aid forms a significant portion of the recipients' budget, having crucial role in fiscal policy formulation and implementation. This increasing role of foreign aid in domestic economy 'illustrates growing demand for accountability and improved basis for internal management' (Mowla, 2005).

4.1 Office of the Comptroller and Auditor General: An Overview

The independence and separate existence of the office of the CAG was provided in the Constitution of the People's Republic of Bangladesh in 1972. It is the highest national body to conduct audit of all government departments, agencies, public sector corporations and public companies having fifty percent or more government-owned shares and report to the legislature (OCAG, 1997). The Supreme Audit Institution (SAI), as it is termed in international auditing parlance, assists the Parliament in ensuring accountability of the Executive to the people. The Comptroller and Auditor General (C&AG) is the head of the SAI who is appointed by the President of Bangladesh.

4.1.1 Historical Background

Preface to the First Edition of *Audit Code* of 1938 of British India mentions the set-up of the office of the Auditor-General under the Government of India Act, 1935 (OCAG, 1999). The genesis of the CAG's office was in pre-partition India, and audit methodology was originally

set out in the 1938 Audit Code of India. Three auditing models are seen worldwide: the Napoleonic/Court model, the Westminster model and the Board System. Bangladesh inherited the Westminster model from the British rule, which is designed to have an Auditor General (AG) who makes periodic reports for the Parliament using the professional audit staff of the Office of the AG (IGS, 2009).

The basic structure of the SAI was inherited from the British system following the Exchequer and Audit Department Act, 1866, of the United Kingdom (Shamsuzzaman and Rahman, 2003). Bangladesh as an independent country came into being in 1971. Its constitution incorporating democracy as fundamental principle was framed and made effective in 1972. Accountability being the essence of democratic form of government, provisions were made under Article 127-132 of the Constitution for the creation of an oversight body for the independent and objective scrutiny of public funds. The OCAG, Bangladesh was thus established with the appointment of the first CAG on the 11th of May, 1973. The OCAG was entrusted both with the comptrollership responsibilities and auditing functions (Datta, 2011). The CAG has been responsible for both the auditing and accounting of public receipts and expenditures. However, the office has been relieved from the accounts-keeping function based on an amendment to the act that was made in 1983.

4.1.2 Legal mandate

The CAG heads the SAI and is appointed by the President of the Republic. He derives authority for exercising his functions from the Constitution of the Republic and relevant acts and ordinances. Article 128(1) of the Constitution mandates the CAG or any other person authorized by him, unrestricted access to any records in the possession of any person in the service of the Republic. Article 128(4) ensures complete independence of the CAG in the exercise of his functions. Under the authority of Article 131 CAG fulfils his comptrollership functions through prescribing the form and manner of keeping public accounts, and certifying annual appropriation and finance accounts of the government. As head of SAI, CAG has the mandate to determine the scope and extent of audit. According to the Article 132, the reports of the Auditor-General relating to the public accounts of the Republic shall be submitted to the President, who shall cause them to be laid before Parliament. The Parliament in turn acts on these reports through its committees like Public Accounts Committee and Committee on Public Undertakings.

4.1.3 Vision and Mission

Vision of OCAG: Attaining Accountability and Transparency in Public Financial Management for achieving good governance. Mission of OCAG: Conducting effective audit of public sector operations for optimum utilization of public resources providing reliable and objective information to assist in establishing accountability and transparency in government activities (OCAG 2009).

4.1.4 Organization and responsibilities

The OCAG is the Secretariat of the Audit and Accounts Department where the broad policies and plans are designed, co-ordinated, evaluated and all administrative actions are taken (Datta, 2011). The basic audit work is accomplished by the audit directorates under supervision of CAG (OCAG, 1997). At present the CAG conducts audit through ten separate audit directorates which are organized on a functional basis. There are around 22040 auditable units in Bangladesh (OCAG, 2008). It is impossible for the OCAG to audit all those entities in a year. Therefore, the office categorizes auditable entities into three classes, namely A, B and C based on the volume of expenditure and transaction, budget allocation and nature of activities. It undertakes annual audit for A group/category, audit in every three year for B group and audit in every 5/7 year for C group. The A and B categories each cover 20% of total auditable entities. The remaining 60% fall under the C. Thus 80% of the auditable entities are not audited annually (IGS,2009).

Approximately four thousand (3947) officers and staff are presently working in the OCAG. About thirteen (13%) percent of the employees are female. Class I officers constitute 1267 in number, Class II, 553. The bulk is the Class III staff comprising of 1814 in total, and 39 of Class IV staff (OCAG, 2014). The concern about the rights of the citizens and helping policy makers in attaining their objectives through good governance has had SAI responsible to look at the things from within and outside. An analysis of what the government has planned to achieve and how, made SAI's task both friendly and unpleasant. So the SAI cannot let the money of the tax payers to be wasted, at the same time let go the aspiration of the government astray (Ali, 2005).

Directors General (DGs), the heads of the audit directorates are responsible for conducting audit on behalf of the CAG in the government offices as well as the public sector

undertakings. Alongside traditional approach to carry out Financial and Compliance or Regularity Audits, the office has started working on Performance Audit to determine economy, efficiency and effectiveness in the management of public resources, thereby adding value to the governance issues (OCAG, 2009). Attempts have been made to introduce IT and Environmental audit. The CAG certifies the Finance accounts and Appropriation accounts prepared by CGA, CGDF and ADG (Finance) of Bangladesh Railway.

The audit processes involved in the audit activities of the directorates are more or less of similar nature. The OCAG prepares the annual audit plan on the basis of its strategic plan. Audit issues are selected considering risks to good management, financial materiality and significance of the issue (Datta, 2011). OCAG conducts audit on test basis. All AIRs are initially issued to management/audited entities. The Serious Financial Irregularities (SFIs), called Advance Para, (AP) are transmitted to the Principal Accounting Officers (PAOs)-Secretaries of the line Ministry/Division(s) for necessary response/comments at their ends before the preparation of draft audit reports. In the CAG secretariat, the Central Quality Assurance Team (CQAT) ultimately examines the draft reports before their approval by CAG. The CAG submits the reports to the President of the Republic who causes them to be laid before the parliament. To date, 918 audit reports and 900 accounts reports have been submitted to the parliament (Datta, 2011).

4.1.5 Financial impact of audit activities

As per Annual Reports issued by OCAG, the Office has been contributing significantly to aid accountability and safeguarding public resources from misuse, losses, misappropriation etc. The year 2009 saw a total recovery and adjustment of Tk. 57149 million, a resultant picture of audit activity, with Tk.122 saved for every Taka spent in auditing, and in the year 2010 the ratio of cost to benefit is 1:123 (Datta, 2011). These reported results, indicated ex-Auditor General, Syed Yusuf Hossain (1999), are only part of the story, since the greater benefit to the public exchequer is the deterrent effect against wastage and misuse as the result of the existence of the legislative audit function.

In the Annual Report 2013 issued by OCAG, it is stated that the impact of audit cannot be assessed from the limited standpoint of audit reports placed and discussed by the PAC. The deterrent effect of audit is important that cannot be quantified. However a considerable part

of audit efforts are reflected in the AIR that are issued to the audited organization and followed up subsequently. Large number of accumulated audit observations is settled every year through bi-lateral and tripartite meetings with positive impact in terms of recovery and adjustment of public money.

Table 4.1 : Audit Observations have been settled in 2012-2013

| Ministry | Number of audit observations | Amount involved (In Crore Taka) |
|---------------|------------------------------|---------------------------------|
| 37 Ministries | 26584 | 11619.19 |

The following table shows at a glance the amount of money involved in audit observations discussed in PAC meetings of the 9th Parliament, till March 2011.

Table 4.2 : Amount Involved in Audit Observations Discussed in PAC meetings

| Category | Taka | Percentage |
|--|---------|------------|
| Adjustment and Recovery | 355.56 | 7% |
| Recommended for Recovery | 509.85 | 10% |
| Recommended for Investigations and Departmental Case | 2839.21 | 58% |
| Others | 1253.85 | 25% |

Source: 2nd Report of PAC of 9th National Parliament, June 2011

These involve recommendations of adjustment and recovery, recommendations for investigations and departmental case and others (eg. settled, tripartite meetings decision, physical verification, follow-up of PAC recommendations, etc) based on recommendations of PAC.

As per 4th PAC report of the 9th parliament the committee and its sub-committees examined 6740 audit observations of 570 audit reports in 268 sittings. Among 6740 audit observations, 4113 observations were settled for taking appropriate measures by the executing agencies. Tk 1396.747 crore was recovered and adjusted through audit recommendations and another TK 2566.68 crore has to be recovered as per PAC's instructions.

The following section of the chapter is a description FAPAD, of one of the directorates under CAG, which is responsible for auditing the accounts of donor assisted programs/projects in Bangladesh. This is also the focus of the research.

4.2 Foreign Aided Projects Audit Directorate (FAPAD)

The area of present study is the Foreign Aided Projects Audit Directorate (FAPAD), one of the ten audit directorates under the CAG of Bangladesh. The objective of the thesis is to look into FAPAD audit effectiveness in upholding accountability of foreign aided projects in Bangladesh. It is thus helpful to have an understanding of the organization and its nature of work.

4.2.1 Establishment

Audit of foreign-aided projects became institutionalized in our country with the establishment of the Foreign Aided Projects Audit Directorate (FAPAD) in 1982. According to a Report of the Martial Law Committee on organizational set-up of the Directorate of Audit, Foreign Aided Projects, Finance Division, Ministry of Finance and Planning (December, 1982), FAPAD was created in 21-11-1982 with 100 posts of officers and staff as sanctioned by the Finance Division at the initial stage. The establishment of the new office and its organizational structure was prepared at the desire of and in consultation with, the World Bank (WB) and the ERD of the government. In order to conduct audit of Foreign Aided Projects as outlined by the WB in their letter, dated 9-6-1981, and to ensure timely submission of audit report to satisfy the requirements laid down in the credit agreements, the top level supervision was required to be strengthened (Chief Martial Law Administrator's Secretariat, 1983).

Prior to that, there was no separate audit office to conduct audit of the foreign-aided projects, and this work was carried out by different directorates under CAG rather haphazardly (Khan, 1996). The directorate has been entrusted with the responsibility of auditing the accounts of all foreign aided projects of Bangladesh. Every year all development and technical assistance programmes and projects in the public sector funded by foreign aid, and appearing in the Annual Development Programme of the government, come under the audit jurisdiction of FAPAD. The existing manpower of FAPAD is 178 (OCAG, 2009), against a sanctioned provision of 300. Among the officers and staff currently working in FAPAD

almost 38% are Class I officers and only 6% cadre officers. The DG, who heads the directorate, conducts audit and prepares audit reports on behalf of the CAG, according to Article 128 of the constitution. DG is assisted in this work by his staff. In any directorate Deputy Director functions as the focal point of audit activities. Different sectors of FAPAD are assigned to carry out the field audit of the listed projects.

4.2.2 Functions of FAPAD

The functions allocated to the directorate, according to the Martial Law Committee Report (1982) of its Organizational Set-up are given below:

- a) Conducting local audit of all foreign-aided projects in Bangladesh and audit reports thereon.
- b) Issuance of audit certificates on the project accounts to the Government and other authorities as prescribed by the Government.
- c) Conducting audit of all loans, grants and aids received from various aid-giving agencies and other friendly countries.
- d) Maintaining liaison with the aid-giving agencies and the Government in all matters relating to audit.
- e) Providing financial advice to the foreign-aided projects in maintenance of their accounts.
- f) Prescribing manner and forms on which the project accounts would be maintained.
- g) Arrangements for imparting training to the project accounts people to improve quality of project accounts.

