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(OCAG)**

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Bringing Value to Public Life

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Acronyms

ACR – Annual Confidential Report
ADCAG – Additional Deputy Comptroller and Auditor General
AG – Auditor General
AMS – Audit Monitoring System
ANAO – Australian Audit Office
ASOSAI – Asian Organization of Supreme Audit Institutions
ATNs – Action Taken Notes
BCS – Bangladesh Civil Service
BRTA – Bangladesh Road Transport Authority
BRTC – Bangladesh Road Transport Corporation
BWDB- Bangladesh Water Development Board
CAAT – Computer Assisted Audit Technique
CAG – Comptroller and Auditor General
CGA – Controller General of Accounts
CMS – Central Management System
CPU – Committee on Public Undertakings
CQAC – Central Quality Assurance Committee
DA – Divisional Accountant
DCAG (A&R) – Deputy Comptroller and Auditor General (Accounts and Report)
DG – Directors General
DST – Direct Substantive Testing
DTCB – Dhaka Transport Coordination Board
ED – Efficiency Dividend
ERD – Economic Relations Division
EWA – Entity Wide Audit
FAPAD – Foreign Aided Projects Audit Directorate
FIMA – Financial Management Academy
FMRP – Financial Management Reform Project
GFR – General Financial Rules
GoB – Government of Bangladesh
ICAB – Institute of Chartered Accountants of Bangladesh
ICMAB - Institute of Cost and Management Accountants of Bangladesh
ICS – Internal Control System
IGS – Institute of Governance Studies
INTOSAI – International Organization of Supreme Audit Institutions
IT – Information Technology
LAR – Local Audit Report
LGED – Local Government Engineering Department
L&R – Local and Revenue
HR – Human Resources

MoE – Ministry of Establishment
MoF – Ministry of Finance
MoU – Memorandum of Understanding
MTBF – Medium-Term Budgetary Framework
NAO – National Audit Office
OCAG – office of the Comptroller and Auditor General
Oft-times – Often times
PAC – Public Accounts Committee
PD – Project Director
PMO – Prime Minister’s Office
PPP – Public-Private Partnership
PT&T – Post, Telegraph, and Telephone
QAC – Quality Assurance Committee
RIGA – Reform in Government Audit
RoB – Rules of Business
SAI – Supreme Audit Institution
SAS – Subordinate Accounts Service
SBA – System-based Approach
SCOPE – Strengthening Comptrollership and Oversight of Public Expenditure
SFI – Serious Financial Irregularities
STAG – Strengthening the Office of the Comptroller and Auditor General
TASK- Training for Accountability Skills and Knowledge
TIB – Transparency International Bangladesh
TIBAS- Training in Budgeting and Accounting System
TR – Treasury Rules
UK – United Kingdom
UN – United Nations
VFM – Value for Money

1. Introduction

Like elsewhere in the world the sovereign Parliament of Bangladesh has the ultimate responsibility to ensure financial accountability and transparency in the management of public resources. The process of financial accountability starts from the placement and presentation of annual budget before the Parliament through which public managers are authorized to generate resources for, and spend money from, the public exchequer. The effectiveness of the Parliament in ensuring financial accountability, to a large extent, depends on relevant, reliable and unbiased information provided by the SAI headed by the CAG through audit reports. Now-a-days, the scope of public audit has further extended as the citizens are demanding for more value for money.

The concept of audit occupies a central part in public financial administration. Audit is, generally, conducted for two purposes. The one is to identify violations of accepted standards of ethics, and deviations from the principles of legality, efficiency, effectiveness and economy in resource management. The other is to make public managers responsible for their conduct and for their use of public funds, and to motivate them to take corrective measures to prevent violations from recurring. 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.

In Bangladesh, rampant public sector corruption and inefficiency provides ground for the public to perceive the performance of the OCAg negatively. However, one should keep in mind that financial accountability of the public sector does not solely depend on the performance of the OCAg. The behavior of the parliament, politicians, auditable entities and the public at large considerably affect the accountability mechanism. But one thing can be taken for sure: the OCAg cannot perform up-to-the-mark as long as it lacks in the required capacity and the leadership of the Office does not become proactive to achieve result. The Institute of Governance Studies (IGS) aims to provide a number of policy recommendations to strengthen the OCAg reform initiatives. This background paper is a modest attempt to measure the institutional capacity of the OCAg and evaluate its general performance over the years to facilitate the deliberation process (to be held on January 7-8, 2009) to formulate policy recommendations. To analyze institutional capacity, different aspects of the OCAg will be examined against four themes/indicators, namely independence, accountability, efficiency, and effectiveness.

1.1 Methodology

For the purpose of the paper, we have extensively studied existing literature and reports. We have also gone through internet resources. Moreover, we have conducted an empirical study and interviewed 18 key informants. Interviews have been designed for three categories of respondents: Interviews for the Office of the Comptroller and Auditor General, Audit Directorates, and Auditee Organizations. In addition, we have undertaken a comparative study of some South Asian and Commonwealth countries to compare their practices with that of ours.

2. Operational Definitions and Theoretical Framework

2.1 Independence

Independence means unrestrained practice of rules, norms and arrangement of resources to deal with particular situation specific to an institution or organization. Anything that cause an institution to deviate from its stated goals by establishing partial or complete control over it is an independence deterrent factor. Public institutions use public money and make decisions that affect public lives. If such institutions take decisions that award undue advantage to some at the cost of others, it would create tension and rivalry among the contending stakeholders. Given this fact, it can be said that institutions matter in strengthening democratic process, but who controls those institutions matter more. The universal way of prohibiting monopolistic control of public institutions is to frame carefully conceived impersonal laws. It is assumed that if public institutions act according to administrative laws, rules and procedures, it will be able to counteract unbalanced decisions through ensuring procedural justice.

For this study, the following definition of independence is taken:

‘The office of CAG and its individual auditors should remain free from any kind of pressure or influence from the executive, audited entity and other outside interest groups in all matters relating to the audit work.’

2.2 Accountability

Accountability is generally defined as "A is accountable to B when A is obliged to inform B about A's actions and decisions, to justify them, and to suffer punishment in the case of eventual misconduct" (Schedler, 1999: 13). This process starts with providing an incumbent with clearly stated responsibilities and ascertaining his/her knowledgeable consent followed by periodic upward reporting by the incumbent about his/her performance of responsibilities.

The study has taken the following definition of accountability for the CAG:

‘The OCAG should be accountable for its actions and obligations by external means and internal norms. External means may include the Parliament in specific and the taxpayers and general public in broader sense. Internal norms include enforcement of code of conduct and supervision.’

2.3 Efficiency

Efficiency is popularly defined as ‘the output-input’ ratio, i.e. producing maximum with a given amount of resources. Such mechanistic concept overlooks the importance of human element of efficiency. Barnard (1968) resolved this gap by defining efficiency from a distributive perspective. To him, efficiency depends upon what it secures and produces on the one hand, and how it distributes resources to the satisfaction of the members of an organization (Barnard, 1968: 57-59). Simply put, efficiency does not mean what or how much is produced (quantitative aspect of output which is the concern of effectiveness and discussed later on), rather concerns with how it is produced (qualitative aspect of output). The qualitative aspect of output refers to the ‘means’ applied for producing the intended output and the ‘means’ include technology and human.

Considering aforesaid views, the following definition of efficiency is taken for the CAG:

‘The CAG, its human resource, structure and management are competent enough for conducting audit related activities in a cost-effective manner.’

2.4 Effectiveness

“Effectiveness is defined as the measurement of the relationship between the results obtained and the objective laid down from the beginning” (Institute of Governance Studies, 2008: 20). Public institutions, especially constitutional bodies, have their responsibilities clearly stated in different statutory laws. Performance of those responsibilities depends upon policies, plans, and projects formulated by agencies. As public institutions have multiple stakeholders having conflicting interests; it is not enough for an institution to derive its policies and plans only in accordance with statutory obligations. Rather, a delicate balance between various interests and statutory obligations needs to be translated into policies and plans so that they remain responsive to the stakeholders and provide them with reasonable satisfaction.

Therefore, the following definition of the effectiveness of the CAG is taken:

‘The OCAG should meet its mandate and mission through producing standard, meaningful and timely audit reports and facilitating their execution.’

The aforesaid four indicators are not isolated; rather jointly determine the performance of the OCAG. It is therefore critical to identify their interrelationship so as to better assess why CAG performs as it does. From functional viewpoint, the performance of the CAG 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 favor of the audit activities. The major environmental actors for the CAG are the auditees, the Parliament, the Cabinet, media, civil society and the general people. According to our operational definitions, efficiency and effectiveness indicate how the OCAG performing its audit related functions. Audit related functions are technical in nature and therefore relatively stable. But these technical functions are constrained by environmental pressure, which can be minimized by better performing environment related functions. Independence and accountability as we defined include environmental functions. As environmental factors are relatively uncertain, independence and accountability of the CAG affect its efficiency and effectiveness. Independence determines quality and quantity of inputs and accountability determines acceptance of outputs. The following schema presents the interrelationship.

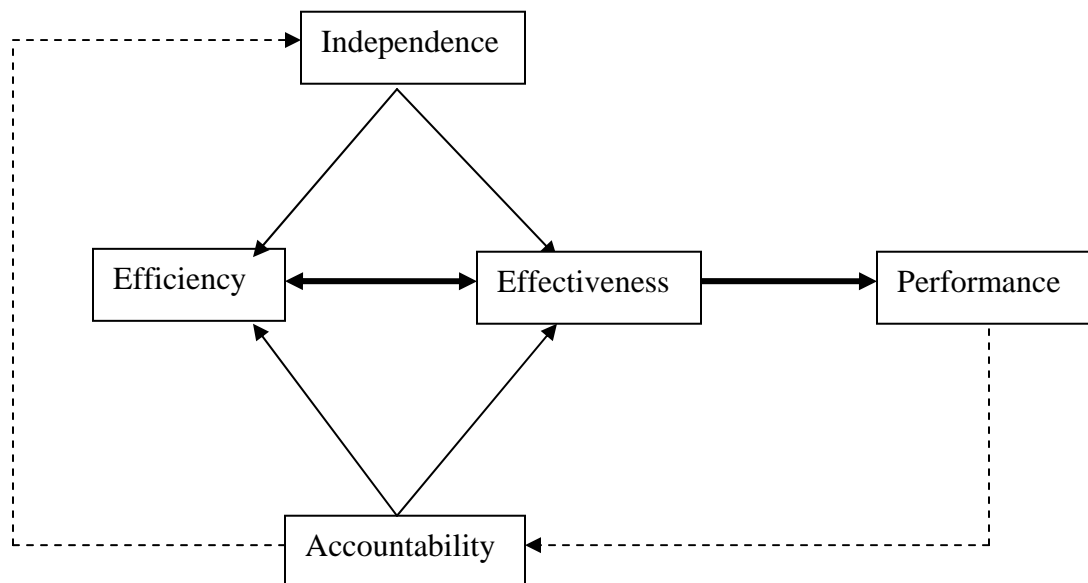


Figure: Interrelationship between the four indicators

The thick line in the figure shows technical functions directly related to the audit process. Independence and accountability of the OCAg influence those technical functions by imposing environmental constraint, which subsequently determines how the office is serving its mandate. Independence influences efficiency by restraining input flow necessary for better performance and affects effectiveness by influencing audit scope and strategies. Accountability, on the other hand, primarily affects effectiveness through standardizing audit contents. It may affect efficiency by examining capacity utilization. Efficiency and effectiveness affect each other. For example, a well-organized human resource may produce poor quality audit due to selection of wrong audit methodology, lack of capability to conduct in-depth examination of accounts and relevant information, poor internal control system of audited organization, etc. On the other hand, a better audit plan might go in vain only because of auditor’s lack of capacity. The dotted line shows an important environmental transaction. The performance of the OCAg has impact on the accountability chain- both internal and external. If performance goes worse, accountability might be tightened and independence might be at stake or enhanced, depending on the perception and capacity of the accountability actors.

3. About the Organization

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.

3.1 Mandate and Authority

The mandate and the authority of the OCAg is laid down in the Constitution of the People's Republic of Bangladesh. Article 128 of the Constitution stipulates the mandate and authority of the Auditor-General:

- the Auditor-General shall audit and report on the public accounts of the Republic and of all courts of law and all authorities and offices of the Government;
- the Auditor-General or any person authorized by him in that behalf for the above purpose shall have access to all records, books, vouchers, documents, cash, stamps, securities, stores or other government property in the possession of any person in the service of the Republic;
- the Auditor-General shall not be subject to the direction or control of any other person or authority in the exercise of his functions.

Under the Clause 3 of the Article 128, the government enacted the Comptroller and Auditor General (Additional Functions) Act 1974 requiring the OCAg to perform some more functions which include *inter alia*, keeping of Government accounts, preparation of appropriation and finance accounts, audit of accounts of statutory public authorities, preparation of commercial accounts and general financial statements. The Act has made a provision of interaction between the government and the CAG to deliver information in the preparation of accounts and report. Section 11 of the Act gives the CAG the authority to make rules and give directions in respect of all matters pertaining to audit of any accounts he is required to audit. The Additional Functions Act of 1974 was amended twice in 1975 and 1983, which created provision to entrust the responsibility of keeping accounts to persons or authorities other than the CAG. This was a modest attempt to separate audit functions from the accounting functions. However, the Office still lacks in a comprehensive Act incorporating powers and duties, service matters, accountability and transparency of the OCAg. However, it has been learnt that a draft law is under consideration of the relevant authority.