4.2.3 Distinguishing features of FAPAD – Its twofold responsibility

The CAG, as the head of SAI Bangladesh, has the constitutional responsibility to conduct audit of all foreign-aided programmes and projects, certify their accounts and submit audit reports to Parliament. FAPAD, on behalf of CAG, is responsible for verifying ex-post, that the donor-funded development expenditures conform to administrative, legal, legislative and donor requirements. This working arrangement in FAPAD is different in comparison to other audit directorates. The other audit directorates have to produce audit report to meet the audit requirement of the Parliament. But audit responsibility of FAPAD is primarily twofold. First, it has to meet the audit requirement of the National Parliament. That is, it has to fulfil the constitutional obligation of CAG to audit the foreign aided programs/project accounts and submit audit reports to Parliament through the President of the Republic. Secondly, it is

required to meet the requirements set out by the lenders/donors which have been agreed to by the GoB.

As per provision of the Development Credit Agreement (DCA) or the project loan/grant agreement, the DPs and the loan giving countries/agencies are to be furnished with audit certificates on schedule. Each DP has their ToR for auditors and timeframe when they require the annual report, known as the Audit Inspection Report (AIR), to be furnished. This is the preliminary audit report issued to DPs and auditee organizations. The main function of FAPAD is to certify the annual financial statement (FS) and other special accounts of the project. In doing so, as said before, FAPAD follows the certification of International Standards of Auditing (ISA) practice and certify the FS as i) Unqualified, ii) Qualified, iii) Disclaimer and iv) Adverse. Besides this, FAPAD makes comments and observations on conformity of financial regulation and compliance of conditionality as laid in the agreement between GoB and DPs. In addition to these, FAPAD also makes remarks on the internal control of the project management. Thus FAPAD report is comprehensive and exhaustive.

FAPAD communicates its report to the line ministry of the government responsible for overseeing and executing the project implementation, and to respective donor(s). This is intended for making a transparent and accountable project management and to ensure the utilization of available resources pumped by GoB and donors (Haq, 2007). FAPAD annually prepares a report of unresolved issues and submits to CAG for his approval in placing before parliament for discussion in PAC. Therefore the major stakeholders of FAPAD audit are OAG, Public Accounts Committee (PAC) of the Parliament, Development Partners, line (concerned) Ministries, project management/Project Directors (PDs) and Economic Relations Division (ERD) of the government. The major development partners of Bangladesh are WB, ADB, UNDP, UNFPA, JICA, IDB, UNICEF, DFID, CIDA, USAID, and DANIDA etc. Some DPs have specific timeframe to get the FAPAD audit reports. FAPAD has to meet the deadlines. FAPAD Audit Calendar is shown in Appendix C.

4.2.4 Auditable units and audit teams involved

The number of auditable units under FAPAD for a given period (1 financial year) depends on the number of foreign aided projects included in the ADP of the government. 489 auditable units are under FAPAD audit coverage for FY 2010-11 (FAPAD, 2010). That is, almost 35% of the total budget allocation and expenditure of the ADP come under the audit jurisdiction of

FAPAD. It may be stated again, that the revised ADP allocation for FY 2009-10 was Tk.28,500 crore. Of this, Tk.11,300 crore was project aid, i.e. almost 39% of total ADP allocation. This portion is currently under the purview of FAPAD audit for FY 2010-11. There are two-member 36 regular audit teams/parties in FAPAD at present engaged in field audit. However, this number varies as per requirement. Manpower involved in the field audit is almost 41% of the existing strength, according to sources from the directorate.

4.2.5 Annual Audit Plan

At the beginning of the financial year, FAPAD prepares the Annual Audit Plan – a list of auditable projects. The projects/programs that are included in the ADP are incorporated in the list with purpose to be audited in the concerned financial year, and as per donor deadline. Audit programmes are usually prepared on quarterly basis. In such cases, the audit procedures entail the selection of auditable projects. This is followed by collection of data/information on those projects and then analysis and identification of risk areas. This process takes place in the headquarter, i.e. FAPAD, to presume irregularities and to determine areas of audit (Datta, 2007). Subsequently, audit teams are formed and sent to field audit.

4.2.6 Scope of audit

The audit is conducted following ISA and practices of INTOSAI/SAI, Bangladesh and also as per procedures prescribed by DPs. The foreign aided projects are guided by several project documents, like the DPP, DCA, contract documents, World Bank Procurement Guidelines, ADB Procurement Guidelines, UNDP and UNFPA reporting formats, Consultants' study reports, Project Appraisal Reports, Review Missions' Reports etc. Besides, Bangladesh government has its own Procurement Act and Guidelines (PPR Act 2006, PPR 2008). These documents are within the scope of audit in operations.

4.2.7 Types of audit

FAPAD usually conducts three types of audit, i.e., Financial Statement Audit, Compliance Audit/Regularity Audit, Performance Audit (in a limited scale). Financial Statement (FS) prepared by the project is the key document of FAPAD audit. The preparation and issuance of FS is the responsibility of project management. FAPAD certifies FS and has to make opinion on

- Financial operations and controls

- Adequacy of management structures
- Equipment use and control
- Monitoring, evaluation and reporting (MER)
- Follow-up actions, etc.

FAPAD audit at present is mostly limited to financial and compliance audit, i.e. regularity audit. But the stakeholders, mainly the parliamentarians are interested to know whether the project objectives have been achieved or not. PAC in 1998 in its second report requested the OCAG to extend performance auditing to at least 1% of public sector organizations by the year 2000 (cited in Azad, 2007). By a decision of CAG, FAPAD is supposed to carry out 40% regularity audit, 40% issue based audit and 20% performance audit of all foreign aided projects (cited in Mowla, 2005). The local audit reports of FAPAD are called the Audit Inspection Reports (AIRs). These reports are issued to the Principal Accounting Officer of the Ministry/Division, the project management or the Project Directors, the Development Partners, ERD. The final report approved by CAG and to be placed to the President to be laid to the Parliament, is known as the CAG's Audit Report.

4.2.8 Achievements

Audit conducted by the audit directorates under the OCAG leads to savings and other efficiency gains worth millions of Taka that are deposited to the government exchequer every year (OCAG *Annual Report 2009*). Annual Reports issued by OCAG provide statistics on the recovery and savings of a huge amount of money – the direct result of audit activities. In 2009 a total recovery and adjustment of Tk. 57149 million was made, with FAPAD amount totalling to Tk. 6537mn. Furthermore, for every one taka spent against the operating cost of FAPAD in 2009, Tk.146 was saved, i.e. the ratio of expenditure to recovery was 1:146. In 2008 the recovered amount was Taka 516.49million, while in 2007 the ratio of expenditure to recovery was 1: 102.48 (OCAG2009, 2008 and *FAPAD Newsletter 2007*). OCAG Annual Report (2005) highlighted a note of appreciation by the World Bank to SAI Bangladesh. The Country Director praised the efforts of FAPAD for adeptly coordinating with all the IDA projects and ensuring the availability of the reports to all parties concerned. The bank believed that the initiatives by FAPAD would add value to the quality of audit reports and bring more transparency and accountability in the implementation of the projects.

4.2.9 Settlement of audit observations

The total process of audit para settlement involves 90 days, starting from issuance of AIR to management till discussion at PAC sittings on Draft Paras incorporated in CAG's Audit Reports. A total of nine audit observations were settled in 2008 and 2009 by the OCAG. This settlement is subject to the final approval of the PAC. The following tables shows the status of settlement of FAPAD audit observations along with the amount involved: The impact of audit cannot be assessed only from the limited standpoint of audit reports placed and discussed by the PAC (Datta, 2011). A considerable part of the audit efforts are reflected in the AIRs that are issued to the audited organizations and followed-up subsequently. A huge number of accumulated audit observations are being settled every year through Broadsheet Reply given by management, by holding regular bilateral and tripartite meetings with a resultant impact in terms of recovery, adjustment and regularization of public money.

4.2.10 Steps of FAPAD audit

The whole audit process undertaken by FAPAD involves three broad stages: Planning, Execution, and Reporting and settlement of audit observations. The output of the audit activity is the FAPAD local audit report that is the Audit Inspection Report, which is to be finally developed into the audit report of CAG. As stated earlier, FAPAD audit starts after the project accounts are closed at the end of a financial year, and the accounts are prepared in line with accepted accounting standards. The planning of the actual audit begins with the preliminary data collection by the auditors, at the completion of preparing the Financial Statement by the project management.

4.3 National Agricultural Technology Projects (NATP), a case study

4.3.1 Background

Agriculture sector continues to be major contributor to the Gross Domestic Product (GDP) in Bangladesh. Although its contribution to the GDP alone is nearly 23%, contribution of rural non-farm economy to the GDP, which is about 33%, is also largely related to agriculture. However, it is revealed that the productivity of rice, other crops and agricultural commodities, such as, fisheries and livestock has declined and there are large yield gaps between farmer's fields and research trials, which is largely attributed to weak technology generation and transfer, declining cultivable land, poor functioning of input and output markets and delivery of other support services, low private sector investment in agro-

processing, weak local organizations, such as, Producer's Organizations (POs) to influence government agencies for delivery of agricultural services and less investment in National Agricultural Research System (NARS). These problems are addressed by the National Agricultural Technology Project (NATP), which is funded jointly by the World Bank, International Fund for Agricultural Development (IFAD) and the Government of Bangladesh (GOB).

4.3.2 National Agricultural Technology Project (NATP): Phase 1

National Agricultural Technology Project (NATP): Phase 1 is a comprehensive project, which focuses on revitalizing the agricultural technology system, such as, agricultural research, extension and development of supply chains etc. and thus increasing agricultural productivity in Bangladesh.

The overall objective of the project is as follows:

- to support the Government's strategy to increase national agricultural productivity and farm income; and
- to improve effectiveness of the national agricultural technology system in Bangladesh.

The project has 7 Implementing Units with four components as follows:

- i. Project Coordination Unit (PCU) headed by a Project Director responsible for overall coordination of the project.
- ii. Project Implementation Unit (PIU), Bangladesh Agricultural Research Council (BARC) for implementing agricultural research component along with KGF.
- iii. Project Implementation Unit (PIU), Department of Agricultural Extension (DAE) for implementing agricultural extension support component along with PIU-DLS and PIU-DOF.
- iv. Project Implementation Unit (PIU), Department of Fisheries (DOF) for implementing agricultural extension support component along with PIU-DAE and PIU-DLS.
- v. Project Implementation Unit (PIU), Department of Livestock Services (DLS) for implementing agricultural extension support component along with PIU-DAE and PIU-DOF.
- vi. Kshrishi Gobeshona Foundation (KGF) for implementing agricultural research support component along with PIU-BARC.
- vii. Hortex Foundation for implementing development of supply chains component.

4.3.3 Audit activities under NATP

Annual financial and post procurement audit of **NATP** activities is carried out by two independent auditors:

(i) Foreign Aided Projects Audit Directorate (FAPAD), the government statutory audit agency mandated to audit all projects funded by donors, and(ii) Chartered Accounting (CA) Firms (external auditors) engaged by WB.

4.3.4 FAPAD audit

FAPAD conducts annual audit of the Financial Statement (FS), as well as financial transactions at NATP and the cost centres. For this FAPAD follows ISA and procedures prescribed by GoB and DPs. Based on its audit findings, FAPAD issues AIRs within six (6) months after the close of each financial year. The AIR contains audit opinion on the audited FS, Management Letter, audit observations, and recommendations for necessary actions by the concerned implementing agencies.

4.4 Summary

FAPAD conducts and operates audit of different foreign aided programs/projects of the government of Bangladesh as per ADP and at the request of donor, and report to Parliament and donor(s). These are done on annual basis and sometimes occasionally at the request of GoB and donor(s). FAPAD meets the obligation of CAG to conduct and operate audit of all foreign aided programs/projects of the government and to report respective authorities for subsequent reporting to Parliament. This chapter has given an overview of the working environment of the Office of the CAG, with special focus on the study area, i.e. FAPAD. An introduction has also been made of the FAPAD audit activities in a particular Program taken as a case, funded by foreign aid, namely **NATP**. The next chapter presents the findings of the data through which to assess the effectiveness of the directorate.

Chapter 5

Effectiveness of FAPAD Procurement Auditing

The purpose of this paper is to assess the effectiveness of procurement auditing of foreign aided programs and projects in Bangladesh. This chapter deals with the findings and analysis in this regard, based on data gathered from primary and secondary sources. Effectiveness of procurement audit means how well the end results of audit are meeting the intended outcomes. It may be mentioned here that the intended outcome of government audit is to ensure accountability and transparency across the government. In the current paper, audit effectiveness is meant to be concerned mainly with the role of audit in ensuring accountability of the audited entities (project management and line ministries), in the use of financial resources.

As stated before, the performance of FAPAD is considered to depend upon two main kinds of activities, firstly, functions directly related to the audit process, like, audit planning, programming, and processing, audit methodologies, etc., and second, functions needed to perform to acquire environmental support in favour of the audit activities. The major environmental actors for FAPAD are the auditees (project management and line ministries), the Parliament, the Development Partners, and the general people. Media and civil society also act as significant partners in the accountability process.

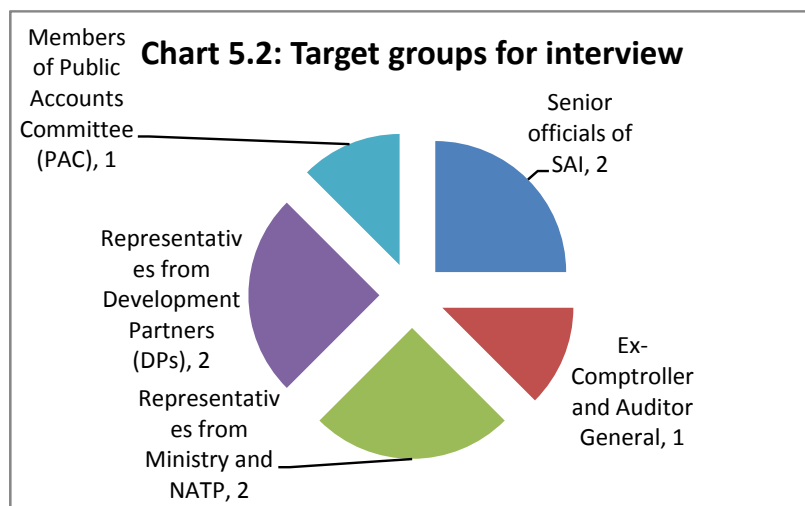
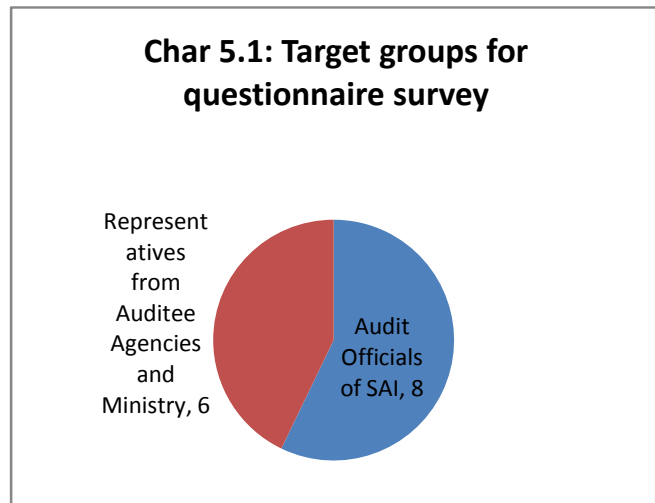
For the purpose of achieving the objectives of this paper, data has been collected through questionnaire surveys and interviews. Two sets of questionnaires were developed for the purpose of the study, to collect primary data from both the parties involved in actual auditing, the auditors and auditees. Face-to-face interview, using an open-ended semi-structured questionnaire, was conducted for interviewing senior officials of SAI, the Director General of FAPAD, FAPAD's concerned stakeholders - senior officials (Deputy/Joint Secretary) of the ministries and of project management, Chairman and a member of the present PAC (9th Parliament), senior officials of development partners (DPs). Thematic analyses of responses made by respondents of the groups have revealed a number of aspects relating to effectiveness of government audit in Bangladesh. Tables incorporating the responses (in both absolute number of responses and in percentage), and charts are described in the following part of the chapter. Data collected from the survey has been presented chronologically with

findings and necessary analysis, supported by case study. The findings are presented corresponding to the independent variables taken and indicators selected. For convenience, the responses are listed relating to the questions, followed by brief interpretation/analysis.

5.1 Findings through Data Analysis

It is relevant to project and interpret the findings applying possible statistical analysis. Since source data comprise of both qualitative and quantitative information, apart from summarization of data, some figure-based analyses and deduction are also made. In this data presentation section, summarization of data, use of number and percentage, some graphical representations reflecting the comments of the respondents on issues pertaining to performance of audit and responsiveness of its stakeholders are used. Some measures of location and other tests are also applied.

The work nature and standard of FAPAD, as stated, is unique in comparison to the other directorates under CAG. As FAPAD has to meet the deadlines of the Development Partners (DPs), the Audit Inspection Reports (AIRs) have to be made available to DPs as per the timeframe agreed between GoB and DPs in the loan agreement. There were two research questions that this study sought to address; one was related to the extent of FAPAD procurement audit being effective in carrying out its responsibility of auditing foreign aided projects, and the second one was on the degree of auditee entities' responsiveness towards procurement audit. With a view to addressing the above mentioned questions, data has been



collected through questionnaire survey of 14 personnel (8 from OCAg and FAPAD and 6 from auditee agencies and ministries) and interviewing 8 high level officials. Besides, content analysis was also completed as a source of secondary information. These were discussed in the research methodology section in the first chapter.

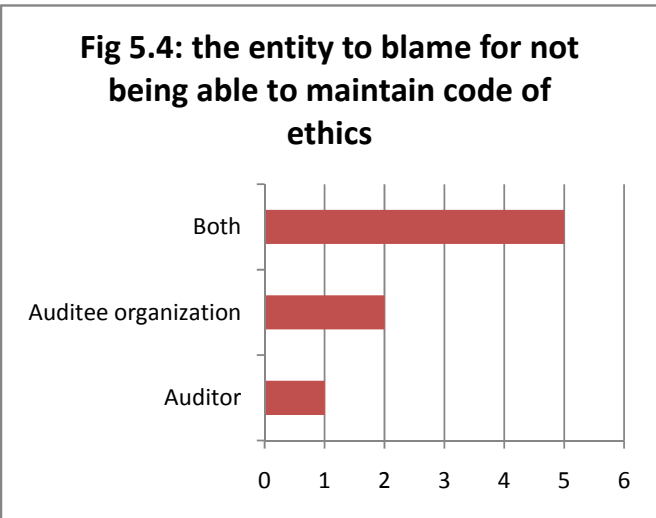
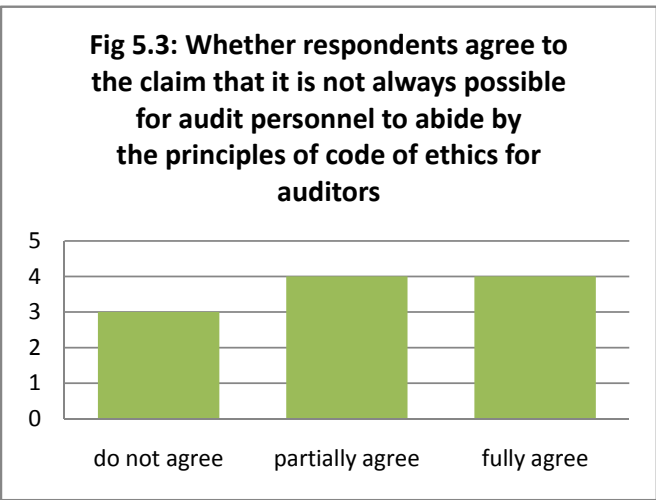
Keeping in mind the research questions and objectives of the study, all these are done to justify the analytical framework of the study. The following part elaborates the findings and interpretation of the data collected during interview with the target groups of the research work. The analyses are arranged in sequence to the independent variables of the study.

5.1.1 Independent variables relating to auditor, FAPAD and OCAg:

a. Application of Auditing Standards and Ethics

Audit can help restrain any tendency to divert public resources for private gain (Sahgal,1997). By auditing government income and expenditure the Office of the CAG provides assurance for financial integrity and the credibility of reported information and contributes to building up National Integrity System (IGS, 2009). Audit activities therefore need to conform to professional auditing standards to make quality observations. A Code of Ethics has been formulated by OCAg, which it tries to implant in the auditors to adhere to values of ethics needed to objectively assess the financial integrity of management. The findings against the indicators of the variable are presented below.

During the in-depth interview of the two senior officials of OCAg and one of the former auditors general it has been revealed that the audit department as a whole tries



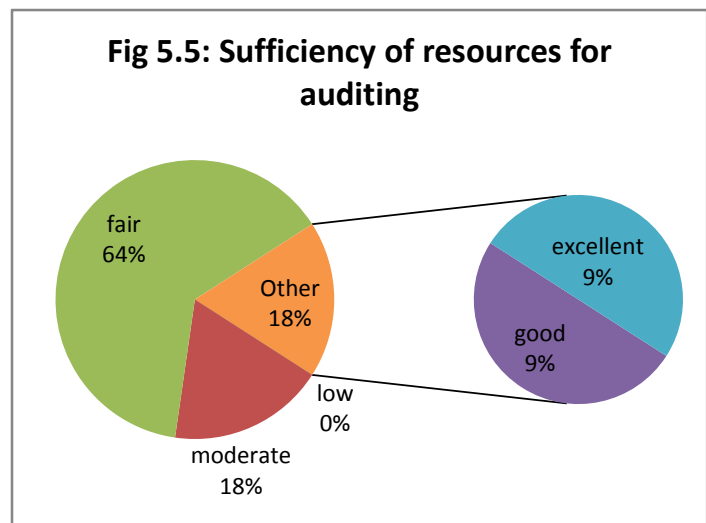
heart and soul to stick with the ethics and auditing standards. This is specifically true for FAPAD as it has to satisfy the development partners' requirement of quality audit reports. The department has increasingly endeavoured to update its standards to conform to ISSAI. However, the questionnaire survey and interview of 11 OCAG personnel had a finding that 8 of them partially or fully agree that it is not always possible for the auditors to strictly maintain code of ethics. Five of them put the blames on the shoulder of both auditors and auditees for the failure.

b. Types of audit

The full scope of OCAG's mandate includes financial statement audits, regularity (or compliance) audits, and performance audits. The question regarding the type of audit usually undertaken by FAPAD was asked to audit personnel only. All of them confirmed that there has been no audit conducted by FAPAD with only focus on procurement but almost all the audit exercise has made a significant number of observations regarding procurement issues. The Director General of FAPAD, in his interview, categorically mentioned that the last year audit findings have more than 50% observations regarding procurement issues. For that reason, all the compliance audit conducted by FAPAD can be considered as procurement audit for the purpose of this research.