Article 131 of the Constitution provides the CAG with the authority to determine the form and manner of keeping the public accounts of the Republic. 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.

In light of the above legal framework the CAG performs audit functions and submits his findings in the form of audit reports on appropriation accounts and finance accounts to the President who causes them to be laid before the Parliament. The Parliament in turn acts on these reports through its committees like Public Accounts Committee and Committee on Public Undertakings. The following issues are mainly scrutinized in auditing an entity:

- a) whether the statements of accounts (income and expenditure) show a true and fair view of the financial position of the audited entity and have been properly prepared in accordance with appropriate rules and regulations?
- b) Did the organization collect or spend the authorized amounts and for the purposes intended by Parliament?
- c) Were the programs and activities run economically, efficiently and effectively?
- d) Did the expenditure meet the Standards of financial propriety? (Annexure-I defines and explains 'the financial propriety')

Though the accounting function was taken out from the purview of the CAG since July 2002 and entrusted with the CGA office, the former is yet responsible for keeping accounts of the Railway and Defence Finance departments.

3.2 Organizational Structure and Manpower

The OCAG is structured in five broad functional areas:

1. The CAG Office: This can be called the secretariat of the CAG responsible for making policy decisions, approving plans and regulating the activities of the other functional departments for ensuring implementation of those policy decisions. The office also helps the CAG to carry out his/her responsibilities through consolidating audit reports.
2. Bangladesh Railway Finance Department: This department is responsible for keeping accounts of the Railway department, preparing financial statement and performs pre-audit functions.
3. Defence Finance Department: This performs the same function for the Defence Ministry as the Railway Finance Department performs for the Railway.
4. Audit Directorates: There are ten audit directorates that conduct the post-audit of all public entities, including the office of CGA and other accounts offices under his control.
5. Financial Management Academy: The Academy works for developing skills of the personnel of the OCAG through various training programmes.

According to the annual report 2007 of the CAG, current approved manpower stands at 4535 (Appendix II presents the organizational structure of the OCAG).

3.3 Audit Process

Audit can be broadly classified into two main categories based on the respective objectives and scope.

Certification Audit: Certification audit forms opinion on the authenticity and standard of the government financial statement and compliance and regularity of the finance and appropriation accounts. For checking compliance, auditors verify legality and propriety of financial transactions. Financial statement audit checks different accounts, journals, cash balance and the balance sheet of the audited entity to assure disclosure of financial information and locate misstatement and fraud. It also provides opinion on the proper presentation of the appropriation account. In Bangladesh, the CAG is basically engaged in certification audit.

Performance/ Value-for-Money (VFM) Audit: Audit that measures the value produced by a stipulated public expenditure through examining the level of economy, efficiency and effectiveness of that expenditure. Auditors, in such case, basically examine strategic direction

and performance indicators, system for planning and financial management, asset management, capital expenditure decisions, human resource issues, service delivery and its impact, etc.

Whatever audit type be selected, auditors have to follow the Audit Code in each step of the audit process and conform to Government Auditing Standard to make quality observations. The OCAG has ten specialized audit directorates, each of which has its own audit manual. The whole process can be differentiated into two stages: first, making audit observation, and second, settlement of audit observation. The audit process consists of the following five steps (Appendix III provides schematic presentation of the Forming Audit Observation process).

Step 1: Knowing the Audited Body and its Environment- In this step, the auditor gathers information about the audited body relating to its nature of activities, types and volume of transactions, budget allocation, applicable laws and financial rules, the latest financial statement, major control procedure, etc. This helps the auditor identify possible risk areas. In so doing, the auditor should realize the context in which the audited body is performing its functions. For example, during natural calamity, entities relating to disaster management might experience irregular expenditure.

Step 2: Preliminary Examination of the Internal Control System- Before planning in detail, the auditor assesses the adequacy of the recording and processing of transactions system, accounting system, expenditure control mechanism and identify possible weak areas.

Step 3: Determining the Audit Approach- There are two basic approaches, namely direct substantive testing (DST) approach and System-based approach (SBA). Before selecting an approach, the auditors analyze the Internal Control System (ICS) and past performance of the auditee. If the ICS and past performance are considered unsatisfactory, the DST is selected. In the DST, the auditor scrutinizes almost all documents, minutes of meeting, vouchers, cheques, and other related financial documents, especially in risk areas. If the auditors find the ICS working reasonably, they select SBA. In this approach, the auditors test the compliance performance of different systems (e.g. salary, procurement, transport, accounting, etc.) of the auditee through sampling. If the ICS appears very weak, the auditor cannot but select the DST.

Step 4: Audit Plan- The auditor needs to outline the nature, scope, timetable, and necessary arrangement for conducting the audit, including field inspection of the audited body and the supervision of the audit team.

Step 5: Local Audit or Inspection Report- The auditor prepares his report locating material irregularities, errors or fraud and the inadequacy of the accounting and internal control system.

In the second stage, audit observations are settled. General audit observations are settled on the spot through consultation with the management. Advanced observations are settled through exchange of official letters between the concerned audit directorate, the concerned auditee and the ministry that controls the auditee. The written replies to the queries have been made mandatory for observations to be included in the Local Audit Report (LAR). After receiving the LARs from the audit teams, the reports are scrutinized thoroughly. Upon completion of review, the Serious Financial Irregularities (SFIs) are transmitted to the Principal Accounting Officer(s)

of the line Ministry/Division(s) for response/comment on the observations. This is called Advance Para. If satisfactory reply is provided with, observation is settled at this stage. When no reply is sent or the reply is not satisfactory it is developed into Draft Para. Thus we see that audit observations are basically of two types: ordinary or general audit observations and serious financial irregularities. Unsettled SFIs known as draft para are included in the audit report and these are discussed in the PAC meeting for final settlement (Appendix IV presents a diagram to show the settlement process in detail).

4. Analysis

4.1 Independence

No legislative audit office has demonstrated the ability to conduct objective and standardized audit without independence (Dayal, 2000: 93). The Constitution of Bangladesh has given enough independence in terms of mandate. But what is questioned is about operational independence (administrative, procedural and financial) of the CAG. As regards our operational definition, the following factors have been identified as having bearing upon the independence of the office.

4.1.1 Appointment and Service Conditions of the CAG

According to Article 127, the President is the appointing authority of the CAG. Article 48(3), on the other hand, compels the President to act on advice of the Prime Minister other than appointing the Prime Minister and the Chief Justice. As partisan politics is deeply rooted in Bangladesh, this arrangement gives room for political manipulation of the Office by appointing a like-minded person as the CAG. The OCAG deals with sensitive financial issues directly related to political and administrative corruption (in the meaning of the use of public resource for private gain) and therefore the ruling party might consider an effective OCAG threatening to its partisan interest. However, after entering upon the office, the tenure of the CAG has been guaranteed by the constitution. Article 129 (1) provides that the CAG enjoys a term of five years from the date of appointment, or until he attains the age of sixty-five, whichever is earlier. Article 129 (2) says that he cannot be removed from his office other than in like manner and on like grounds as a judge of the Supreme Court.

The President, however, follows more or less the seniority principle as a norm in appointing the CAG. After independence, the senior most officers of the Audit and Accounts cadre usually got the appointment, except in two cases, in which seniority principle is violated, allegedly on political and nepotistic considerations. Another important trend found in the appointment is that officers who migrated permanently from the OCAG to the Secretariat got appointed in most cases. The appointment of the 9th CAG was the first deviation from this trend. He was the first appointee from within the OCAG. The appointment of the current CAG continued this deviation.

Considering above dynamics in the appointment process, it can be argued that the seniority norm alone cannot prevent the politicization of the appointment. As the post of the CAG is considered honorable and prestigious within the government and in the country, the senior most officers are likely to keep lobbying with the government. If the CAG gets appointed through some informal

means, he might lose his objectivity. Therefore, it is essential to enact a clear system of appointment, ensuring merit, seniority and transparency.

Independence depends as much on legal authority and self-sufficiency as it depends upon the leadership. Notwithstanding having enough power and institutional capacity, the OCAG is unlikely to perform independently unless the CAG himself /herself wants to exercise his/her power to function independently. Appointment process thus raises the critical question of leadership. The seniority principle, if objectively followed, might prevent politicization, but is not sound to select appropriate leadership. Seniority is an almost automatic process, whereby a loyal officer having relatively poor leadership capacity can hold the position. Therefore, it will be more appropriate to guide the appointment process by some qualification requirement enacted by law.

4.1.2 Legal Protection from Outside Influence

Principle 2 of the Mexico Declaration of SAI independence requires that the office should have immunity in the normal discharge of their duties. They should not be prosecuted for any of their actions done as part of their duty. But there is no enabling audit act/ ordinance in Bangladesh, stipulating the power of the CAG in relation to government, auditable entities, and other interest groups. Principle 6 of the said Declaration requires the freedom of the SAI to decide the content, and timing of reports and to publish and disseminate them. In Bangladesh, no legal provision is available to take punitive action if someone tries to influence the content and timing of the reports. Some sort of legal redress measures needs to be instituted that the CAG might resort to in cases of unlawful influence. During investigation, following unlawful influences that often cause objective audit difficult were identified:

- Intimidation
- Political influence¹
- Third party (e.g. contractors, suppliers, etc.) influence
- Bribery
- Misinterpretation of financial rules and office orders

A senior official, however, claimed that the OCAG shows zero tolerance against its officials, who are accused of being influenced during audit. This implies that the OCAG has to rely on personal morality and firmness of the officials. He, however, told nothing about the punishment of the person, trying to influence the official. Some institutional measure should be in place to make the stakeholders aware about such power of the CAG and take corrective actions objectively against outside influence.

4.1.3 Separation between Audit and Accounts

The fundamental logic for a separation between audit and accounts is that the organization and the people responsible for keeping the accounts should not be auditing them also (Dayal, 2000: 94). A new post of the Controller General of Accounts (CGA) was created in 1984 for maintenance and compilation of government accounts. Since July 2002, the functional responsibility of the CGA was placed under the Finance Division, Ministry of Finance. This

¹ The Finance Adviser of the Caretaker government alleged that auditors often temper audit report on political influence(18 December 2008, the Daily Nayadiganta).

initiative partially separated audit from the account. The CGA still remains part of the CAG's office for administrative purposes. Moreover, the Audit and Accounts cadre contains both audit and accounts officers. This makes intertransferability between audit and accounts position possible. This is not unusual that the person responsible for keeping the accounts of a particular government entity may at a future date be responsible for auditing the same accounts. The OCAG still keeps accounts and prepare financial statement of the Railway and Defence services. However, a senior official claimed, "The officers working in civil, defence and railway accounts are not generally posted/transferred to the Civil, Defence and Railway audit directorates respectively. That means we are enough cautious to avoid conflict of interest." He rather added that officers experienced in accounting work could better utilize their knowledge in auditing work and vice versa. Some other mid-level officers expressed that theoretically audit and accounts should be separated but they did not face any problem in practice under the current system. They claimed that the audit and accounts cadre is small enough in size to make placement decisions, avoiding conflict of interest. Considering those views, it can be argued that though the OCAG did not face significant problem from the intertransferability of the audit and accounts positions, the probability always remains to face conflict of interests.

Apart from placement related problem, conflict of interest might arise from cadre seniority (auditing an accounts officer who is senior to the auditor) and fellow-feeling (officers of the same cadre might develop an esprit-de-corps feeling). It has been argued that many accounts officer do not want the separation because the power they exercise in their present capacity enables them to make money and might narrow down their promotion prospect (Dayal, 2000:94). The OCAG has never conducted a study to discern practical problems towards complete separation. On the problem of fellow-feeling in making objective judgment against an accounts officer, who is his/her cadre-mate, one higher official said, "Well, if we believe in hierarchical accountability, in which we do not consider fellow-feeling a problem, why should we consider fellow-feeling a problem in holding the cadre-mate to account?" Another mid-level officer demanded, "We need to be conversant in accounting knowledge to be a good auditor and hence Audit and Accounts cadre should not be separated." This claim has inherent logic as recruitment to Audit and Accounts cadre does not require specialized education background. Notwithstanding those facts, integration of audit and accounts has following disadvantages:

- If the accounts officer is senior to the auditor, the auditor might feel insecure as there is always a chance that this officer might come back to the audit directorate and be his/her line boss.
- In hierarchical accountability, fellow-feeling matters little as the superior has interest in making the subordinate accountable for his own survival and retaining his/her command. But when there is no hierarchical relationship between two officers of a same cadre, one engaged in keeping accounts and the other is to audit that accounts, there is more probability of informal collusion between the two to be equally benefited.