c. Adequacy of FAPAD audit resource

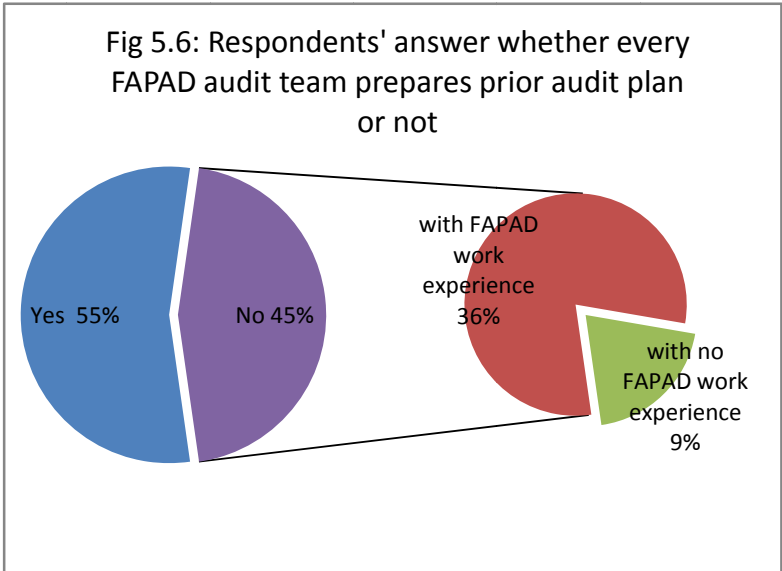
The main resource of audit is the available competent workforce and time for auditing and reporting. FAPAD, reported Dayal (2000), which alone has the responsibility to audit 650-700 projects per year, is facing problems, like other directorates, as the number of available audit staff is seriously inadequate to do justice to the volume of audits. The auditable units of FAPAD for the financial year 2013-14 is 489, and the number of audit teams are 36, comprising of around 80 personnel. However, the personnel of OCAG surveyed have a slightly different view with more than half of them think that the resource sufficiency in FAPAD is actually fair. They also held that any kind



of resource constraints must be tackled with proper audit operation plan.

d. Importance of audit operational plan

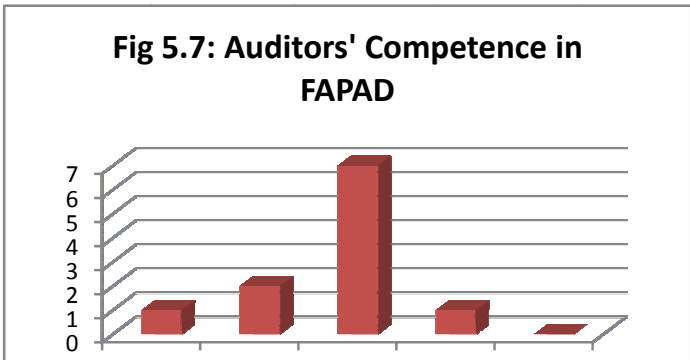
Individual audit work plan prepared by the concerned audit team is an important audit strategy that helps the team to perform audit in an efficient and timely manner, making the optimum use of audit resources. The lack of planning and the limited number of staff and time allotted for the large volume of audits result in superficial examination and more reliance on management provided information (Dayal, 2000). The survey and interview of OCAg personnel has revealed competing claim regarding



prior operation plan prepared by FAPAD audit teams. 45% of the respondents held the opinion that FAPAD audit teams do not prepare audit operation plan before field investigation. Interestingly of this 45% respondents only 9% had working experience in FAPAD. Contrarily, the Director General of FAPAD has made a strong claim that hundred percent of their audit teams prepare prior audit operation plan. To base his claim he invited the research team to randomly pick 10 to 15 audit file from the list and surprisingly all of the files, when brought to the research team immediately, were found to contain prior audit operation plan.

e. Competence and skill of FAPAD human resource

Skill and expertise of an office are its most valuable assets. This is more significant incase of FAPAD, as the

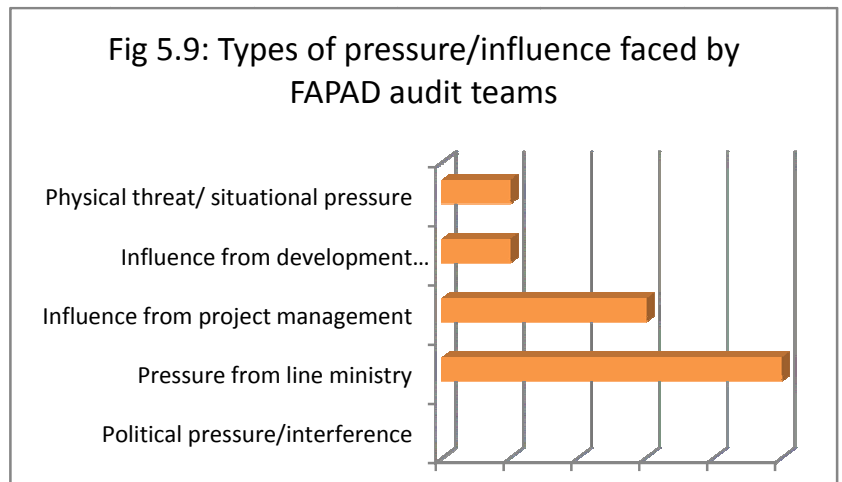
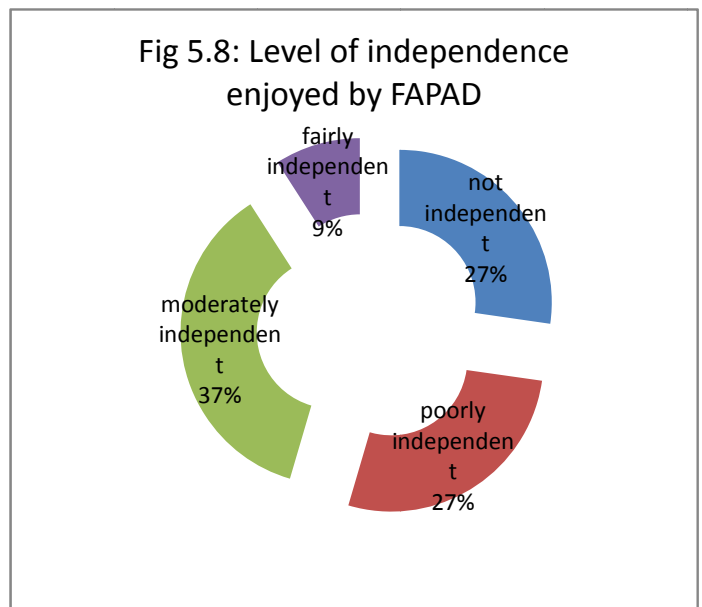


directorate has to furnish audit opinions on financial statements prepared by management that requires sound understanding of the system. Moreover, as all the project documents (DPP, DCA etc) are prepared in English, and the AIRs are also prepared and issued in English, language ability is of vital importance. So both technical skill and language proficiency are necessary. *Country Financial Accountability Assessment* conducted jointly by the UNDP and the World Bank on SAI Bangladesh in 2000, observes that lack of adequate staff and quality control has limited the effectiveness of audit reporting (cited in OCAG, 2000:6). The most serious shortcoming of the OCAG is the lack of suitably qualified, experienced and trained staff (Dayal, 2000). However, the respondents both from OCAG and auditee organisations hold a good impression about the expertise and skill of FAPAD auditors. Almost 70% of them think that FAPAD auditors are fairly competent in conducting their business.

f. Independence of auditors in discharging duties

Auditor's independence is the basic foundation for the credibility of audit. The audit function should be independent from those it is required to audit. Organizational independence as well as auditor's individual independence allows the audit function to conduct audit work without interference by the entity under audit. Consequently, users

can rely on the objectivity and the accuracy of the auditor's result and reports. The Constitution of Bangladesh has given enough independence in terms of mandate. In the present research, independence is related to the functional side, which is independence of auditors in discharging their duties. The ground reality of the issue of independence is difficult to measure. A measure perception among the auditors



and auditee organisations can be useful for the purpose of this research. Although no respondents from both OCAG and the auditees perceive FAPAD as fully independent, almost 50% of them see FAPAD as fairly or moderately independent. However, interestingly, 91% of the respondents from the OCAG reports that they have been reported with a incident of pressure/influence faced by the auditors. When asked about the types of pressure/influence they have been reported with, they asserted that pressure from line ministry and project management had gotten the highest incidence.

g. Effectiveness of quality control/ assurance of audit and reporting

There are no benchmarks for quality in the audit process, observed Dayal (2000), and further stated that a relatively small number of generalist audit managers, who themselves lack sufficient audit training and experience, are expected to provide direction, guidance and supervision to a huge number of largely unqualified and untrained auditors. Quality control and quality assurance mechanisms of auditing and reporting that are in practice in FAPAD, are supposed to prove effective as means of better audit output. These control tools are also laid down in the FAPAD Manual. These are also in line with the directives set by OCAG for the audit directorates, for quality auditing. In practice, all of the OCAG respondents perceive quality control as an integral part of audit process and claim that an effective system of quality control is in place in FAPAD. 70% of them view monitoring and supervision as the most fruitful method to ensure quality.

5.1.2 Responsiveness of Auditees (project management and line ministries)

To uphold the audit objective in making its oversight function meaningful, the cooperation of the audited entities and the line ministries is an indispensable criterion. These actors, in fact, are the subject of audit oversight functions, and important partner in the chain of accountability relationship.

a. Audit as an aid to management

Audit is said to be an aid to management, its objective to promote accountability and transparency for improved public financial management (PFM). In the modern concept of managing organisation, especially in the era of new public management, organisations strive for continuous improvement. For this they need independent and external review of their work flow, process, control and compliance. In this perspective audit in modern management

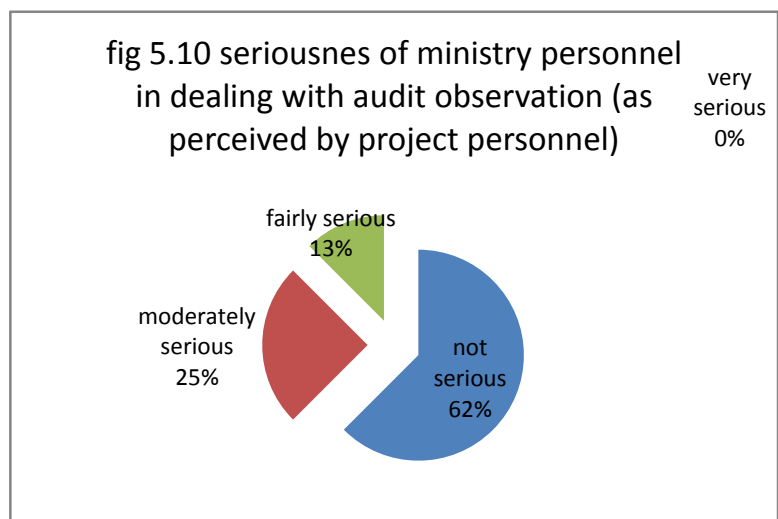
has long been seen as an aide to management. In the present study both OCAG and auditee personnel were asked whether they find this positive relationship in the ground. More than 60% of the respondents from both the sections have confirmed that they have not experienced such a relationship. When questioned about the reason behind, auditors blamed auditee and auditees blamed the auditors. However, one of the former auditors general thinks that lack of belief in the concept that audit is an aide to management is the main reason behind such an unfavourable relationship.

b. Responsiveness of the project management

Responsiveness of the project management in giving/taking timely and proper reply/action as per audit recommendations against observations raised is an important aspect rendering effective audit. The FAPAD reports by themselves, even if they are of substantial nature, will not be meaningful and prove effective if the auditees are not responsive to audit findings and recommendations, to bring improvement to management. Review of FAPAD AIRs showed that often the management’s approach to the audit observations raised, are their inclination to giving answers (spot replies) “later on after verification of relevant records”. This not only hinders an effective audit result, but results in an increase in audit observations. After issuance of the final AIR, the auditee and the line ministry seldom responds to the observations within the stipulated time. 90% of the respondents from the OCAG have confirmed this situation. Interestingly, more than 50% of the respondents from auditees have agreed that timely response to audit observation would make audit more effective and help achieve their organisational goal more smoothly. In the in-depth interview the project personnel mentioned that lack of proper record keeping and financial planning (e.g. annual procurement plan) are the major reason for untimely response and increased audit observations.