4.1.4 Finance

Though the CAG prepares its own budget (subordinate directorates prepare their own estimates and the OCAG scrutinizes and controls those estimates), it needs to get the budget approved by the Finance Division. According to the Article 88, the salary and administrative expenses of the CAG are charged on the consolidated fund not subject to the vote of Parliament. But as the administrative expenses are not defined, the MoF can regulate such allocation in the name of

financial discipline owing to its authority to make financial rules and regulations and ensure financial discipline of the government. This seriously undermines independent institutional development initiatives of the CAG. One senior official said, “Though our budget is charged on the consolidated fund, our estimate is treated like a government department’s estimate.” However, the CAG has the authority to reallocate the sums among the spending units, except the earmarked items. The following table shows year-wise revised budget of the OCAG.

Budget Allocation of the OCAG

Year	Revised Allocation (in thousand taka)
2008-09	691778 (allotted)
2007-08	680627
2006-07	686170
2005-06	448807
2004-05	401042
2001-02 ²	975776

Source: Finance Division

Significant increase in budget during 2006-07 was caused by implementation of the new pay scale and the construction of the audit building. Since 2006-07 (shaded region), subsequent budget allocation implies that the OCAG practice an incremental approach in budget making, though it has worked out a strategic plan, which claims result driven allocation instead of incremental allocation. One higher official of the OCAG agreed about the importance of the result based budgeting to achieve its strategic objectives. But this was not possible due to interference of the Ministry of Finance. The latter allocates budget, keeping spending trend in view. He again said, “We cannot prepare our budget taking institutional development needs into consideration. Even we cannot hire technical persons for technical audits due to shortage of budget.” In response to the query on the adequacy of the budget, the study found inconsistent opinions. Some argued that despite their constitutional status, they did not get sufficient allocation. Some argued that MoF usually did not cut the proposed estimate. But everyone agreed that sufficient budget allocation depends more on the personal relationship between the CAG and the secretary of the MoF. This cannot be taken as a good institutional practice.

4.1.5 Relationship with the Government, especially with MoF and MoE

Independence from the executive means that the SAI should not be a part of, or managed by, a government department it has to audit. But, the OCAG is placed as an attached department of the Ministry of Finance (MoF). The latter controls the Audit and Accounts cadre and the budget of the CAG. The Ministry of Establishment (MoE), on the other hand, has control over the recruitment, reorganization and other personnel issues of the OCAG. Conflict of interests might arise when the OCAG takes MoF and MoE to audit as it has to depend on them. However, most of the respondents denied the existence of such conflict of interest. But the opportunity of arising such conflict exists. In principle, the SAI should not be dependent on the bodies it audits. The budget of the CAG should be controlled by the Parliament and adequate financial resource

² 2001-02 budget included salary and administrative expenses of the OCGA and its subordinate offices and therefore outnumbered allocations of other years. From 2003-04, the salary and administrative expenses of the OCGA has been being included in the budget of the Finance Division.

should be guaranteed. It should have freedom to hire and assign competent professional staff and fire incompetent ones, as it deems necessary. One higher official said, “Though the OCAg has a manpower strength of 4535, currently it has only 2006 employees in its ten directorates. This is because the CAG could not recruit in vacant positions by his/her own motion, rather requires going through the tardy channels of MoE and MoF. Often times those two ministries do not feel the need of the Office.” He then added, “Even we have the authority to outsource experts or appoint people on contract. But we do not have the budget to do so.” This scenario might cause one to infer that such delay could be intentional so as to get the Office weaker in manpower and make it ineffective in carrying out substantive audit of government entities. Another senior official endorsed this view saying, “Yes, the CAG is the appointing authority of non-cadre class I, class II, III and IV officials, but this requires clearance from MoF and MoE, which is an excessively time consuming process. Class I cadre officers are recruited through the BCS exam, which is again lengthy and cumbersome, sometimes stumbled by litigation. Even the CAG does not have full control over cadre officers as their promotion, deputation and financial benefits partially depend on the MoF.”

A number of officers of the Audit and Accounts cadre serve managerial positions of the GoB on deputation. Some officers at deputy secretary level willingly come out of the OCAg for the rest of the tenure and work for the GoB under the control of MoE. Usually, such deputation and migration to the secretariat posts are considered as incentive within the cadre, as both give them exposure. Deputed officials could help a lot in identifying major risk areas in auditee agencies. Despite having such individual and institutional advantages, this causes brain drain from the Office. Deputation might contradict section 11 of the Audit Code that prohibits the auditors from some sorts of relationship with the auditee.

The CAG also lacks freedom to professionalize its office. This becomes acutely problematic in conducting technical audit, which needs multidisciplinary expertise. He/she cannot recruit the number and kinds of people he needs. He/she lacks freedom to promote staff on merit and cannot design incentive system to retain the capable officers. Again, the CAG, as per the section 44 of RoB, has to submit annual report to the President through the Prime Minister. As the report goes through the PMO, there always remain chances for the executive to make a hard bargain with the CAG over politically inconvenient audit objections. All these suggest that the CAG is currently working as a part of the government. It is improbable to expect bold and active auditing role, keeping it dependent upon the government it audits. However, the CAG proposed an Audit Act, seeking necessary power to recruit independently. The following table presents matters, for which the OCAg’s depends on MoF and MoE.

MoF	MoE
Budget	Recruitment
Deputation	Reorganization
Lien	Promotion
Education Leave	Legal Matters
Recruitment	
Promotion	
Reorganization	
Disciplinary Matters	
Legal Matters	
Procurement	

Source: CAG Office

The above table clearly shows how the OCAJ is dependent on the government, which is a grotesque violation of the Principle 8 of Mexico Declaration of SAI independence that emphasizes on managerial autonomy of SAIs.

4.2 Accountability

The CAG has been conferred with constitutional independence in carrying out its responsibilities and the power to seek evidence from any public office. It is therefore essential to have some checks on the CAG to hold him to account for his actions and at the same time to sustain its independence. According to our operational definition, the accountability of the CAG has been explained by the following factors.

4.2.1 Transparency

Transparency leads to accountability. The CAG's transparency can be determined from the degree of its openness in conducting its operations and making important documents (its own budget, its annual financial statement, decisions, audit reports, follow-up, disciplinary actions, performance analysis, etc.) public. At present, the OCAJ is not as transparent as it should be. Audit reports, which are presented to the Parliament, are generally not accessible to the public except through rare media leakage. It publishes only outdated audit reports in its website. Even the Office is yet to take institutional measure to establish citizens' right to information.

However the office publishes annual report and quarterly newsletters regularly. These reports mainly highlight its achievements and rarely include critical analysis of its own performance, financial statement and challenges it faced. The Office might arrange open dialogue with the civil society and media personnel periodically to make important documents public and get suggestions for improving performance further.

The Office can organize peer review sessions (peers might be private sector experts, representatives from auditees, Members of Parliament, civil society members) on its reports and performance as means to identify its own weaknesses and ways to improve its accountability for performance.

4.2.2 Code of Conduct and Internal Disciplinary Mechanism

The OCAJ follows the Government Servants (Conduct) Rules 1979 and the Government Servant (Discipline and Appeal) Rules 1985 to retain internal discipline. As the audit is an oversight function and very much different from managerial functions that other government servants do, the OCAJ formulated a Code of Ethics, which it tries to implant in the auditors through training. Despite having such measures, most of the respondents from the auditee organizations revealed that auditors often made illegal demands and harass them. Allegations include intimidation, fictitious and inflated objections, negotiation on the number and types of para, etc. One respondent from the auditee questioned, "We have to provide auditors vehicles and entertain them with food, for which we do not have budget allocation. Then how could we strictly follow financial discipline?" But such irregularity happens where the auditee is not well-versed in financial rules and regulations and the audit process, or where financial

impropriety and irregularities prevail. One senior official of the OCAg admitted the allegation but said, “It is very difficult to prove corruption. Both auditors and auditee are engaged in underhand dealings and therefore we get information from none. We so far heard about few allegations and took departmental actions in proven cases.”

Though the Conduct Rules 1979 requires government officers to submit yearly asset statement, this is not followed in the Office³. Following measures can be considered for strict implementation of the Conduct Rules and Code of Ethics.

- Mandatory submission of asset statements by the officers and their periodical verification
- Introducing stricter punishment for violating the Code
- Conducting test audit of a certain percentage of the total yearly audits to identify cases of violation of the Conduct Rules and the Code and make the result of such test audits public.
- Developing a two-way communication mechanism between the OCAg and the auditee through which the former would make the latter aware about the standard audit process and the latter might apprise the former about the actual audit practice.

4.2.3 Parliamentary Accountability

At present, Parliament neither discusses audit reports of the CAG, nor does it evaluate the performance of the OCAg. The PAC discusses the reports and lays its recommendations to the Parliament for discussion. Sometimes the PAC comments over the quality of the audit report. It does not engage in holding the CAG to account for his/her responsibilities.

4.2.4 External Audit

Though the CAG conducts external audit of all public entities, unfortunately it has been exempted from external audit. As the CAG is independent of the executive and does not account to the parliament for its actions, external audit is essential to make it accountable. Under the current system, the CAG is virtually accountable to none, except to his/her conscience.

4.2.5 Internal Control System (ICS)

The ICS of the OCAg has the following components:

- All directorates are accountable to the CAG. Usually, the OCAg carries out annual inspection of all its directorates. Moreover, one audit directorate is audited by another audit directorate.
- Internal disciplinary mechanism prevents individual irregularities. Techniques of disciplinary mechanism include inspection, supervision, office manuals, reports and returns, cross-verification, administrative orders and circulars.
- Pre-audit of expenditure
- When financial scam of an organization comes out public, the Office reevaluates its audit report on that case and tries to identify responsible persons.

³ The OCAg is not an exception in not submitting yearly asset statements. Almost all government offices do not conform to this provision.

4.3 Efficiency

Efficiency is the yardstick to measure the degree of management excellence of a particular organization. If the OCAG becomes effective in getting its result at a very high cost, we cannot consider it as efficient. In a poor and corrupt country like Bangladesh, one taka⁴ spent for audit should save as much taka of the government as possible. Many factors are related to efficiency. But in our definition, we put emphasis on management of the technical and human resources of the OCAG.

4.3.1 Human Resource

The worst deficiency that exists in the current composition of the human resource of the OCAG is the shortage of qualified auditors needed to carry out a range of financial, compliance and performance audit. Performance audit demands multi-disciplinary personnel, especially having competencies in cost management, management accounting, capital budgeting, statistics, economics, and specialized areas like medicine, engineering, chemistry, etc. The CAG has no flexibility in hiring such competencies at its convenience. The problem lies firstly in the system of recruitment. The entry-level recruitment to cadre positions is made through the Bangladesh Civil Service examination. The minimum requirement for appearing at the exam for the Audit and Accounts cadre is a bachelor degree in any discipline. Though the competition is very intense, the generalized nature of the recruitment system often results in wrong selection (candidates having education unrelated to audit and accounts or related functions). Initially, the selected candidates enter as probationers for two years. After completing a foundation training of four months, candidates have to take part in a ten month long induction course as part of their departmental training. It is very difficult to imbibe technical skill of audit among the newly entrants coming from diverse academic disciplines by providing a mere 10-month induction training. One senior official opined, “Audit is a technical task and therefore we need candidates with the right academic background. Otherwise, we have to compromise efficiency.” Another senior official responded differently, “we need staff from multiple disciplines as we have to conduct audit of entities, which differ from each other in activities. The generalized recruitment system provides this opportunity.” Taking both views into consideration, it can be argued that the Office certainly needs multiple skills, but they should be recruited in a planned manner, instead of following a general approach. The Office may specify discipline-wise needs and request the PSC to select appointees in accordance with its needs. The following table shows major academic background of the officers of the Audit and Accounts cadre at present.

⁴ Taka is the currency of Bangladesh.

Academic Background	No. of Officers
Science	44
Commerce	42
Humanities	65
Social Science	37
MBA	11
Agriculture	10
Engineering	07
Medicine	02
Architecture	01
Environmental Science	02

Source: The CAG Office

The existing manpower structure is shown in the following table.

Class-wise Manpower

Post	Number	% of total
Bangladesh Civil Service (Audit and Accounts)	224	4.94
Non cadre Class I	474	10.45
Class II	642	14.16
Class III	2790	61.52
Class IV	405	8.93
Total	4535	100.00

Source: Annual Report, 2007 of OCAg

Interestingly, 70.5% of the total manpower of the CAG office rests with the class III and IV officials, whom the OCAg selects and appoints. The class II officers, known as superintendent, are mostly promoted officers from class III. The minimum qualification for entry in Class III is graduation. Some of them at present have Masters Degree from various disciplines. They conduct the actual field audit. They receive an 8-week long departmental training, including a basic course on auditing before engaging in field audit. It is doubtful how they could learn from such training. One Class III official agreed, “We usually learn by doing.” A senior official observed, “Class III officials are poorly paid and treated as clerks. So they develop a mindset not appropriate of the auditors.” Indeed, this is the one of the main problems of the Office. Overwhelming number of Class II and III officers could deteriorate the administrative culture of the Office. For example, overwhelming number of class III and IV officials might result in strong unionism detrimental to the functioning of the Office. It has been alleged that the direct recruitment in superintendent position is usually resisted by the Audit Parishad- the Union of the OCAg. There are also allegations of corruption and politicization against some office bearers of the Parishad. One mid-level cadre officer said, “Sometimes we could not be able to give proper service to our auditees due to the conduct of those officials. They are engaged in field audit and therefore, they can hide critical information.” Another mid-level officer said, “Our officials are not out of the overall administrative culture of Bangladesh. In our administration, informal conventions are often given more importance than formal rules. I saw a higher official of the government sitting in the room of a Class III officer, negotiating on audit objections.” She then added, “Formally, that higher official should have come to me and I would negotiate as per rules. But, that officer thought the auditor (class III) more powerful, as he conducted field inspection.”