c. Seriousness of the line ministries towards audit

In a recent view exchange meeting with the media, the present CAG said that though it is the duty of Principal Accounting Officers to



ensure financial discipline in their respective organization, they do not do it let alone rectifying those anomalies and misappropriation reported by the CAG (*The Daily Star*, May 2011). *How much serious are the line ministries when responding to audit observations of serious nature - Advanced Paras*(APs) or Draft Paras* (DPs) - concerning projects of their ministries?* – This was included in the list of questions to find out the mindset of line ministries towards audit. The respondents from line ministry claim that the ministry are very serious about responding to audit observations. They mentioned that every ministry has a dedicated audit section to deal with this task. However, the respondents from project management side have a different view. They described from their experience that ministries are not very serious about advanced para; they show some seriousness when they deal with draft para.

d. Seriousness of the auditees towards non-recurrence of similar audit objection

Response was sought about consciousness of the auditees (project management and ministries) to check/avoid recurrence of similar irregularity - detected through auditing – in future. If same type of error/irregularity takes place in the following year in the financial transactions of the same project, despite previous audit objection in similar area, will be indicative of the minimum effectiveness of audit as means of improvement of PFM. From self experience, the researcher has often witnessed that similar errors continue in the financial transactions of the project funds. However, the majority of the respondents from both OCAG and project management held that auditees are very serious towards non-recurrence if the detected irregularity is of serious in nature. They held that irregularities that recurs are actually of less materiality.

5.1.3 Role of Development Partners (DPs) in facilitating effective auditing

Development Partners are also significant actors in the chain of accountability relationship. They are the co-financers of the government's funding of foreign aided projects, in implementing of the government's policies and plans. FAPAD has been maintaining a good relationship with DPs from the very beginning, and meets the audit requirement of DPs in furnishing timely audit opinion on the FS of project's accounts. Regarding response about the role of DPs in facilitating effective auditing, auditors and auditees, as well as the DPs agreed that intervention of DPs would bring about a meaningful output and outcome from audit activities.

Truly, in the management of foreign aided projects in the country, the DPs have been playing an important role. Their role can be compared with the role of internal control and audit. It is widely accepted that internal control and audit highly supplement the work of external auditors. The entities where effective and strong internal audit and control exist, external auditors can mark them as less risky. In the present study, the respondents from both OCAG and auditees have endorsed this role of DPs in the country. Majority of them held the view that DPs are facilitating effective auditing.

5.1.4 Supporting Role of Public Accounts Committee (PAC)

PACs are usually the main stakeholders of SAI reports, to which their purpose is to add value through a thorough discussion giving hearing to the PAOs of ministry/division, making recommendations and following up the implementation of those recommendations by government. Simply said, OCAG is the producer of audit reports, and PAC on behalf of the Parliament, is the user of those audit reports. Relationship between CAG and PAC is mutually supportive for effectiveness of the audit activities.

a. Timeliness in examination of audit reports

Due to the quick formation of the parliamentary standing committees during the last and present parliament in the country, the pendency of audit reports for discussion has reduced significantly. The high-ups in the OCAG have confirmed that timeliness of the PAC in discussing audit reports has enhanced significantly. So, it can be said that this regular and timely discussions of audit reports and findings would ensure transparency and accountability in the project activities and augment the effectiveness of procurement audit in FAPAD.

b. Follow-up of PAC recommendations

Strong parliamentary oversight is essential to promote good governance. Scrutinizing the audit observations and making recommendations and reviewing settlement of audit observations will ensure transparency and accountability (OCAG, 2007). PAC recommendations on the audit findings are by convention, accepted by the executive departments. Implementation and follow up of these recommendations render the audit work

effective and meaningful and this task has to be completed and followed up by both the auditee and the OCAG. But due to the temporary nature of the project vehicle itself more often than not the recommendations by the PAC cannot be implemented. This fact was uncontested by both the OCAG and auditee personnel.

5.2 Summary of issue specific findings regarding an enabling auditing environment

The current section is inclusive of several pertinent problems identified during field survey, especially from discussion with senior OCAG and project officials and are believed to have an influence on the effectiveness of FAPAD auditing. The limitations described relate to weaknesses of both audit side and executive agencies, as well as the other actors involved in the accountability chain, and thus need special attention.

5.3 Procurement Auditing: General Overview

CATEGORIZATION OF PPR OBSERVATIONS:

Based on the PPR template and indicators, observations are categorized into three broad headings. These are:

- (a) Observations related to projects capacity;
- (b) Observations related to procurement process; and
- (c) Observations related to contract management.

Observations related to projects capacity:

Splitting of contract package, Procurement beyond procurement plan, Inappropriate procurement type/method, Rebidding without approval, Exceeding annual limit of RFQ, Lack of documentation, No fixed asset register, Shorter bidding period.

Procurement Process Related Observations:

Apparent fraud and corruption, Inappropriate bid evaluation, Incomplete bid evaluation, Sequential bid securities number, Faulty performance security, Inappropriate opening of bid/quotation, Delayed in contract signing, Low bid submission, Restrictive technical specifications, Quotation process by violating Rules, Quotation evaluation by violating Rules, Made non-responsive unduly, No verification of bid securities, Price correction not informed to bidders.

Contract Management Related Observations:

Inferior goods supplied, Unrealistic contract time extension, Unrealistic contract variation, Unrealistic progress payment, Delay in delivery/completion, LD not imposed, Delay in payment, Payment by violating contract provision, Non-issuance of completion certificate, Excess payment made.

The observations are categorized into three broad headings in order to assess the riskiness of the project and the level of monitoring to be imposed to the project to improve the capacity of the project or the Implementing Agency. This is also done to reduce/ mitigate risk in project and pinpoint the capacity building program for the implementing agency.

5.3.1 Procurement Process Observation:

The observations of NATP encompass both RFQ and NCB methods, though the maximum observations are from RFQ method. However, the observations from other projects are completely related to NCB method. It is noted that almost all projects have problems in procurement process.

5.3.2 Contract Management Observation

From Procurement post review done by WB it is revealed that the total observations in contract administration/management are around 85. Of which the major contributor is the National Agricultural Technology Project (NATP). The share is more than 50%. The project is carried out by several agencies – BARC, DAE, HORTEX, KGF, DLS, DoF and PCU.

These common observations categories are:

Procurement beyond procurement plan, Inappropriate procurement type/method, Rebidding without approval, Exceeding limit of request for quotations (RFQ), Apparent fraud and corruption, Inappropriate bid evaluation, Incomplete bid evaluation, Delayed in contract signing, Quotation process by violating Rules, Quotation evaluation by violating Rules, Price correction not informed to bidders, Unrealistic contract time extension, Delay in delivery/completion, Liquidated damages not imposed, Delay in payment, Issuance of no completion certificate, Lack of documentation.

5.4 PROCUREMENT RISK MITIGATION

In this section we shall discuss the possible reasons of deviations from the stated provisions and the possible mitigation measures to improve the situation in future.

5.5.1 FRAUD AND CORRUPTION

Fraud and corruption is a common issue in procurement and the major development agencies and societies are fighting against fraud and corruption imposing hard conditions while providing credit and grant to the governments and institutions which need fund from them. In this analysis we consider the guideline and definition of fraud and corruption given by the World Bank. It is the Bank's policy to require that borrowers (including beneficiaries of loans/credits/grants), as well as bidders, suppliers, contractors and consultants under Bank-financed contracts, to observe the highest standard of ethics during the selection of bidders/consultants and execution of such contracts. The fraud and corruption encompasses the following elements and defines those elements as follows:

- (1) “**Corrupt Practice**” is the offering, giving, receiving or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party;
- (2) “**Fraudulent Practice**” is any act or omission, including misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain financial or other benefit or to avoid an obligations;
- (3) “**Collusive Practice**” is an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party;
- (4) “**Coercive Practice**” is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party; and/or
- (5) “**Obstructive Practice**” is (i) deliberately destroying, falsifying, altering or concealing of evidence material to the investigation or making false statements to investigations in order to materially impede a Bank investigation into allegations of a corrupt, fraudulent, coercive, or collusive practice; and/ or threatening, harassing, or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation; or (ii) acts intended to materially impede the exercise of the Bank's inspection and audit rights provided for in the policy and the contract.

The possible reasons for happening fraud and corruption in contracts are given below from analysis:

- Given preference to a particular product or brand, or a supplier, contractor or consultant;
- Sought quotations from the same group of suppliers repeatedly;
- Bidders taking advantage of a more flexible method of having three quotations or single bid;
- Political influence or local influence;
- Lack of capacity/ interest of the evaluation committee to identify the F&C issues.

In order to reduce the number of fraud and corruption in contracts, the possible actions may be the following:

- Conducting training to the members of the evaluation committee and staff involved in the procurement activities, and informing them possible consequences of fraud and corruption;
- Providing them the red flags and checklist to be signed and attached with the bid evaluation report;
- Alerting bidders regarding consequences of Fraud and Corruption (F&C) issues during the pre-bid conference;
- Allowing RFQ/DPM/LTM methods only when necessary and evident on case by case basis; and
- Taking necessary remedial actions (i.e. mis-procurement, investigation, alerting agencies, etc.).

5.4.2 DELAY IN MAKING PAYMENTS

This is another most commonly observed deviation in the procurement audit/ post review during the last three years. This is possibly most difficult situation which cannot be improved further unless the society in large pursues against this culture. This belongs to human nature of not paying the money duly unless there is a knock from the recipient. The possible reasons of this deviation are given below:

- Negligence of the Implementing Agency in making payments against the contractual obligations;
- Lack of follow-up mechanism in the Implementing Agency to make payments timely;
- Shortage of budget/fund in the beginning and end of the fiscal year;

- Lack of consistency between procurement planning and funding planning by the Implementing Agency;
- Submission of invoice with deficiency by the contractor/supplier which requires rectification time;
- Delay in certification/acceptance of works/goods by the Implementing Agency;
- Putting pressure on the suppliers/contractors to get any special benefits.

The possible suggested action plans are given below:

- Recording the invoices/bills by date-wise in a register upon receiving in Project Office;
- Communicating suppliers/ contractors within seven days if there is any deficiency in invoices/bills;
- Issuing Work Completion Certificate (interim/ final)/ acceptance certificate for works/goods as soon as possible but no later than contractual obligations;
- Releasing fund when the Implementing Agency initiates to publish procurement notice;
- Reviewing invoice/bill register weekly by the Project Director and Finance and Accounts personnel;

5.4.3 DELAY IN CONTRACT PERFORMANCE

This is a consistent problem from the supplier/contractor's side to make delay in delivery of supply or completion of works contract. There could be many reasons but the most important is the weakness of contract administration or management from the implementing agency.

The probable reasons of such deviation are given below:

- Setting tight or unrealistic time frame for contract execution in the bidding document in many cases due to urgency by the Implementing Agency;
- Insufficient due diligence from the bidders' side about the time offered for contract performance;
- Insufficient resources engaged by the suppliers/contractors to complete the contract performance;
- Lack in experience in contract management and monitoring by the Implementing Agency;
- Lack of communication between Implementing Agency and suppliers/ contractors/ consultants after contract signing;

- Lack of use of project management software in contract management;
- Lack of knowledge of contract provision in respect of suppliers/contractors roles and responsibilities; and
- Lack of knowledge for imposing liquidated damages in case of delay.