A practical problem arises from the capacity building endeavors of the class III officials. As the pay and status are low, candidates having little potential usually apply for the job. During the study, some class III officials were found who were considered as good auditors, but did not pass the Subordinate Accounts Service exam for years. It can, therefore, be inferred that they might be efficient in routine activities, but weak in professional and theoretical knowledge and continuous professional development, which are considered very crucial for applying professional judgment in unique as well as in complicated cases. This inference was endorsed by a higher official saying, “Auditors and superintendents lack analytical ability, which is very critical to conducting quality audit. This mounts heavy load on the audit managers and quality committee, who have already been overburdened.” The Office can examine the individual capacity development cost and efficiency of officers from various classes to get a clear picture about the soundness of its human resource planning practice.

It is important to increase posts in class II by decreasing posts in class III for adding more value. A significant number of class II officers should be directly recruited so that the Office can select the better options from the market. Such lateral entry will increase competition and drive the officers to perform.

4.3.2 Organizational Structure

Under the current structure, the Office of the CAG plays the role of the secretariat of the CAG by helping him making policy decisions and monitoring implementation of those decisions. Moreover the Office coordinates activities of ten audit directorates. Monthly meeting between the CAG and Directors General (DGs) of all directorates is held in order to coordinate activities of different directorates. DCAG (A & R) oversees that any directorate is not encroached upon by other directorates. Moreover, the CAG controls the activities of the Audit Forum, comprising DGs of all directorates. The Forum suggests the CAG about ways and means to enhance the capacity of the Office and the quality of audit. However, under the current structure, the OCAg does not have scope to undertake regular in-depth research on its activities, especially research on its performance improvement and utilization of institutional linkages for facilitating audit process.

A number of anomalies is found in the current structure. First, though the office of the CGA has been placed under the Finance Division as part of the process of separating audit from accounts, the OCAg still carries out accounting of the Railway and the Defence services. In response to this fact one senior official replied, “Both we and those two departments do not face any problem in continuing their accounts functions and that is why they have not been separated yet.” Second, Works Audit Directorate usually places class II officers as the Divisional Accountants (DAs) for maintaining accounts of different government works departments and giving advice to the chief engineers of those departments. Possibility of collusion between the auditors and the DAs always remains as both of them belong to the same office. And third, functional departmentalization of audit into ten audit directorates resulted in overlapping of jurisdiction and duplication of audit work. For example, the audit of the Local Government Engineering Department (LGED) falls under the jurisdiction of Works Audit, Local and Revenue Audit and Foreign Aided Project Audit. Most of the respondents from auditee organizations said that duplication of audit activities often resulted in harassment and contradictory audit objections.

This might also complicate entity-wide audit process that the Office is currently following. As audit is an entity-based function, client-based departmentalization would be more convenient. Clients (entities) doing similar activities would be under the jurisdiction of a particular audit directorate. The entity-wide audit report of a ministry can be prepared by compiling and summarizing audit reports of different directorates, which conducted audit of various departments of that ministry. The following table shows the process at a glance.

Ministry	Directorates									
	Civil	L&R	Com.	Works	Mission	FAPAD	Rail	Def.	PT&T	Perf.
Ministry of Communication		BRTA DTCB	BRTC	Roads and Highways		Aided projects	Railway			

4.3.3 Performance Management

Like other government organizations, the OCAG uses Annual Confidential Report (ACR) to measure individual performance of the officers. Cumulative ACRs are considered in selecting nominees for foreign training. Besides, audit managers evaluate each audit team based on the concerned audit working paper. Each member of the team has to prepare query sheets in his/her areas of responsibility, which are included in the working paper. An audit manager can evaluate the performance of the member by analyzing query sheets. Team members are shuffled and reshuffled each year. If a member consistently performs poorly in each different team, the manager infers that the member is inefficient. But such team performance has no bearing on promotion and financial incentive. But this is important in forming audit team and placing teams in particular audit entity. Usually better performers are likely to be selected for big and risky entities. During study, it has been found that audit in big and risky entities is considered as an incentive. It has also been found that auditors believe that number of audit observations positively affects performance evaluation. This seems irrational as a good auditor, if placed in an entity, which has better internal control system, is likely to make fewer observations. This perhaps causes auditors to behave in a faultfinding manner and makes the relationship between the auditor and the auditee strained. A senior official however claimed that quality of observations and the percentage of recovery and adjustment of the objected amount are considered in performance evaluation.

4.3.4 Training

The OCAG is at present organizing sufficient number of in-house training within each audit directorates and regular courses through the Financial Management Academy (FIMA). In-house training on administrative aspects like attendance, conduct rules, rules of business, note and draft writing, audit reporting and other professional issues has been introduced in all 57 units controlled by the CAG. 247, 242, 258, 294 and 430 in-house training courses were conducted in 2003, 2004, 2005, 2006 and 2007 respectively (Annual Report 2006 and 2007). FIMA provides departmental as well as issue based training programs, such as departmental training of BCS (Audit and Accounts) probationers, subordinate accounts service part I and II for auditors, TIBAS, TASK, etc. Besides, issue based training, workshops and seminars are arranged under

the aegis of different projects. In Addition, the CAG is, at present, actively partnering with INTOSAI/ASOSAI for capacity development and knowledge sharing. The office sends its officers to participate training programs, seminars, workshops by INTOSAI/ ASOSAI in this respect. The year-wise number of such courses and participants are given below:

Year	No of courses	No of participants
2003	12	12
2004	26	26
2005	10	14

Source: Kashem, 2006

The officers of the OCAG have opportunities to get overseas training, masters and doctorate degrees on government scholarships and development project sponsored scholarships. But the question remains with the efficiency and utilization of those training programs, i.e. how much training programs are currently adding value compared to the cost incurred and the objectives set. This study identified the following lapses.

1. *No Training Policy and Need Assessment:* It is widely agreed that the OCAG lacks suitably qualified and trained staff due mostly to its generalist recruitment process and dependence on the Class III officials for field audit. The office therefore should have a training policy, especially targeting the needs of the probationers who come from diverse educational backgrounds and require serving positions in various audit directorates and accounts offices. The policy should also address the needs (professional and behavioral) of the auditors and superintendents, who conduct field audit. Surprisingly, the Office did not conduct an analysis of the number and competencies it needs at different responsibility levels as part of the ground work to formulate a training policy, though capacity development is an important component of its strategic plan. This implies that the office at present conducting routine training and professional development programs mostly supply based. This supply-side training creates two drawbacks: a) the office cannot maximize its training resources in pursuance of its goals, and b) trainees as well as trainers feel apathetic to their courses. Moreover, the office does not have an inventory of skills and competencies of its present audit resources. This implies that the office does not know the gap between the existing resource capacity and the actual need. As the gap is unknown to the CAG, it is unlikely that he could be strategic in closing the gap through personnel planning and professional development. One senior official opined, “The office should attach its trainees with some professional audit firms to be conversant in benchmark audit practices and replicate them in the public sector. This might help assess training needs better.” One higher official of FIMA claimed, “Our training modules are not totally delinked from task demand. At the end of each program, we seek opinions of the trainees to know their satisfaction and how the program can be made more effective.” He then added, “Sometimes ministries/ departments request us for issue-based training and apprise us what are their needs.” However, he recognized that no systemic need assessment method is followed to develop modules. Another senior official replied that the shortage of fund and absence of a comprehensive personnel management database prevented the Office from assessing training needs.

2. *Sporadic Overseas Training:* At present, overseas training available for the audit officers are not aligned with the needs and human resource development plan of the Office. Most of such

training programs are ad hoc, sporadic and opportunistic. Most of the overseas scholarships for post-graduate education come through the Education Ministry and the Economic Relations Division (ERD). Opportunities come in such manner partially fulfill the need of the Office. Another problem is that participants mostly consider those overseas training as an incentive (financial as well as status) instead of considering them as professional need. This is again linked with the absence of a training policy and periodic needs assessment. However, the Office gets some overseas scholarship opportunities under aided projects, which are need-based. If the Office assesses its needs for foreign training periodically, it might explore options with the Ministry of Education, ERD, development partners and other countries for providing scholarships in some selected areas. In addition, there are no clear criteria for selecting candidates for overseas training. Selection is made without due consideration to the incumbent's present job requirement and future career plan, past experience and performance, interest and aptitude (Dayal, 2000: 97).

3. *Poor Utilization of Trained Staff:* No policy is there to optimize the trained capacity of the incumbent (both within country and abroad) on his/her returning. Officers are posted in a job that has no link (or vague link) with the training they received. A senior official mentioned, "We badly feel the need for synchronization between training and task demand. When I am placed in a position far away from my training, I lose my interest in using my new skill and forget it over times." Since 1982 to 1998, 18 (20%) out of 90 officers who attended training, seminars, and workshops on government auditing were working in the auditing area (Dayal, 2000:97). Among 18 officers who took training in performance auditing only one (5%) remained in the same field. In addition, staff is not retained in one job long enough to develop knowledge, expertise and specialization. A specialized audit team needs continuity of knowledge and experience to be able to plan its audit meaningfully (Dayal, 2000: 97). A higher official of FIMA admitted that the OCAG did not ever have a training utilization plan. He also regretted that participants hardly get opportunities to apply their acquired capacity.

4. *Training Delinked from Career Planning:* Career planning practice is absent in the OCAG. After entering upon his office, an officer has to engage in multiple training and serve multiple purposes. Therefore, none knows how the training is going to add value to his/her career. One higher official said, "Promotion is based on seniority and we have no transfer policy. That is why we do not know where we will be few years after and what training we need to move faster to that post."

5. *Training Impact Assessment is Absent:* The OCAG never assessed impact of any of its training program to measure its effectiveness and thus modified its curriculum and methods in tune with organizational needs and performance benchmarks.

6. *The Capacity of FIMA:* The quality of training of the Audit and Accounts cadre depends to a large extent upon the capacity of the FIMA to provide with need based training through proper methods. At present, it mainly follows lecture method. Apart from this, individual presentation is used. The Academy is not using modern training methods like simulation, role playing, and problem solving. SAS participants are attached with district accounts offices for one day or two to get hands-on exposure. They have to submit a report describing their learning. But how much they learn from such short attachment is doubtful. Cadre officials get a two year departmental

training in FIMA, followed by the departmental exam. The Academy is planning to introduce critical thinking components like book review and quiz competition for the probationers.

At present, the Academy has both in-house trainers and guest speakers. Officials of the Audit and Accounts cadre work as in-house trainers. Guest speakers come from Bangladesh Bank, relevant ministries, Economic Relations Division, National Board of Revenue, etc. Sometimes, trainers come from ICAB and ICMA. The Academy is thinking to hire trainers from other government training institutes.

FIMA has a participatory trainer evaluation system. Evaluation is done in two phases. The first one is a numerical measurement, whereby each student rates few qualities of a trainer in each class. Qualities include content of the lecture, delivery skill, capacity to control and motivate, blend of theoretical and practical knowledge, etc. In the second phase, each student is asked to make a descriptive evaluation of the trainer at the end of the course. Based on the combined evaluation, a gradation list of trainers is prepared. A trainer is retained for the next session only on satisfactory performance and availability.

But the Academy is suffering from some serious drawbacks explained below:

- The Academy has shortage of qualified trainers. Reasons identified for this are: a) qualified outside trainers cannot provide sufficient time and the Academy does not have the resource to buy in their time, b) in-house trainers are not very qualified. Qualified officers are not interested to serve the academy as there is no incentive. While guest speakers get remuneration per class, they get nothing. Even the government discriminates the in-house trainers by refusing to give them 30% pay increase of the basic as per the National Training Policy. Therefore, officers posted to the Academy consider it as a demotion and feel demoralized.
- As in-house trainers consider posting in the academy as demotion, they always try to switch to line-directorates. Therefore, FIMA confronts frequent trainer turnover, which smacked development of professionalism in it. A senior official of FIMA said, “We need brilliant and motivated officers as trainers. But the reality is just the opposite. The academy is considered as a transitional period. Officers come and transferred.”
- Insufficient infrastructure and logistic support is another crucial problem. Trainees often complain about poorly furnished classes and computer lab, shortage of office equipments and training materials. However, the OCAG is about to finish construction of FIMA’s own building, spacious and well furnished.
- Periodic need based update of training modules is a critical component of effective training. This basically depends upon the capacity of the Academy to assess impact of its training programs and evolving task demand. One senior official admitted that the Academy does not have the capacity of training need and impact assessment, other than taking superficial opinions of the trainees during courses.

However, the OCAG in its first strategic plan (2003-2006) attempted to address some of these problems. Some of the initiatives undertaken were (Kashem, 2006):

- Syllabus of the foundation training for the cadre official has been updated at par with international standard;

- An induction program has been introduced to give an overview about the vision, mission, core values, audit methodologies, and techniques, and general operating environment of the CAG;
- Subordinate Accounts Service (SAS) training module has been improved (on passing of Part I and Part II exams, auditors are promoted to Class II);
- Auditors' training module has also been revised;
- The newly established HR Cell is pursuing for enacting a training utilization plan; and
- The Office is in discussion with ICMA and ICAI to explore options for collaboration to share knowledge.

4.3.5 Salary, Incentives and Compensation

There is no denying of the hard fact that the low pay structure of the auditors does not usually attract the bright within its rank. The existing compensation package fails to stop brain drain from the OCAG. Many of the existing auditors are said to be general graduates. Some of them are post-graduates. But most of them are mediocre. Some are even said to be below average. Just a few of them have the commerce background. Most of the respondents said that they feel demoralized with the current compensation. They argued that the Office totally counts on professional integrity, which is not sufficient. They are often provoked by illegal offer and it is very difficult for them to retain their integrity, while continuously struggling financially. Some noticed that some government agencies provide incentive to their employees based on target achievement. They also save government money each year, part of which can be distributed as incentive for good work. One class III official said, "We are paid insufficient conveyance and living allowance, but we have to take the toil of field audit." He then added that they deserve some reward on good reporting. The study also found that class III officials are of the opinion that existing disparity between conveyance and living allowance between class I and III officials needs to be reduced.

Mission audit is considered as an incentive within the Office. Currently, there is no hard and fast rule in selecting auditors for mission audit. Seniority is the norm in selection. A senior official informed that officers having no less than 12/13 years of experience are selected for mission audit, and once selected they are not considered for the next 3/4 years. If performance is considered in selecting auditors, it will act as an incentive for officers to conduct quality audit. Performance can be measured by continuous quality reporting by a particular auditor.

The compensation package of the OCAG should be so that the men of integrity and merit are attracted to pursue a career in the Office and can keep themselves miles away from illicit provocations. Moreover, the Office may provide financial benefit to the brilliant officials. This might reduce the tendency among a number of brilliant officers to come out of the cadre and join UN and other bilateral and multilateral organizations. Absence of incentive also prevents development of professionalism and commitment within the service. However, a separate pay structure cannot be introduced as long as the Accounts and Audit cadre remains a part of the civil service.

4.3.6 Use of IT

Computerization of accounting data compilation of the CGA office under the FMRP project increased audit efficiency, especially of the civil audit directorate as it can analyze the compiled

data in advance of the field audit. Notwithstanding this fact most of the government entities keep and compile accounts manually. This makes the audit managers dependent solely upon the audit trail (past audit reports and experience of an entity) in identifying risk areas and sampling. Otherwise, they could prepare more efficient audit plan by analyzing financial statement and accounting data before conducting field audit. However, the OCAG introduced computerized audit tracking system known as Audit Monitoring System (AMS) to compile information about follow up of audit observations. But the system is currently performing poorly due to lack of competent officers capable of running the system. The Office has recently decided to introduce CAAT (Computer Assisted Audit Technique) in order to enhance audit efficiency. But the Office currently lacks in IT capacity, both in terms of infrastructure and trained human resource. The SCOPE (Strengthening Comptrollership and Oversight of Public Expenditure) project intends to address the IT capacity of the OCAG. One caveat is that the OCAG should design follow-up activities of its project output so as to make the result sustainable.

4.3.7 Grievance Handling Mechanism

The OCAG has grievance handling mechanism in place. There is a grievance cell in the OCAG. Anybody can lodge complaint in the complaint box kept in the office room of the ADCAG (Parliament), who is the focal point to review and put up cases to the appropriate authority.

4.3.8 Corporate knowledge

Corporate knowledge is defined as collective data and knowledge resources of an organization, including training, experience, problem solving expertise, design rationale, case studies, project experience, etc. Corporate knowledge is an efficient method of training and sharing knowledge. This can be a good source of information for strategic and audit planning. Each year, a significant number of officials of the OCAG get overseas scholarships and training, who can, on their returning, organize a workshop and submit a report on their learning for future use. The Office can also store learning from unique cases, foreign tours, good practices, experience of deputed officials. But the Office does not have a corporate knowledge development strategy at present.

4.3.9 Public-Private Partnership (PPP)

Many SAIs around the globe is practicing PPP to conduct cost-effective quality audit. In Bangladesh, the OCAG is yet to explore this option. Commercial audit, railway audit, foreign aided project audit, etc. are areas, where the OCAG can efficiently use private sector audit firms to conduct quality audit.

4.3.10 Institutional Linkage: Home and Abroad

The Office has very good institutional linkage with international audit and accounts organizations and different SAIs abroad. The CAG of Bangladesh is the Vice Chairman of the Capacity Building Committee of INTOSAI. The SAI Bangladesh participates in the working group of 'Audit of Privatization and Environmental Audit'. It is also an active member of ASOSAI. It also signed MoU with the SAIs of Denmark, Pakistan, Kuwait, and Russia (Source: CAG Office Information). Within home, the Office has good relationship with ICAB, ICMAB and professional experts of University of Dhaka, Bangladesh University of Engineering and Technology. Experts from other public and private organizations are invited to deliver lecture in seminars and workshops.

4.4 Effectiveness

The effectiveness of the OCAG will ultimately determine the value of its existence in its current form. The mandate of the CAG, as per the Constitution of Bangladesh, is to objectively and timely audit the public accounts of the Republic and of all courts of law and all authorities and offices of the Government. And the Office's mission is to ensure honest, efficient and cost-effective governance through conducting effective audit and evaluating public sector operations (Annual Report, 2007 of the OCAG, Bangladesh). Among very few organizations, the OCAG has to depend significantly on the external actors, such as the Parliament, PAC and auditable bodies for materializing its mission. The following factors are identified to measure the effectiveness of the Office.

4.4.1 Strategic Plan of the Office

The OCAG formulated its first strategic plan for 2003-2006, which included four-phased work plan for enhancing capacity.

1. Short-term plan- a three month plan intended to increase efficiency of the officials through punctuality, reallocation of workload and discipline.
2. Mid-term plan- a six month plan attempted to address updating of audit techniques, information and methodologies. The plan also required better supervision and inspection in place along with changing the reporting format.
3. Long term plan- a one year plan intended to form an audit forum comprising all Directors General of audit directorates, to modernize the FIMA and identify new reform areas.
4. Tenure term plan- this includes quality assurance of audit report, gradual shift from the conventional audit to performance audit, initiation of IT audit and timely submission of audit reports to the Parliament.

The plan yielded significant achievement for the Office. The following table reflects some of those achievements.

Areas of Activities	Pre-Strategic Plan Status	Status in 2007
Submission of LAR by audit teams	Irregular submission of LARs	Timeliness achieved-90%
Preparation of quality audit reports	<ul style="list-style-type: none"> • Lack of sufficient evidence • Poor quality of report writing • Lack of supervision, inspection and feedback 	<ul style="list-style-type: none"> • Internationally accepted auditing standards are followed • Improved versions of questionnaire and query slips are practiced • Reporting format has been modified to make it more user-friendly • 50% inspection of the audit teams enforced
Conducting performance and issue based audit	Audit plan did not include performance and issue based audit as regular feature	Audit plan includes the following ratio- <ul style="list-style-type: none"> • Compliance and financial audit 40% • Issue based audit 40% • Performance audit 20%
Assurance of audit quality	No system existed	Quality Assurance committee formed in each directorate and a central quality assurance committee formed at office
Timeliness of audit report formulation	Timeliness was not assured	Time frame is being strictly enforced
Timely settlement of audit observations	Accumulation of huge arrears	About 60% of audit observations have been settled through <ul style="list-style-type: none"> • holding bilateral and tripartite meetings • effective collaboration with the PAC to settle the arrear audit observations

Source: Annual Report 2007 of the OCAg

The expired plan has been replaced by the strategic plan 2007-2012. The plan specified five prioritized goals.

- Enhancing the professional capacity of the audit personnel
- Enhancing the quality of audit
- Supporting institutional capacity building
- Strengthening oversight functions of the parliament
- Attaining high standard of efficiency

For each goal, the plan envisaged possible strategies, performance indicators to measure achievement, work plan to operationalize strategies, and the persons responsible for attaining the objectives. But the work plans are not specifically time bound. The plan did not provide detailed analysis of its clients and the environment, within which it has to operate. In addition, the strategic plan failed to link budget with the planned work plans, i.e. what portion of the budget will be spent for each objective. As the plan did not set any target to achieve by 2012, it would be very difficult to conduct ex-post evaluation of the plan.

During the study, it has been found that mid-level officers of different directorates are not aware about the strategic plan. They could not tell about specific strategies and action plan to achieve the objectives set in the strategic plan. Problem probably lies in the formulation and dissemination process.

4.4.2 Internal Control System (ICS) of Auditees

Internal control system ensures that all decisions and transactions are made for the intended result rooted in the objectives of the audited entity and with due regard to propriety and efficiency of public resources. Control system thus intends to safeguard assets, enhance the accuracy and reliability of accounting records and properly utilize resources. Elements of internal control include rules and procedures, hierarchy, budgeting, accounting and recording system, management control, clear line of responsibilities, internal audit, etc. If ICS works properly, the auditors could free itself from some accounting and documentation work that the auditee is supposed to do. Thus the auditors could make better use of the system to report in time.

Internal control on the receipt side should regard following aspects:

1. What are the sources of receipt
2. The estimated amount of receipt from each source in a fiscal year
3. Who are responsible for receiving cash/asset and recording
4. Timely recording and monitoring of records
5. Compliance with existing financial rules and regulations

On the expenditure side, internal control includes:

1. Budgetary provision approved by the parliament
2. Financial sanction of the competent authority
3. Compliance with financial rules and regulations
4. Proper and timely recording and monitoring of records

Formal control system stated in paper is poorly working in GoB entities. There are two basic systems of drawing money from the Exchequer (Khan, 2001). First, disbursement is preceded by the pre-audit, in which a department claims amount along with supporting vouchers/ documents to the concerned pre-audit and accounting offices. The pre-audit considers claims against the budget provision and financial regulations to reduce possibilities of fraud and irregularities and ensure propriety of the expenditure. In the other case, certain works departments such as Power and Water Development, Roads and Highways, Department of Public Health Engineering, and Department of Forest, are themselves authorized to draw money from the Exchequer by drawing cheques. The latter system leaves opportunity for irregularities, such as issuing cheque exceeding budget provision, transfer of money allotted for one head to the other, etc. However, the government introduced a computerized Central Management System (CMS) in the Roads and Highways Department to check misuse of cheque issuing authority. Approval of the CMS is mandatory for issuing a cheque and the CMS never takes an input that shows higher disbursement than the allotted amount against an approved head. The CMS has also prevented transfer of money from one head to another.

The reasons for poorly working internal control system are:

1. Unclear jurisdiction of responsibilities in GoB entities: Oft-times audit report fails to clearly determine responsibilities for a particular irregularity due to the absence of clear job responsibilities. Some respondents from auditee regretted that they had to shoulder liabilities for which they had no job responsibility.
2. Segregation of related duties (e.g. ordering of goods, receiving of goods and paying for the goods) is absent; or in other words, concentration of power in making transaction is very common in GoB.
3. Accountability for an asset and physical custody for that asset lie with the same person.
4. Poor documentation: Most of the documents and transactions are manually recorded. Therefore, auditee organizations often fail to produce documents, which are kept in remote establishments or remain mid-way between the ministry and the department and between the department and the subordinate offices. Respondents from auditee claimed that they had shortage of capable manpower and logistics to maintain records in audit friendly manner and produce them in time.
5. Low reliability of the data documented due to absence of cross-checking
6. Informal exchange is stronger than formal rules and regulations (political pressure, hierarchical pressure, nepotism, etc.)
7. Weak or absence of internal audit

Common problems generating from the poor internal control system are (Uddin, 2006):

- financial statement is not prepared on time by the auditee
- financial statement is not prepared correctly
- cash book is not maintained properly
- delay in producing required vouchers, accounts, and other documents, though the auditors apprise the auditee about its requirements and the time schedule in advance.
- record keeping is not audit friendly
- sometimes account personnel are not well conversant with necessary rules and regulations
- correct information is not furnished to the audit party regarding the number of outstanding paras
- recurrence of similar types of irregularities
- political influence is a big problem. A senior official of the auditee expressed, “we found many cases, where rules and regulations were violated due to political pressure. Political leaders of the party in power pressurize the local offices to manipulate tenders, work orders, etc. in favor of them. The officers of the auditee organization have to shoulder audit objections against such irregularities.”