In order to improve the situation the following possible action plans could be introduced:

- Setting contract performance deadline/ milestones realistically based on proven knowledge and likely impacts of unforeseen events in the bidding document;
- Developing consensus between the Implementing Agency and the bidders about the contract performance time during pre-bid conference;
- Conducting training to project personnel in contract management/administration;
- Establishing vibrant communication with suppliers/ contractors/ consultants, as if they are partner of the project team to achieving project goals;
- Use of project management software and tracking suppliers/contractors/consultants' activities through communication;
- Seeking information from the suppliers about L/c opening for importing goods, transportation schedule, contract with manufacturers, tentative delivery schedule to Implementing Agency;
- Seeking regular fortnight/monthly update of Program of activities as per contract provision;
- Reviewing physical progress of works by field visits and conducting progress meeting with contractors on monthly basis;
- Making progress payments of works as per contract provision;
- Practice early warning mechanism on a regular basis; and
- Imposing liquidated damages when justified or extending the time with proper documentation.

5.4.4 LIQUIDATED DAMAGES NOT IMPOSED

When the supplier or contractor fails to comply with provisions of the contract, unless it is extended in accordance with the provision of the contract, the supplier or contractor is liable to pay liquidated damages for its non-performance in accordance with the provision of the contract. This is the last resort of the Implementing Agency to bring the supplier or the contractor back on track.

The possible reasons of not imposing liquidated damages by the Implementing Agency are given below:

- Lack of knowledge of contract provision by the project people while certifying invoice/bill to the finance department for payment;
- Lack of knowledge of contract provision or due diligence by the finance people while making payment;
- Weak system of internal control/auditing process established in the Project Office; and
- Favoring suppliers/ contractors in lieu of personal benefits.

The possible action plans that can improve the situation are given below:

- Conducting training to the project technical staff including finance staff about the contract management/administration;
- Providing certification on invoice/bill observing the contractual provision;
- Providing a copy of the contract to the finance department for ensuring auditing before making any payment, especially quality and quantity certification, recording in asset register, and other provisions of the contract.

5.4.5 INAPPROPRIATE BID EVALUATION

In appropriate bid evaluation is a big risk especially in large contracts where the Implementing Agency tries to favor a particular brand or a particular bidder with hiding bid information in the bid evaluation report.

The possible reasons of such deviation are given below:

- Indication of preference for a particular brand or bidder;
- Lack of knowledge in differentiating major and minor deviations in bids;
- Hiding bid information in the bid evaluation report;
- Lack of attention by the evaluation committee on the report of technical subcommittee;
- Lack of capacity in the evaluation committee to evaluate the bids/ proposals appropriately.

The possible action plans are given below:

- Issuing model bid evaluation report forms to each Implementing Agency to follow in preparing bid evaluation report;
- Providing orientation training to members of bid evaluation committee;

- Reconstituting evaluation committee if there is consistent failure in proper evaluation of bids; and
- Random comparison of bid evaluation report with original bids by the approving authority.

5.4.6 GOODS SUPPLIED WITH WRONG SPECIFICATIONS

This is not a frequent observation but failure to complying with proper specification of the supplied goods can be serious impact on the intended purpose of procuring goods/ works/ services.

The possible reasons of such deviation are given below:

- Lack of knowledge of Inspection Team about the product/ product specifications; and
- Faulty mechanism of goods inspection system (as observed in verification).

The possible action plans are given below:

- One of the member of Technical Inspection and Acceptance Committee should be technical specialist who has better knowledge on the product being procured;
- Technical Inspection and Acceptance Committee should submit a report to the Project Director/ Procuring Entity after inspection of goods including their recommendation.

5.5 PUBLIC PROCUREMENT

We can define public procurement as the procurement of goods/ works/ services carried out by Implementing Agencies involving public fund whether the agencies are government departments or autonomous bodies or local governments working for benefits of general people in the country. The fund may come from the budget of the government exchequer, loans/credits/grants from development agencies or donor countries. The public fund is defined as any funds allocated to a procuring entity under Government budget, or loan, grants and credits placed at the disposal of a procuring entity through the Government by the development partners or foreign states or organizations and the public procurement is using public funds.

In case of funds coming from development agencies or donor countries, the Implementing Agencies follow the rules, regulations or guidelines imposed by those development agencies in the procurement of goods/ works/ services. The development agencies monitor the activities of the Implementing Agencies whether they are following the rules, regulations or guidelines as agreed between them. From time to time the development agencies conduct

auditing on the activities of the Implementing Agencies to ensure the compliance on the agreed provisions.

The Public Procurement Rules, 2008 allow the Central Procurement Technical Unit (CPTU) and the agency to conduct procurement review through third party, but the practice of such review has not yet been started in full swing.

5.6 RISK MITIGATION TOOLS IN PUBLIC PROCUREMENT BESIDES AUDITING:

The Public Procurement Rules, 2008 provide some risk mitigation tools to minimize procurement risks in public procurement. The risk mitigation tools are: Layer of approving authority according to financial delegation of authority; Review Panel; and Procurement post review.

5.7 Case Study

National Agricultural Technology Project (NATP): Phase 1

Agriculture sector continues to be major contributor to the Gross Domestic Product (GDP) in Bangladesh. Although its contribution to the GDP alone is nearly 23%, contribution of rural non-farm economy to the GDP, which is about 33%, is also largely related to agriculture. However, it is revealed that the productivity of rice, other crops and agricultural commodities, such as, fisheries and livestock has declined and there are large yield gaps between farmer's fields and research trials, which is largely attributed to weak technology generation and transfer, declining cultivable land, poor functioning of input and output markets and delivery of other support services, low private sector investment in agro-processing, weak local organizations, such as, Producer's Organizations (POs) to influence government agencies for delivery of agricultural services and less investment in National Agricultural Research System (NARS). These problems are addressed by the National Agricultural Technology Project (NATP), which is funded jointly by the World Bank, International Fund for Agricultural Development (IFAD) and the Government of Bangladesh (GOB).

National Agricultural Technology Project (NATP): Phase 1 is a comprehensive project, which focuses on revitalizing the agricultural technology system, such as, agricultural

research, extension and development of supply chains etc. and thus increasing agricultural productivity in Bangladesh.

The overall objective of the project is as follows:

- to support the Government's strategy to increase national agricultural productivity and farm income; and
- to improve effectiveness of the national agricultural technology system in Bangladesh.

The project has 7 Implementing Units with four components as follows:

- i. Project Coordination Unit (PCU) headed by a Project Director responsible for overall coordination of the project.
- ii. Project Implementation Unit (PIU), Bangladesh Agricultural Research Council (BARC) for implementing agricultural research component along with KGF.
- iii. Project Implementation Unit (PIU), Department of Agricultural Extension (DAE) for implementing agricultural extension support component along with PIU - DLS and PIU - DOF.
- iv. Project Implementation Unit (PIU), Department of Fisheries (DOF) for implementing agricultural extension support component along with PIU - DAE and PIU - DLS.
- iv. Project Implementation Unit (PIU), Department of Livestock Services (DLS) for implementing agricultural extension support component along with PIU - DAE and PIU - DOF.
- vi. Kshrishi Gobeshona Foundation (KGF) for implementing agricultural research support component along with PIU - BARC.
- vii. Hortex Foundation for implementing development of supply chains component.

Project Coordination Unit (PCU)

The Project Coordination Unit (PCU) is responsible for coordinating and implementing the project under the direction and supervision of the Project Steering Committee (PSC) and Project Management Committee (PMC). PSC consists of the Secretary of the Ministry of Agriculture (MOA), Secretary, Ministry of Fisheries and Livestock (MOFL) and representations from key stakeholders of the research and extension systems (BARC, KGF, Hortex Foundation, DAE, DLS and DOF), while PMC consists of Additional Secretary, MOA, Additional Secretary, MOFL, Executive Chairman, BARC, DGs of DAE, DLS and

DOF, Project Directors of PIUs, Executive Director of KGF, Managing Director of Hortex Foundation and Project Director, NATP. Apart from consolidating NATP budget and annual work plans of the four components for approval of the PSC, the responsibilities of PCU include:

- Overseeing the implementation of the project activities as approved by the PSC.
- Coordinating technical, financial management, procurement and administrative management of the project.
- Development and implementation of a Management Information System (MIS) for the project to facilitate monitoring of all project activities.
- Organizing independent evaluation and impact assessment of the project.
- Arranging for expert advice and input from consultants on any subject matter area related to the project implementation.
- Reviewing and compiling relevant reports and other materials, and developing recommendations, minutes of meetings, and contracting and administering reviews, as advised by the PSC and the World Bank.
- Submitting to the World Bank and PSC six monthly and annual progress report within one month of the due date, and the audit reports within six months of the close of fiscal year.
- Liaising with the World Bank concerning operation and management of the project and organizing World Bank review mission.
- Preparing Phase II of the project, including special studies required for the purpose.

Agricultural research support component

Bangladesh Agricultural Research Council (BARC) and Krishi Gobeshona Foundation (KGF) execute agricultural research support component of the project. The main objective of the component is to enhance efficiency and effectiveness of the National Agricultural Research System (NARS), which will be achieved through performing following activities:

- i. promoting a pluralistic agricultural research system;
- ii. making agricultural research system more participatory and demand-driven;

- iii. developing technologies to promote sustainable intensification and diversification of agriculture and for post-harvest value addition; and
- iv. bridging the yield gap between what is possible and what is being currently achieved by farmers.

Agricultural extension support component

Department of Agricultural Extension (DAE), Department of Livestock Services (DLS) and Department of Fisheries (DOF) executes agricultural extension support component of the project. The main objective of the component is to establish a decentralized demand-based and pluralistic extension services comprising extension of crops and horticulture with focus on small and marginal farmers. The DAE, DLS and DOF try to achieve the objective by empowering group of farmers, known as Common Interest Group (CIG), to take increasing responsibility for planning, implementation and monitoring of extension activities in association with the public and private service providers.

The DAE, DLS and DOF finance the following activities under the project:

- Preparation and implementation of Extension Micro Plan
- Technology validation trials and demonstration
- NGO services
- Consultancies
- Training
- Information and knowledge sharing including publications
- Production of publicity materials for the print and electronic media
- Office equipment
- Supplies and
- Incremental operating cost.

Supply chain development component

Hortex Foundation executes Supply Chain Development Component (SCDC) of the project. The objective of the component is to integrate small and marginal farmers and agri-business enterprises into modern supply chains by promoting more equitable chain governance and market linkages of selected commodities (fruits, vegetables, flowers, poultry, dairy, meat, fish etc.). Hortex Foundation works in 20 upazilas (Savar, Kapasia, Deldwar, Belabo,

ComillaSadar, Mirsharai, Srimongal, Jhikorgacha, Shibganj, Parbatipur, Birganj, BograSadar, JessoreSadar, Kaliakoir, Shibpur, Chandina, Pirgonj, Singra, Boroigram and Trishal during the year 2012 - 2013.

So far, FAPAD carried out 5 rounds of annual financial audit of NATP – from FY 2009-10 to FY 2014-15. FAPAD raised a total of 129 audit observations in these final AIRs. These observations were related to accounting, financial management, internal controls and procurement issues, at both the central and field level cost centers. Consequently, concerned agencies have taken actions to address the issues and systemic weaknesses including punitive actions against contractors, suppliers, and personnel who were involved in misprocurement. DPs have also deducted their share of contribution for the proven cases of irregularities in procurement.