Audit of assets and inventory is very difficult as government entities do not maintain asset register and keep inventories up-to-date.

Audit report does not at present analyze the internal control system properly. The Audit Code requires assessment of four components: a) annual risk based assessment of the control environment and internal control, b) the review and testing of selected systems, c) analytical review of the statements of accounts, and d) the testing of selected transactions and balances.

However, the report currently covers the last two. Moreover, the report says about particular irregularity or fraud, but does not analytically review the system that allowed the fraud to happen.

4.4.3 Financial Rules and Regulations

Receipt and expenditure of public money are controlled by the General Financial Rules (GFR) and the Treasury Rules (TR) (Khan, 2001). The Finance Division is responsible for formulating and modifying these rules. Moreover, other ministries and departments could issue office orders relating to the control public money under the delegated power. In response to our enquiry, most of the respondents said that some financial rules are outdated and provide opportunities for impropriety and irregularities and even create difficulties during audit. Sometimes office orders are made in so ambiguous manner that the auditors need to approach the authority for further clarification of the order and thus find it difficult to complete the report in time. Even office orders contradicting financial rules are nor rare. A respondent from the auditee said, “Financial rules could not cover all contingencies of so diversified departments. Therefore, office orders are very important. But the auditors strictly follow financial rules and make audit objections against us. Thus we are blamed despite following office orders.” When asked about whether the audit report incorporates recommendations about financial rules and regulations that cause trouble during audit or not, a senior official said, “No, we don’t. Why do we take the risk of incurring the wrath of the auditee or the Finance Division, who are to observe the rules?” He later added, “Yes, when complexities occur from particular rule, we just advise the auditee to inform the ministry about implications for further action.” Performance audit, however, includes recommendations about rules and regulations.

The study also observed that lack of understanding about financial rules both among auditors and auditees is not uncommon. “We practice the Public Procurement Regulations for years and yet we have difficulties in understanding many aspects of the rules. But auditors apply this rules taking only a short course on it and thus often make wrong observations.” said a respondent from the auditee. Another respondent said, “There are plenty of complex financial rules, which we find difficult to exercise due to lack of expertise. Sometimes rules are so frequently changed that we cannot even know the change before the audit takes place. Thus we have to incur untoward audit objections.” However, the OCAG established a Rules and Regulations Unit in 1997 to compile all financial rules and update their changes immediately and disseminate them among the auditors and auditees. The question is how this unit is performing in developing understanding of auditors and auditees in financial rules and regulations.

4.4.4 Audit Planning and Implementation

This is the most important stage that determines the level of quality and efficiency of audit.

1. **Lack of Active Engagement by Audit Managers:** The number of audit managers is too low to provide direction and guidance to auditors, supervise their work, monitor their progress and ensure quality properly. We have already mentioned that the audit managers as well as auditors do not have the required skill to ensure quality audit. At the end of the day, the result turns in “too few people, none well equipped in audit skill, are responsible for carrying out too many audits and end up with a large volume of low quality audit” (Dayal, 2000:99).
2. **Inadequate Planning:** Audit plan involves acquiring sufficient knowledge about the auditable entity and design objective, scope, criteria, mandays, supervision of staff and timeframe

accordingly. In so doing, the auditor has to utilize the concept of materiality⁵ and identify possible risk areas in internal control system and overall financial management process. But in practice, auditors do not follow this standard process. During the interview, most of the senior officers of the Office mentioned that the auditors lack in professional judgment to determine financial impropriety and fix materiality. The auditors mainly examine the legality of expenditure and neglect the importance of the context. A senior official of an auditee organization said, “Auditors give adverse report on procurement, if the price exceed the office rate. Market rate in Bangladesh varies from place to place and the office rate is not regularly updated. We consider this absurd.” Another respondent from auditee said, “Tendering cannot ensure better procurement as syndication is possible in bidding. On the other hand, purchase of quality goods at higher price can ensure economy in the long run in terms of greater longevity and low maintenance cost. But the auditors hardly consider those matters.” A senior doctor of a public hospital disgusted, “It is my duty to save the life of the patient by all means. But if I use the ambulance to bring a rare medicine from a remote place, the auditor will object as I used the ambulance for an unauthorized purpose.” Form the above views it can be argued that both auditors and auditee have lack of understanding about each other’s jobs. As auditors ignore the context of the entity, so the entity could not understand that financial rules and competitive tendering are standard practices around the globe.

3. **Team Building:** Audit is teamwork. It is the responsibility of the team leader to allocate responsibilities among his team member and guide the whole process. He has to take responsibility for the team performance. It is therefore imperative to form the team in a manner that each team has necessary skill-mix to conduct an audit. Usually, teams are made keeping balance between experienced and inexperienced members as well as between efficient and inefficient members. But the audit managers do have little scope at present to hire technical experts for conducting technical audit, e.g. works, medical, chemistry, etc. A mid-level official of the auditee said, “Audit as conducted at present can identify financial irregularities. But irregularities are also possible following financial rules if the activities are of technical nature. Disbursement for procuring materials for building a road can be properly done, but in collusion of the contractor with the site engineer the lower quality materials are used in construction and maintenance. Audit team cannot detect such irregularities as the team does not have relevant technical expert.”
4. Generally, 60-90 days are given for finalizing an audit report. Proper supervision and inspection are very important for timely completion of quality audit. Due to shortage of audit managers, timely and effective supervision and inspection of audit teams became problematic. However, the CAG undertook initiatives to strengthen supervision and inspection as part of its strategic plan (Appendix V shows comparative assessment of the supervision and inspection of the field audit). “Inspection of audit team is critical to quality reporting. We sometimes found that auditors prepare observations staying within home. But regular and sufficient inspection requires a good number of manpower and budget support, which we lack”, said a senior official. However, the OCAG increased rate of telephonic

⁵ An expression of the relative importance of a particular matter in the context of the statements of accounts as a whole. A matter is material if its omission or misstatement would reasonably influence the decision of an addressee of the audit opinion.

supervision to supplement the inadequacy of physical inspection (Annual Report of the CAG, 2007).

4.4.5 Audit Methodology/Approach

1. **Entity-wide Audit Approach:** With the introduction of the Medium Term Budgetary Framework (MTBF), each ministry is to plan for a three year rolling budget, considering its policy, objective and targets, considering objectives and targets set in the National Strategy for Accelerated Poverty Reduction. MTBF linked policies and objectives with the actual result in terms of budget. This has implication over the audit, as the policy makers now need to consider ministry-wise data instead of unit-wise data. Therefore, the OCAG is planning to take a new approach, namely Entity Wide Audit (EWA), in which each ministry is considered as an entity. EWA intends to report on the ministry as a whole on top-down basis (from ministry to departments, directorates, and attached offices) and to certify accounts of the ministry. It will also undertake system-based audit instead of transaction based audit. To this effect, the CAG has already formed a 28 member committee of auditors and an audit committee comprising all directors general (Annual Report, 2007). But the impact of this approach is still unclear as the office has just started it. But challenges lay ahead are clear. First, the Office needs to reexamine the suitability of its organizational structure to conduct entity-wide audit without making duplication. Second, redistribution of manpower among different directorates based on shift of workload. And three, forming of entity-wide audit teams with necessary skill-mix. At present, auditors serve a particular directorate for tenure and develop specialization in a particular audit area. But a ministry might contain entities, stretching multiple audit areas. Therefore, teams have to be carefully formed to conduct entity-wide audit.
2. **Risk-based Audit Approach:** There are over 22000 auditable units in Bangladesh. It is impossible for the OCAG to audit all those entities each 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, audit in every three year for B and audit in every 5/7 year for C. The A and B categories each cover 20% of total auditable entities. The remaining 60% fall under the C. As 80% of the auditable entities are not audited yearly, it might be difficult for the Office to apply entity-wide audit approach.
3. **Certification Audit:** Certification audit includes financial statement and compliance audit. The OCAG is currently carrying out this audit.
4. **Performance Audit:** Modern audit is shifting from an accountability regime based on legality to an accountability based on result. The OCAG established a Performance Audit Cell in 1998 in order for introducing accountability for result gradually. The cell produced some excellent reports. The PAC, therefore, requested the CAG to conduct performance audit on at least 1% of the total auditable entities by the year 2000. But the CAG failed to fulfill this demand due to lack of capacity, both human and technical. In 2005, the Cell was upgraded to a full-fledged directorate as an effort to enhance the capacity of the Office to widen the coverage of performance audit. But, this directorate got small budget allocation over the years. In 2007-08, it had a budget of 50 lac, which was revised to 44 lac. It got a 47 lac allocation this year. When asked about such discrepancy between importance assigned on the performance audit and the allocation

made, a senior official said, “Ok, financial and compliance audit is our constitutional obligation and therefore we cannot but carry them out. On the other hand, performance audit is the second level audit (it starts where financial audit ends), critical and time consuming. Therefore, we give priority to compliance audit.” In response to another query, she responded, “Yes, Parliament is more interested in performance audit and it also helps ensure better utilization of public resources. But we should keep in mind that performance audit is very costly. So, we want to select issues of public importance and national interest.” When asked about whether the directorate satisfactorily conducting performance audit on issues of national interest, she said, “No. The number of audit we are carrying out is very limited and many internal and external factors are responsible for this. We lack capacity and that is why we are emphasizing on capacity building. Apart from training our auditors, we are planning to establish a data center, containing books and information on performance audit. Among external factors, the auditee does not maintain necessary information (costing, target against expenditure, result achieved, impact assessment, etc.) in line with performance audit requirement, i.e. auditability of the auditee entities is very low. We are, therefore, now raising awareness of the auditee about the importance of performance audit and documentation.” But the Office does not have a practicable time-frame based target for furthering performance audit practice, especially in areas of awareness raising, adequacy of trained manpower, documentation, gradual increase in auditable entities, etc.

4.4.6 Audit Quality by Conforming to Audit Code and Audit Standard

The quality of audit report has been argued as not up to the mark. Some senior and mid-level officials regretted over the poor quality of the local audit reports and said how poor quality reports increased burden in the hierarchy. To address this issue, the CAG instituted a two-phase quality monitoring mechanism- a Quality Assurance Committee (QAC) in each directorate headed by a director and a Central Quality Assurance Committee (CQAC) in the office of CAG to scrutinize the standard of local audit reports. Added to this, integrated quality improvement initiatives that the CAG undertook as part of its strategic planning include:

- checklist for briefing audit teams
- mandays 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
- inspection checklist for supervising 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
- guidelines for assuring the quality of draft audit report by apex quality control committee

The Local Audit Report (LAR) checklist issued by the CAG office in August 2003 contains a comprehensive set of requirements, compliance of which is expected to pave the way for preparation of quality assured initial audit report named as Local Audit Report. To mention

but a few, it makes an obligation to check before finalizing the local audit report to see whether (Khasru, 2007).

- √ there is proper analysis of existing arrangement for budgetary control as well as accounting system
- √ there is any observation based upon examination of the internal control and internal audit system of the audited entity
- √ the report has been compiled in three volumes according to the new format
- √ observation raised is material, tenable and supported by adequate and reliable evidence
- √ the LAR contains reference to specific rules, regulations or executive orders which are again annexed to the report
- √ response and opinion of the auditee have been accommodated in individual audit observations
- √ relevant national and international auditing standards and documented audit instructions of SAI Bangladesh including Audit Code and Audit Manual have been complied with while preparing Local Audit Report (LAR)
- √ performance aspect of the audited entity has been properly reflected in the LAR

In practice, however, the office lags behind in ensuring desired quality of audit. One reason is that both the Code and Audit Standard were prepared under two separate projects, namely the Reform in Government Audit (RIGA) project and Strengthening the Office of the Comptroller and Auditor General (STAG) project respectively. But their implementation was not a part of those projects. For example, Section 13 of the Audit Code requires distribution of work according to one's skill and proper supervision and monitoring of field audit. But the office did not have clear job responsibilities of each position, required skill, and a skill inventory. Even the office does not have a training utilization plan. Moreover, as the manpower structure and recruitment procedure kept unchanged, the office cannot design and activate proper supervision and inspection. One senior official said, "Manpower is the biggest problem as far as quality is concerned. We have to plan huge volume of work with quite small workforce." Another important reason might be the poor understanding about different aspects of quality reporting among the junior-level officials. Most of the officials consider 'evidential support' as the only component of quality. Even differences of opinions are found about the degree of priority of the quality over the quantity. Some officials stressed that the office's first job is to carry out audit of as many entities as possible, as it is its statutory obligation. Some, on the other hand, emphasized on quality over quantity. They said that few good reports are enough to shake the government. Some explained that quality is a continuous process and need to be ensured at each stage. They added that but virtual absence of incentive (positive and negative) in assuring quality reporting would no longer motivate auditors, as quality would surely increase their workload. Some respondents complained that the auditees often linger in producing necessary documents. Sometimes documents are found missing. Thus real audit mandays are reduced that compels auditors to finish the task in a hurried manner, compromising the quality. Intensive training on different aspects of quality audit should be arranged to enrich understanding of the auditors and sensitize them.

4.4.7 Audit Reporting

The audit process in the public sector after passing through the rigmarole of different phases culminates in the reporting phase. The crucial test of efficiency of an audit operation rests, in most part, on the effective and professional reporting (Chakraborty, 1996). The audit reports generally point to the irregularities and lapses in the financial transactions without laying any emphasis on the results of the activities funded by the Government. The report also utterly lacks in timeliness. Usually, the Office compiles reports of different directorates and submit them to the President and the Prime Minister in every six month. It takes almost six month for reports to be laid before the Parliament since their finalization. This means if a directorate finalizes a report submits it to the CAG, it might take almost one year for such report to be laid before the Parliament. This is because the report has to go through a long channel of the Prime Minister's Office and the President's Office before going to the Parliament. Thus they lose timeliness in two ways:

- If the report includes some objections of major public interest, Parliament has to wait one year to begin discussion on it.
- It becomes difficult for the PAC to discuss report on priority, as it gets a pile of observations at a time, while it is working on other observations made in the past report.

If the PAC gets the report immediately after their finalization, it can evaluate the merit of the report compared to reports at hand and decide a suitable time for its discussion.

The observations and comments made in the reports put forward only the bare facts without explaining the real context, remain either constantly critical of the auditees or insensitive to the problems and constraints of the auditees and contain mechanical interpretation of the rules and regulations. No comprehensive attempt to project the status of discipline in the management of public resources and thereby arousing awareness of the public managers responsible for managing them is seen in the reports. Moreover, there are instances of observations in the reports which could be resolved either by exchanging notes between the auditees and the auditor or by holding bilateral meetings during the course of audit. The audit reports are not substantiated by the identification of the important issues and the high-risk areas through conducting meaningful survey and study by the teams of qualified and trained personnel. This implies that auditors are either not well trained in applying Audit Code and Standard or reluctant to do so. During collection of primary data, it has been found that auditors believe their performance is measured by the number of para they report. This often leads them to split a single case into more than one para or reporting non-substantial para. Reporting is done by the people who have only clerical bent of mind and not by the people with high level of technical and communication skill, intuitive flair and imagination. The style of writing the report is not attractive. One higher official said, "Some successful SAIs hire special officers for writing reports only to make the reports precise, communicative and interesting for the parliamentarians and public at large, who do not have technical knowledge." Another mid-level official said that poor quality of audit language put extra burden on audit managers and caused inefficiency. Due to lack of accountability culture in our country, the auditees in most cases do not take the audit reports with due seriousness, which turns the reports ineffective. The office of the CAG could produce few reports with a fine blend of journalistic flavor and judicial restraint to attract the wider audience.

Number and length of reports are too large. Reports should be designed and composed in a way that the audience can easily understand and use them (a clientilistic approach instead of technical approach). Reports were viewed as too many, too detailed often concentrating on insignificant matters, ambiguous supported by weak and insufficient evidence. Audit mainly includes compliance of individual transactions. Little attention is given to analyze internal control system and performance of the entity (Dayal, 2000:101). Added to these is the big delay in reporting another serious vice to be attended soon. Audit report used to be late up to 10 years or more, making the reporting almost irrelevant (Dayal, 2000:101). However, the problem lies in the inadequate manpower of the Office. Entities that fall in the 'C' category (almost 60% of total auditable entities fall in this category) are audited in every 5-7 years due to lack of manpower.

Now-a-days, many a number of SAIs prepares reports, depicting a contrast between the previous year and the current year. Some reports also include problems the SAI faces during reporting and follow-up. They also highlight structural and technical problems of the auditees that prevent them to be audit friendly. Some reports also numerically present return on audit investment, i.e. how much penny is saved at per penny cost of audit. In Bangladesh, reports are made only describing irregularities and misappropriations.

However, the CAG has restructured the reporting format to make it more concise and user friendly. The current format contains three parts:

- Part I- An executive summary of 5 pages
- Part II- Audit observations each in one page
- Part III- Annexure with supporting documents

The system of yearly reporting also makes timely settlement of observation difficult. At present, each directorate publishes its report at the year end irrespective of the nature and implication of the observations. The PAC also loses time in prioritizing observations. If the OACAG could submit an audit observation immediately after finalization of the observation (draft para) based on its merit, it would justify timely reporting. Immediate submission of the report will also help the PAC to concentrate on more important case, instead of waiting for the annual report. The CAG can also submit annual report to the President pursuant to constitutional obligation.

4.4.8 Power to Enforce Time Limit

As per the section 10 (3) of the Lima Declaration, the SAI should have the power to set time limit for furnishing information or submitting documents and other records including the financial statements to the SAI. In Bangladesh, delayed and even non-response from auditee in respect of audit queries are very common, which results in large number of unsettled observations (Ali, 2005). One mid-level officer said, "Oft-times the auditees intentionally delay in producing documents so that we cannot conduct substantial audit in time." Sometimes broadsheet replies are not detailed and sometimes reply is repeated again and again. In such cases, the CAG has no specific power to enforce time limit for producing documents and making meaningful replies.

4.4.9 Stakeholder Management

Section 2.1 of the Government Audit Standard requires the OCAG to play the role of an educator to make the community aware of its role, functions and independence. In pursuance of this goal, the Office needs to interact with a variety of stakeholders including PAC, audited bodies, MoF, civil society, media and general public. While the office should remain independent of the bodies it audits, it needs to develop positive working relationship with them. An environment of mutual respect increases the likelihood that the audited body will implement recommendations without the need for sanction. This requires the Office to nurture professionalism in its exercise and build up reputation in a planned manner. The most important factor in stakeholder management is to develop specific communication system by the Office for each stakeholder based on demands of the both sides. At present, the Office has a separate focal point for the Parliament to provide it with secretarial support. But three other important stakeholders, i.e. auditees, media and people did not get proper attention.

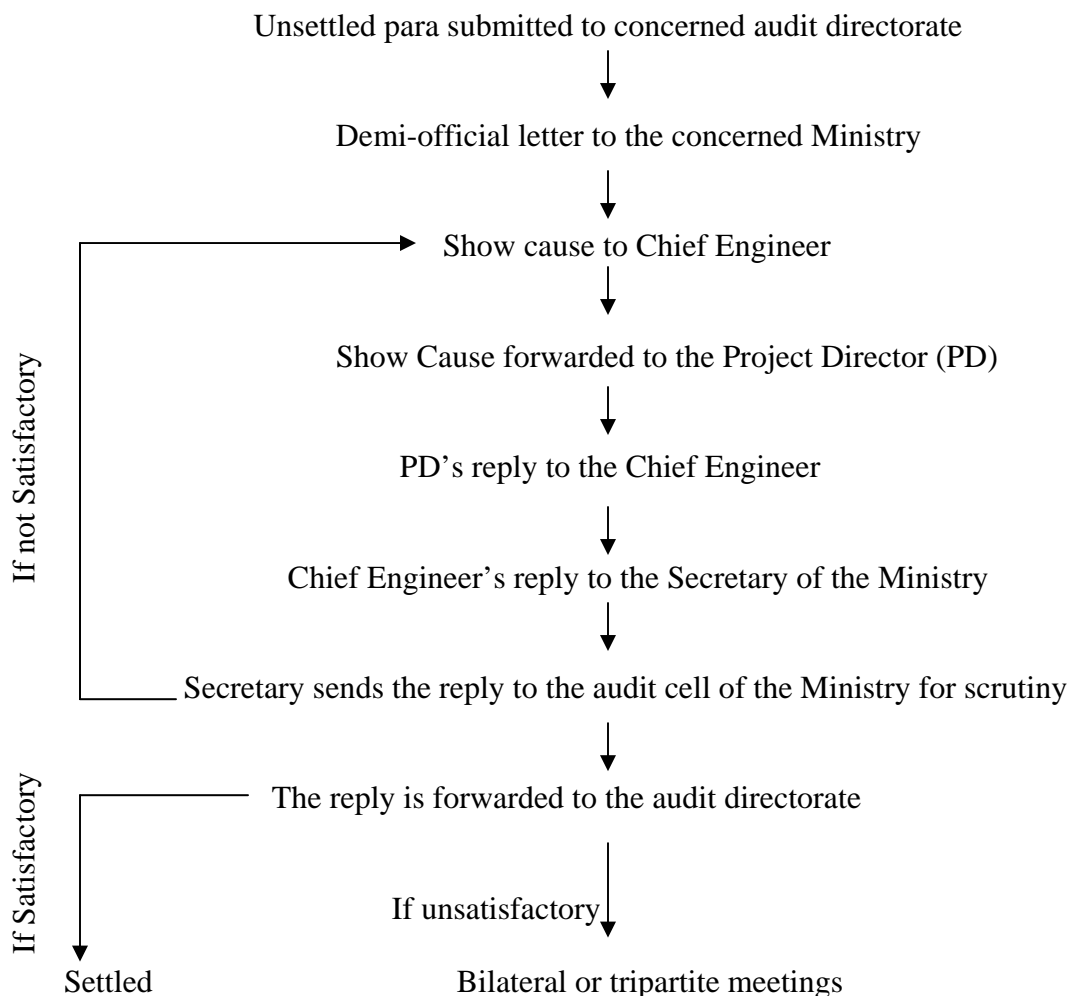
According to Auditees' view, auditor-auditee relationship is, at present, strained due to the faultfinding attitude the auditors pursue. Auditors' questioning of insignificant issues led management to view audit as an impediment to their performance. Moreover, conventional audit fails to objectively measure strengths and weaknesses of the different systems in place and suggest practicable remedial actions. A senior official of an auditee expressed, "They always keep complaining, even on silly matters and never praise good jobs as if we never did something commendable." Another respondent from the auditee mentioned, "Auditors do not have the capacity to conduct practicable technical audit. We oft-times fail to make them understand that technical matters cannot be measured accurately by law and rules, rather they should be measured by technical necessities." He then suggested that the OCAG should organize joint training sessions; in which auditors would provide them with audit related knowledge and they provide the auditors with technical complexities about their activities.

The relationship of the OCAG with the media, civil society and the people will determine the marketability of the audit output. Three things are important to effectively market audit products: first, to know the need of the people; second, production of quality and user-friendly output to meet those needs; and third, to devise means to reach products easily to the people in time. To date reports were not made public. Moreover, the CAG does not issue press releases on audit findings. Such insulation policy of the CAG made the organization almost invisible in the popular parlance. An effective relationship between the OCAG, media and the civil society has the potential to act as a pressure on the government to comply with the audit report in time.

4.4.10 Settlement, Enforcement, and Follow-up of Audit Observations and the Role of Public Accounts Committee (PAC)

The CAG's reports to the Parliament are acted upon by the Public Accounts Committee (PAC) through threadbare discussion giving hearing to the Principal Accounting Officer (Secretary) of the Ministry and Division. The pace of audit settlement is very slow, which seriously undermines the incentive for quality audit report. Two factors have been identified behind such tardy settlement.

1. Complicated and lengthy settlement process: Para which have not been settled on the spot are settled, following a complicated and lengthy hierarchical process. The study found the following settlement process in a foreign aided project of the LGED.



Source: Interview of the auditee

In each step of the process, as shown in the figure, new people become involved, who require reading the audit observations and thus taking their own time. Sometimes, the incumbent official gets transferred before settlement and the newly placed official has to look after the settlement process. But this new official feels little interest to settle observations for which he is not responsible. Given this backdrop, a respondent from auditee suggested that there should be one meeting, where representatives from the concerned directorate, audit team, ministry, and agency would be present with required documents and settle the objections as early as possible.

The following two tables will explain how increasing unsettled audit causes loss of public money.

Table: Directorate-wise Number of Unsettled Audit Observations up to 2007-2008

Sl. No.	Audit Directorate	No. of Unsettled Draft Para	Amount involved (In million taka)
1.	Commercial	225232	816521.94
2.	Foreign Aided Projects	4486	186954.48
3.	Civil Audit	69060	16178.47
4.	Post and T&T	24230	1138.72
5.	Local and Revenue	503426	200664.70
6.	Railway	18592	21253.70
7.	Defence	16754	53009.90
8.	Mission	8656	32270.78
9.	Works	69906	473858.18
Total		9,40,342	18,01,850.87

Source: the CAG Office

Table: A Comparison of Settled and Unsettled Audit Observations of BWDB up to 2001

No. of Total Observations	Amount Involved (In million taka)	No. of Settled Observations	Amount Involved (In million taka)	No. of Unsettled Observations	Amount Involved (In million taka)
21,352	2,502.84	7,075	497.20	14,277	2005.64

Source: the CAG Office

The worst side of increasing number of unsettled audit observations is that audit observations lose their utility due to promotion, transfer, retirement, or even death of the responsible persons on the one hand, and the same irregularities occur again and again on the other. However, introduction of the bilateral and tripartite meeting speeds up the settlement process. The study found that success of such meetings depends on some factors as stated below:

- Whether are held with all supporting documents so that these can be scrutinized to reach a decision;
- Whether documents are prepared as per requirement of the meeting and made available as per decisions of the meeting;
- Whether minutes of the meeting is issued as per time-table, i.e. within 10 days of the receipt of the minutes;
- Whether participants from all parties have the authority to make decision.