Table 5.1: Status of FAPAD Audit Observations against NATP

**National Agricultural Technology Project (NATP): PHASE-1
(IDA credit No 4386 739-BD)
Status of FAPAD Audit Observations**

| Financial year | observation No | No | Observation Title | Type of observation | Amount involved (Tk) | PIUs involved | status (settled/not settled) | Related to |
|-----------------------|-----------------------|-----------|---|----------------------------|-----------------------------|----------------------|-------------------------------------|-------------------|
| 2008-09 | 1 | 1 | Irregular payment as sitting allowance to the TOC members violating DPP and PPR-2008. | Part-A | 135000 | PCU, DAE | Settled | Procurement |
| 2008-09 | 2 | 1 | Revenue loss due to non/less deduction of IT and VAT from the bills of supplier and consultant. | Part-B | 114905 | DLS, Hortex | Settled | Procurement |
| 2008-09 | 3 | 1 | Auditable records and documents against the expenditure not produced to audit. | Part-B | 12418000 | KGF | Settled | |
| 2008-09 | 4 | 1 | Excess expenditure incurring against repair of vehicle beyond the delegation of financial power. | Part-B | 28365 | DOF | Settled | Procurement |
| 2008-09 | 5 | 1 | Tender opening Committee (TOC) and tender evaluation Committee was not formed according to PPR2008. | Part-B | 0 | KGF | Settled | Procurement |
| 2008-09 | 6 | 1 | Advance payment as foreign tour not yet adjusted. | Part-B | 125166 | BARC | Settled | |
| 2008-09 | 7 | 1 | Expenditure has been overstated in the F.S. | Part-B | 301644 | DLS | Settled | |
| 2009-10 | 1 | 1 | Opening balance of RPA fund was less shown in the current period of the Financial Statement. | Part-A | 0 | DLS, DOF | Settled | |
| 2009-10 | 2 | 1 | Expenditure shown excess in the current period of the Financial Statement. | Part-A | 0 | DLS, DOF, DAE | Settled | |
| 2009-10 | 3 | 1 | Closing balance of RPA fund was shown less in the current period of the | Part-A | 0 | DLS, DOF, DAE | Settled | |

| | | | Financial Statement. | | | | | |
|-----------------|---|---|---|--------|-------------|------------------------|--------------------|-----------------|
| 20 09- 10 | 4 | 1 | Govt. revenue loss due to less realization of Income Tax and VAT from Consultants' Payment. | Part-A | 98016 2 | Hortex, KGF | UN- SETTL ED | |
| 20 09- 10 | 5 | 1 | Auditable documents were not produced to audit. | Part-B | | DOF | Settled | Procure ment |
| 20 09- 10 | 6 | 1 | Value Added Tax of was not realized at source | Part-B | 17342 3 | Hortex | Settled | |
| 20 09- 10 | 7 | 1 | Loss of project fund for incurring excess expenditure due to irregular acceptance of tender | Part-B | 35690 0 | KGF | Settled | Procure ment |
| 20 09- 10 | 8 | 1 | Irregularity for making payment against Motor Cycle without Handle Lock. | Part-B | 0 | DOF | Settled | Procure ment |
| 20 09- 10 | 9 | 1 | Loss as VAT due to non-coverage on Insurance Premium. | Part-B | 45282 | DOF | Settled | Procure ment |
| 20 10- 11 | 1 | 1 | Loss of Govt. revenue due to less deduction of VAT & IT from consultants payment | Part-A | 18914 43 | Hortex, KGF, DLS | UN- SETTL ED | |
| 20 10- 11 | 2 | 1 | Irregular expenditure incurred against unapproved post (SCDO officer). | Part-B | | Hortex | Settled | |
| 20 10- 11 | 3 | 1 | Irregular payment made the name of fish exhibition. | Part-B | | DOF | Settled | Procure ment |
| 20 10- 11 | 4 | 1 | Appointment of staff made beyond DPP provision. | Part-B | | Hortex | Settled | Procure ment |
| 20 10- 11 | 5 | 1 | Sale proceeds of different items not deposited into Govt. treasury. | Part-B | 11584 7 | BARC (BAUR ES) | Settled | |

| | | | | | | | | |
|-----------------|---|---|---|--------|---------------------|---|--------------------|-------------|
| 20 10- 11 | 6 | 1 | Loss of Govt. revenue due to non deduction of VAT & Income Tax from suppliers. | Part-B | 26754 8 | BARC (SRDI - Tk.13774, BARI-tk. 48429) BSRI - Tk 12882) DAE-Tk. 33487, Hortex-Tk. 158,976 | Settled | Procurement |
| 20 10- 11 | 7 | 1 | Expenditure incurred for local training, but evidences not found. | Part-B | | DOF | Settled | |
| 20 11- 12 | 1 | 1 | Excess payment incurred for Wages of labours due to higher rate than Govt. fixed rate | Part-B | 23750 0 | KGF | Settled | |
| 20 11- 12 | 2 | 1 | VAT and income tax not/less deducted /realized from the suppliers/consultants bill | Part-B | 88287 7 | BARC KGF DAE DLS Hortex | UN- SETTL ED | |
| | | | | | 11203 77 | | | |
| 20 12- 13 | 1 | 1 | Fund transferred from project account to mother account of Hortex Foundation without justification. | Part-A | 30000 00 | Hortex | UN- SETTL ED | |
| 20 12- 13 | 2 | 1 | Payment made as honorarium beyond entitlement. | Part-A | 30000 0 | Hortex | Settled | |
| 20 12- 13 | 3 | 1 | Work for supply of laboratory equipments awarded to the non-responsive bidder. | Part-A | 78272 75 | BARC (BARI) | Settled | Procurement |
| 20 12- 13 | 4 | 1 | Excess Payment made as remuneration over the RDPP provision. | Part-B | 14889 68 | Hortex | Settled | |

| | | | | | | | | |
|-----------------|---|----|---|--------|----------------------|-----------------|--------------------|-----------------|
| 20 12- 13 | 5 | 1 | Supply work awarded to the nonresponsive bidder with a contract price of Tk. 38,48,400.00 without obtaining proper documents. | Part-B | 38484 00 | BARC (BARRI) | UN- SETTL ED | Procure ment |
| 20 12- 13 | 6 | 1 | Procurement of Lab equipment's and chemicals made by floating tender in a single newspaper. | Part-B | 15282 75 | BARC (BARRI) | Settled | Procure ment |
| 20 12- 13 | 7 | 1 | Amount transferred to other account without justification. | Part-B | 10437 05 | BARC (BARI) | Settled | |
| 20 12- 13 | 8 | 1 | Amount of Tk. 2,30,000.00 made for seminar/workshop irregularly. | Part-B | 23000 00 | BARC (BARI) | Settled | |
| 20 12- 13 | 9 | 1 | An amount of Tk. 22,18,993.00 equivalent to USD 25,191 paid to the participants as DSA for the overseas seminar/ study visit without obtaining invoices/cash memos of hotel fare. | Part-B | 22189 93 | BARC | UN- SETTL ED | |
| Tot al | | 34 | | | 23555 616 | | | |

Table 5.2: Summary of FAPAD Audit Observations against NATP

| Year | Total Audit Observations | Settled | Unsettled |
|---------|--------------------------|---------|-----------|
| 2008-09 | 7 | 7 | 0 |
| 2009-10 | 9 | 8 | 1 |
| 2010-11 | 7 | 6 | 1 |
| 2011-12 | 2 | 1 | 1 |
| 2012-13 | 9 | 6 | 3 |
| Total | 34 | 28 | 6 |

| Year | Amount involved | settled | Unsettled |
|---------|-----------------|----------|-----------|
| 2008-09 | 13123080 | 13123080 | 0 |
| 2009-10 | 1555767 | 575605 | 980162 |
| 2010-11 | 2274838 | 383395 | 1891443 |
| 2011-12 | 1120377 | 385629 | 734748 |
| 2012-13 | 23555616 | 14488223 | 9067393 |
| 2013-14 | | | |
| Total | 41629678 | 28955932 | 12673746 |

Table : Amount of TK involved in audit observation (NATP)

Table:5.3

NATP Audit observations related to total Expenditure and procurement

| | | Lakh Tk |
|---|--|--------------|
| A | Total Project expenditure | 58361 |
| | | |
| | Procurement | |
| B | Total Procurement Cost (4874) | 9219 |
| C | Total Acquisition of Assets (6800) | 5513 |
| D | Subtotal (total procurement) | 14732 |
| E | Total Audit Observation involved | 786.25 |
| F | Total Audit Observation Related to procurement | 511.47 |
| G | % of Total Audit Observation to Total Expenditure (E/A) | 1% |
| H | % of Audit observation to total procurement | 3% |
| I | % of Total Audit Observation related to procurement in comparison to Total audit observation (F/E) | 65% |

From the above table it is interesting to note that total money involved in the audit observations of NATP is Tk 786.25 lakh against the total project expenditure of 58361, which is only 1 %. Furthermore, the 65% of the money involved in the observations are related to procurement expenditure. This interesting because the expenditure related to procurement is around 25% of the total project expenditure.

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

In summing up the discussions made above, the thesis indicates that accountability and transparency are among the principal attributes of good governance. Government of Bangladesh has mechanisms in place to maintain accountability and transparency across the public sector. SAI Bangladesh is one of such mechanisms. FAPAD, on behalf of CAG, conducts audit and certifies accounts of donor-assisted programs/projects to ensure accountability in the use of public resources. But FAPAD works under some limitations, among which are shortage of competent and skilled manpower, inadequate response from the project management and ministry, delay in discussion of FAPAD audit reports by PAC and so on. Keeping this in consideration, the present study has aimed at assessing the level of effectiveness of procurement auditing in ensuring accountability of aided projects.

The final chapter of the research, it is a review of the context of the research with an emphasis on the theoretical basis and the research questions of the study. It provides an overview of the extent to which the independent variables taken in the study influence an effective FAPAD procurement audit. The chapter ends with some recommendations to make FAPAD procurement audit to ensure accountability of aided project management more effectively with a proposal of scope for further study on the particular research area.

The study has attempted to examine the effectiveness of procurement auditing of foreign aided programs/projects in the context of Bangladesh. Primary data collected through questionnaire survey and interview carried out with the stakeholders of FAPAD audit reports, gave various insights into the actual scenario of the audit work. Some crucial observations also resulted from content analysis, particularly documents pertaining to the case study of the research. A careful compilation and analysis of the findings has been done. The investigation revealed certain dissatisfaction regarding FAPAD audit in important areas, like lack of strategic planning, insufficient evidence of audit work, lack of skilled human resource, less understanding of the auditee organizations, delayed issue of audit reports, poor presentation of audit report, weak monitoring as well as follow up, weak management etc.

The contexts that are perceived to affect/impinge most an effective FAPAD audit are among others, lack of skilled audit manpower, lack of proper monitoring and quality assurance process of audit, delay in implementation of audit recommendations by project management

and ministry, delay in discussion of audit reports by PAC, slow/non-implementation of PAC recommendations by auditees. From the study it is evident that there exists certain gaps in the working system of audit that need to be addressed. Equally important is the need for the stakeholders of audit to be more attentive to audit, as a tool of accountability.

This study has focused mainly on some independent variables which were perceived to have affected, to different extents, an effective FAPAD audit. A detail discussion of these different factors or the assessing indicators and how much they affect the audit work in attaining its result has been presented in chapter five. The following section is a brief overview of those factors that determine an effective audit.

As mentioned before, there are research questions that the study aims to examine: (i) the extent of effectiveness of FAPAD procurement audit to ascertain accountability of foreign aided projects and (ii) the extent of responsiveness of the Executing Agencies (EAs) and line ministries to procurement auditing of donor funded projects. To gather primary data related to the study area 22 respondents were interviewed. If we take the highest representative, empirical data reveals that 45 percent or the majority of total respondents believe that FAPAD reports (AIRs and audit reports) are good, in terms of being fair, reasonable and timely presented. However, regarding the quality and the substantial evidence of the reports, 45 percent ranked it as average. Again, regarding the quality of auditing itself, 42 percent or majority ranked it as average. And though FAPAD audit is considered an effective mechanism for upholding project accountability, 58 percent respondents saw FAPAD reports meeting partial expectation of stakeholders. In response to the first research question, it is evident that the respondents agreed that the factors or criteria selected in the study, do have a bearing upon an effective FAPAD auditing. However, the overall findings from both qualitative and quantitative data on matters related to audit process and standards are inclined towards an average level of effectiveness or satisfaction among the beneficiaries of FAPAD audit reports. The general opinion is that all the factors considered in making auditing effective are in practice, nevertheless, their effectiveness is not as per expectation.

However, an agreed reality was that an often unethical nexus between the auditors and auditees is greatly responsible for audit being partially effective. On the other hand, in response to the second research question, it was apparent from responses that there exists biasness on the part of auditees (project management). This is manifested in their defending of their position of aiding in audit activities throughout the audit process. However, responses

from audit side revealed average level of cooperation from auditees that limits audit from being effective. What was clear from the interviews and discussions with senior level officials, especially as felt by the development partners, was the existence of a gap between the auditors and auditees that affect an effective auditing from taking place. This gap comprises of lack of mutual understanding and respect to each other's objectives, and has a direct impact on the quality of auditing and reporting.

The following aspects of the major agencies/actors involved in the audit activities can be taken into account to ensure better accountability of foreign aided projects. These include the recommendations based on the findings.

First, though each DP has their own timeframe of submission of audited report, with focus of their demand being essentially on giving on Opinion on FS, but the time required for completing the procurement audit and giving opinion is, in many cases, too short. Also, the Eas particularly the project directors in a good number of cases are found to be unable to prepare the FS timely and accurately. This affects directly the audit activities. As there prevails a dissatisfaction regarding the audit quality, both the executing agencies and the DPs may think of re-scheduling the timeframe of completing audit for quality and effective audit reports. Moreover, the posting of the project staff in the PDs' offices should be from accounting/Financial Management background and they should be updated with continuous training, in order to overcome the above stated problems.

Second, the planning phase of audit is the most essential phase. Inclusion of huge number of projects every year on one hand, and number of audit manpower being reduced year after year on the other, create a gap in the preparation of proper audit planning in the FAPAD. Moreover, due to the limited involvement of the already insufficient management level officers, most of the audit programmes cannot be run effectively. These affect the quality of FAPAD reports. Under such circumstances, appropriate ratio of management level officers and staff should be maintained.

Third, FAPAD audit approach, planning and reporting are viewed as being not scientific and not in conformity with international auditing standards. Risk based auditing approach should be followed and procurement auditing standards need to be followed strictly. Well structured audit plan has to be prepared for all audits and permanent file has to be maintained following

ISA. Audit teams need to gather adequate and relevant evidences to prepare and report findings and conclusions so that they stand on sound footing. Auditors should not undertake audits and prepare programs and methodology unilaterally. On the other hand, the auditees should also not be indifferent to audit matters and need to give much attention to audits while being conducted.

Fourth, The EAs and DPs, as well, remain much less concerned with the audit observations of the closed projects. Under such situations, the matter may be addressed whereby all unsettled audit observations should be settled within one year after the close of the project. There can be a government directive regarding the issue. Besides, FAPAD is often found to face problem in conducting audit of closed projects. In such cases, the project related documents must be preserved properly, and it should be given special attention by the PAOs.

Fifth, the PAC of the 9th parliament is examining FAPAD's audit reports seriously, and sometimes follow up the recommendations made by them. Even then the scenario of implementation of PAC recommendations is not pro-active. Under such circumstances, the PAC can form a Task Force or Action Taken Committee, specifically for FAPAD's audit observations included in the audit reports in general, and the audit recommendations made by PAC in particular, whether implemented in full or partially. Besides, PAC can share information of its deliberations on FAPAD audit reports with the media and civil society.

Sixth, The entry and exit meetings that are held presently with the leading donors are very effective for quality auditing. Based on exchanges of views in these meetings, each party can improve its approach and readiness for audit effectiveness, thus paving way for mutual respect and trust. These meetings can be held with each development partner, more so since the auditees and DPs can be informed of the audit plan of FAPAD for the upcoming FY. DPs can offer enhanced inputs in these meetings, by which both auditor-auditee would be benefited. Again, a significant portion of foreign aid comprises of DPA. But FAPAD most often than not, cannot audit DPA expenditure, due to lack of proper evidence and donors' control over it. Donors in such case can provide to PDs monthly SOE of DPA funds.

Seventh, the existing resource of FAPAD can undertake a few procurement audits a year, but success and quality in pilot procurement audits will only earn support within and outside the department for this new type of creative audits, which need subject matters expertise, rigors

in research, diplomatic skills in getting support from the audit entity, and leadership in utilizing various resources. FAPAD can proceed and learn about absolutely procurement audits only by doing them on pilot basis. For this, manpower skilled in CIPS, Public procurement management, project Management, Masters in procurement should be posted in FAPAD to conduct more Procurement Audits. Moreover, positioning personnel in FAPAD having good command in English, knowledge of projects and their operations, Donor's procurement guidelines, PPA-2006, PPR-2008, operational modalities of donors etc. are important. Besides, the existing resource can be developed through advanced and continuous training. FAPAD needs skilled manpower with highest integrity and professionalism. Institutionalizing of in-house training and intensive audit briefing will improve quality of audit. DPs can offer joint training of both FAPAD personnel and project management. Besides, incentive packages, even appreciation certificates would boost up the efficiency and dedication of auditors.

Eighth Frequent procurement post review can help reduce the procurement risk in the Implementing Agency level significantly. The procurement post review can be introduced in government purchase to reduce the procurement risk. The procurement post review report should be shared with the FAPAD and Implementing Agency within 15 days after completion of review to have more impact on the review.

Finally, FAPAD lacks an effective audit monitoring system. Though a software, Foreign Aided Project Monitoring System (FAPAMS), was developed and installed in FAPAD in 2006 under CPAM project, in absence of appropriate practice and training, data are seldom found up-to-date and accurate. Computerization of FAPAD records is necessary, catering to the special needs of the directorate.

The research **concludes** with an emphasis on the significance of effective fund utilization in a democratic government, accountability being its key component. Foreign aid plays a vital role for the socio-economic development of resource-constrained country like Bangladesh. The findings of the study have justified that a concerted coordination among the actors engaged in public accountability relationship is desirable to build an enabling environment for an appropriate stewardship of scarce resource and effective reporting on it. Many significant findings and facts have come up in the process of the research work, pertinent of which are discussed in this chapter. Nevertheless, within the constraints of time and scope,

some other crucial and relevant issues of procurement auditing could not be addressed and covered to the fullest in this study. These can be taken up for further exploration into the heart of the matter and offer means of addressing the issues.

Way Forward

The following areas can be researched to find out the efficacy of the procurement audit:

- (1) Whether the procurement auditing is a superior mechanism to reduce the procurement risk and ensuring accountability.
- (2) Procurement auditing is a very cost-effective tool compared to other risk mitigating tools.
- (3) E-procurement can be used fully to ensure accountability in the procurement process.

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Appendix A

Table A1: The composition of the respondents

| Stratum | No. of Respondents |
|--|---------------------------|
| Audit Officials (Gr IX-II) | 5 |
| Ex-CAG | 2 |
| Representatives from Ministry & Projects | 4 |
| Representatives from DPs | 2 |
| PAC personnel | 1 |
| Total | 14 |

Appendix- B

Questionnaire 1

(This Questionnaire is designed to collect data from audit officials of SAI Bangladesh, which will be used for academic purpose. The objective is to make use of the data for dissertation under Masters in Procurement & Supply Management Program of BRAC University. Title of the thesis is 'Effectiveness of procurement auditing conducted by FAPAD in ensuring accountability: A case study on a Selected Foreign Aided Project.').

From: Khan Md Ferdausur Rahman
Student of Masters in Procurement & Supply Management
BRAC University.
Dhaka

(Please *tick* or *write* as the response requires)

Basic Information about respondent

1. Name:

2. Job Title and Office:

.....

3. If your current office is not FAPAD, do you have work experience in FAPAD?

Yes

No

If yes, Please give designation and duration of your posting in FAPAD.

Designation:

Duration:

General Questions

4. Due to resource (time, budget, personnel etc.) constraints, procurement audit is conducted in a very limited scale. Do you think that procurement audit would yield better result in ensuring overall project accountability?

Yes

No

Not sure

15. The effectiveness of Public Accounts Committee (PAC) and OCAG are complementary. PAC is assisting in audit effectiveness by its timely scrutiny of audit reports/objections. Do you agree?

Yes Partially Not Sure

16. How would you like to rank the following indicators for assessing the level of effectiveness of FAPAD procurement auditing?

Indicators Poor 1 Fair 2 Average 3 Good 4 Excellent 5

- Quality of Auditing-
- Quality of Reporting-
- FAPAD audit as an effective mechanism for upholding project accountability-
- FAPAD reports meeting expectation of Stakeholders-

17. Please rank the following statements as you value them in present FAPAD procurement audit reports. (1 for lowest, 5 for highest)

| | | | | | |
|--|---|---|---|---|---|
| Reports are fair, reasonable and timely presented. | 1 | 2 | 3 | 4 | 5 |
| Reports are accurate, clear and concise. | 1 | 2 | 3 | 4 | 5 |
| Reports are qualitative and have substantial evidence. | 1 | 2 | 3 | 4 | 5 |
| Reports have usefulness for its stakeholders. | 1 | 2 | 3 | 4 | 5 |

18. What do you think are the contexts, if any, that affect/lessen effectiveness of FAPAD procurement audit? (Choose at least three from below)

- Lack of skilled procurement audit manpower.
- Inadequate coverage of audit reports.
- Lack of proper monitoring and quality assurance process of audit.
- Inadequate response from the auditees.
- Delay in implementation of audit recommendations by project management and ministry.
- Delays in submitting audit reports to Parliament.
- Delay in discussion of audit reports by PAC.
- Slow/non-implementation of PAC recommendations.

19. Do you have any advice for FAPAD to make its procurement audit activities more effective to ensure project accountability?

Signature of respondent (optional)

Date:

Thank You Very Much for your Co-operation

Questionnaire 2

(This Questionnaire is designed to collect data from auditees (project management and line ministries) which will be used for academic purpose. The objective is to make use of the data for dissertation under Masters in Procurement & Supply Management Program of BRAC University. Title of the thesis is 'Effectiveness of procurement auditing conducted by FAPAD in ensuring accountability: A case study on a Selected Foreign Aided Project.')

From: Khan Md Ferdausur Rahman
Student of Masters in Procurement & Supply Management
BRAC University.
Dhaka

(Please *tick* or *write* as the response requires)

Basic Information about respondent

1. Name:.....
2. Job Title and Office:
.....

General Questions

3. Audit is said to be an aid to management, its objective to promote accountability and transparency for improved public financial management (PFM) . Is this viewpoint reflected in the relationship of auditor-auditee in the overall audit functions ?

4. If your answer is one of the last two, who do think is to blame?

Auditor

Auditee organization

Both.

Please give the percentage if you agree to the last option.

Auditor%

Auditee %

5. How would you rank the responsiveness of the project management in giving/ taking timely and proper reply/ action as per audit recommendations against observations raised?

- Inadequate response from the auditees.
- Delay in implementation of audit recommendations by project management and ministry.
- Delays in submitting audit reports to Parliament.
- Delay in discussion of audit reports by PAC.
- Slow/non-implementation of PAC recommendations.

15. Do you have any advice for FAPAD to make its procurement audit activities more effective to ensure project accountability?

Signature of respondent (optional)

Date:

Thank You Very Much for your Co-operation