Therefore, it seems essential to bring the process of holding bilateral and tripartite meetings within a legal framework to be as effective as possible.

2. Delayed formation of the PAC, its limited capacity and its discontinuance during the Caretaker Government :

The PAC's role is very important to the effectiveness of the CAG. Its effectiveness, however, is seriously undermined by factors like shortage of budget and staffs to conduct research and perform as an institutional memory for subsequent parliaments; the general reluctance of the ministry to give effect to their recommendation, and delayed formation of the Committee. In the 8th Parliament, the PAC was formed after almost one and a half year from the first sitting of the Parliament. There is no time limit for the formation of the PAC.

In the absence of its own secretarial support, currently the PAC receives the needed support from the CAG Office, which began from the 7th Parliament. But this arrangement is not a satisfactory one. The PAC is over-burdened with thousands of audit objections arising from the office of the CAG. The following factors are responsible for the ineffectiveness of the PAC:

- lack of guidelines for implementing decisions of the PAC. No charge has been brought against any government department till now for ignoring the PAC directives.
- PAC reports are not traditionally discussed in the Parliament. In the United Kingdom, the reports of the Committee on Public Accounts are debated once a year on the floor of the House of Commons. Absence of clear guidelines in the Rules of Procedures on what would be done with the reports submitted by the PAC.
- PAC is headed by a Member of the Party in power, which might result in conflict of interest and create channel of undue influence.
- Since there is no effective mechanism in place to follow up implementation of PAC recommendations many of them remained unattended.
- The formation of PAC does not take place immediately after a new parliament elected and becomes operational thus causing loss of valuable time. Added to this is the irregular sitting of the PAC causes piling of reports. In UK, the PAC sits in every two weeks. In Bangladesh, though the PAC is supposed to sit once in a month, it is not followed strictly. With the dissolution of parliament the continuity of PAC's work is lost and no mechanism exists for following up the decisions of the previous committee.

The following table shows the performance of the PAC from 1972 to 2001.

Type of Report	No. of Report Submitted	No. of Report Discussed	No. of Report not discussed
Annual Report	690	120	570
Special Report	75	20	55
Performance	5	1	4
Total	770	141	629

Source: TIB, 2002

The following table shows that the rate of discussed reports has been significantly enhanced during the 8th Parliament.

Reports Submitted in the Parliament	Discussed by PAC	Not Discussed
1002	344	658

The credit goes to the PAC’s initiative for monitoring activities of the bilateral and tripartite meetings. Notwithstanding such improvement, the total number of non-discussed report increased from 629 to 658. But the caveat is that faster discussion might compromise with the quality of settlement. Moreover, faster discussion in the Committee often times fails to bear end result. For example, the PAC of the 8th Parliament kept a 67% of total objected amount it discussed upon for rediscussion, which was only 6% in the 7th Parliament (Fifth Report of the PAC of 7th Parliament and Second report of the PAC of 8th Parliament).

It can be argued that the role of the Committee on Public Undertakings (CPU) is underestimated over the years by the Office and the Committee itself. This Committee might take part of the workload of the PAC. According to Section 238 of the Rules of Procedure of Parliament, audit of public corporations falls under the purview of the CPU. If the Parliament actively engages the CPU in the settlement process and the Office establishes effective relationship with it, the quality and the rate of settlement might be increased.

Delay in taking effective actions by the auditee in accordance with the audit observation is also responsible for poor execution. The fifth report of the PAC of the 7th Parliament and the second report of the PAC of the 8th Parliament show that a considerable amount of objected amount (41% and 5% of the total objected amount respectively) awaited for taking departmental actions against irregularities. As per the section 11 of the Lima Declaration, the audited organization should comment on the findings of the SAI within a period time determined by law or the SAI, should indicate the measures taken as a result of the audit findings. But in Bangladesh, settlement of audit observation and execution is so slow that they even lose their utility. There are instances of delay of a period of even more than 15 years by some ministries in taking effective preliminary steps after audit objection is raised.

Name of Ministries	Average Response Time (in month)
Industries	34.7
Finance	51.7
Energy	54.9
Home	59.8
Primary Education	61.5
Establishment	62.2
Health & Family Welfare	72.4
Housing and Works	81.4
Defense	85.2
Local Government	143.8
Telecommunication	187.9

Source: The PAC, The Fourth Report, Dhaka: The Bangladesh Government Press

According to the Section 15(vi) of the Audit Code, the auditors need to ensure that appropriate action is taken against irregularities and improprieties. Section 17(x) also requires existence of a follow-up mechanism. But the existing legal framework neither empowers auditors to enforce

their observations, nor obliges to have a mandatory follow-up mechanism in auditees. However, as per the current rules, if an officer has audit objection against him, his pension is frozen. Notwithstanding this, the level of awareness about the audit is not satisfactory among the government officers, which makes follow-up of observations tardy. The OCAG never publishes follow-up reports. During the study, it has been found that departments having a separate audit cell are considerably faster in taking actions in accordance with audit observations and the audit directorate can easily follow-up such actions.

4.4.11 Accounting and Budgeting System

Budgeting aims at realizing best possible allocation of limited resources in order to maximize organizational goals. On the other hand, accounting keeps track of the budgeted receipts and expenses to presents the actual financial position of the organization. Audit establishes link between the two by examining that the accounting of the organization conforms to the accepted accounting standard and thus ensure that allotted budget is used for the intended result. The effectiveness of audit to a large extent depends on the accounting and budgeting system. Conventional cash accounting and input based budgeting followed by GoB have the following implication on the audit process.

- Problem of cash accounting: a) cash accounting makes asset audit difficult. Procurement of an asset is included in accounts only once the cash is paid. Subsequent follow-up of the asset on discount is ignored. Therefore, it is very difficult for the auditors to keep track of assets both in financial and physical terms, unless the organization maintains the asset register and the auditors physically inspect stated assets; b) cash accounting also increases volume of work by requiring the auditors to crosscheck transactions of advance payments and dues; and c) it also complicates identification of responsibility for an irregularity and impropriety as receipt or payment of cash by an officer does not mean that he/she made the decision for such receipt or cash.
- Manual compilation of accounts of subordinate offices takes much time. Therefore, auditees cannot produce financial statements and supporting documents in time.
- Problem of input-based budgeting: input-based budgeting is problematic for conducting performance audit, as there are no performance indicators for result; rather the performance is evaluated on expenditure. However, under the Mid-term Budgetary Framework (MTBF) the GoB started to link budget with policy objective and actual result. MTBF requires each ministry to formulate budget specifying intended result.
- According to current budgetary practice, an entity has to spend allotted money against a specific head within the stipulated time; otherwise Finance Division will withdraw the money. This encourages auditees to spend money before actual consumption.
- Many auditees argued that project approval process and disbursement process are so complex and time consuming that they had to incur untoward cost and time overrun, which auditors were reluctant to consider.

5. Learning from Others

From above discussion, it is clear that the SAI, Bangladesh is, at present, facing a number of constraints to perform at the desired level. The study has, therefore, undertaken a comparative analysis to learn how SAIs of some other countries have overcome such constraints. Criteria for selecting countries were: South Asian, Commonwealth and better performance. Following those criteria, India and Sri Lanka were selected from South Asia and UK, Australia and Canada were selected from the Commonwealth.

5.1. Independence

The National Audit Office (NAO) of The UK exercises some innovative techniques to secure independence. The NAO are the staff of the CAG and the CAG is the part of the NAO. The CAG is appointed by the Queen, the Head of State, on an address from the House of Commons moved by the Prime Minister, after agreement with the Chairman of the Public Accounts Committee (Article 1 of the National Audit Act, 1983). Thus the UK prevents the possibility of politicization in the appointment process by involving the Parliament in the process. In Australia, the Auditor General (AG) is an independent officer of the Parliament, but this does not imply that the latter has some extra power over the AG (Articles 1 and 3 of The Auditor General Act 1997). He is appointed by the Governor-General on the recommendation of the Joint Committee on Public Accounts. In Canada, the AG is appointed by the Governor in council, subject to the approval of the Senate and the House of Commons (Article 3 of the Auditor General Act of Canada).

While in South Asia, employees of the SAIs are considered employees of the government. Their recruitment and service conditions are significantly controlled by the government. But, Australia, UK and Canada conferred the AG to recruit and determine service conditions of its officials. They can appointment as many personnel of different types as they deem necessary.

Australia, Canada and UK ensure financial independence of the AG through the Parliament. The National Audit Act, 1983 of UK, guarantees financial independence of the NAO. As per article 4 of the said Act, all expenses of the NAO shall be defrayed out of money provided by Parliament. The CAG prepares the budget of the NAO and submits the same to the Public Accounts Commission⁶ for scrutiny. The Commission after consulting with the treasury and the Public Accounts Committee finalizes the estimate for parliamentary approval. In Australia, the AG prepares the estimate and the Parliament approves it (Article 50 of the Auditor General Act, 1997). However, the Joint Committee on Public Accounts could request the AG to submit the estimate before it and AG should comply with the recommendations of the Committee before finalizing the estimate.

Unlike Bangladesh, India and Pakistan, Sri Lanka has separated audit and accounts function, as practiced in developed countries. Two separate services, called Audit Examiners Service and Accountants Service responsible for audit and accounts functions respectively.

⁶ The Commission consists of selected parliamentarians.

5.2 Accountability

The UK institutionalized some effective accountability mechanism to hold the CAG accountable for his/her performance. Formal accountability is ensured through parliamentary process. The Public Accounts Commission comprised of the Chairman of the Public Accounts committee, the Leader of the House of Commons, seven other members of the House of Commons, none of them shall be a minister of the Crown, is entrusted with the responsibility to report on the performance of the NAO. It examines plans and budget estimates of the CAG and finalizes them. Moreover, it appoints the external auditor to audit the NAO, covering economy, efficiency and effectiveness aspects (Article 4(5) of the said Act). Both Australia and Canada conferred the Parliament to scrutinize the performance of the AG Office.

The respective audit acts of Australia, Canada, and UK make external audit of the AG office mandatory. The audit report so made is submitted to the parliament for discussion. The AG Office of Canada holds peer review meeting periodically to evaluate its performance objectively.

In South Asia, Sri Lanka has a separate internal audit department within the Department of the Auditor General (Annual Report, 2006-07 of the Auditor General, Sri Lanka). Canada developed a complaint mechanism that helps the office identify officers who derailed from the standard audit practice during conduct of audit. Complaint can be lodged in anonymity or mentioning name and address. In the latter case, the Office will apprise the complainant about the investigation result and actions taken.

5.3 Efficiency

Timely and need-based recruitment is a crucial component of efficiency. The AGs of the UK and Australia, within certain guidelines, can determine the salaries and conditions of service of the NAO staff. This provides the CAG with the flexibility to determine pay and incentive in a manner to attract better candidates, retain them and reward them for notable performance. The CAG of India has some flexibility in this respect. According to the Article 148 (5) of the Indian constitution, the conditions of service of the staff of the audit and accounts department will be governed by the Rules promulgated by the President after consultation with the CAG.

Australia introduced an innovative 'Efficiency Dividend' (ED) system to better utilize all resources, including human resource. The ED system requires the planning of the same task with investment of lesser resources (lower mandays, lower cost of audit, etc.) than the previous year.

Contracting private sector experts and firms for public audit is a common practice in UK, Australia, and Canada. Their respective audit acts provide specific guidelines for doing so. In South Asia, India and Sri Lanka practice Public-Private Partnership to a significant extent. PPP is a constitutional provision in Sri Lanka. As per the Article 154(2) of the Constitution of Sri Lanka, the Minister of Finance, in consultation with the Auditor General, can appoint a qualified auditor to audit public corporations and business undertakings. Article 154(4) provides that the Auditor General can appoint any qualified auditor in the discharge of his function. In both cases such private auditors or audit firms are bound to conduct their activities, conforming to the

guidance of the Auditor General. At present, the CAG of India prepares a panel of suitable private audit firms for auditing public corporations.

Sri Lanka is doing better audit compared to their counterparts in India and Bangladesh, though it has the least manpower among the three countries (1654 in total)⁷. Two factors that promoted such efficient performance are:

- Cadre officers, who enter the service through competitive professional exams usually, carry out field inspection. Their productivity is much better than class II and III officers of Bangladesh, who are primarily responsible for field inspection.
- The AG of Sri Lanka performs a good number of public sector audits through private audit firms and thus reduces the workload.

The role of employee motivation is very important in efficient management of the organization. Both monetary and non-monetary rewards positively motivate employees for result. Sri Lankan Department of Audit and Accounts has an Incentive Payment Scheme in vogue since 2003. Incentives are paid with due regard and proper assessment and evaluation of the performance of the staff in terms of the extent of audit coverage, quality of audit, and timely reporting. In 2006, incentive expenditure stood at 25% of the total salary expense. This amount is defrayed from the General Treasury in the form of supplementary budget. Australian Audit Office does also have a well-managed system of performance pay (Annual Report, 2007-08 of ANAO). The ANAO introduced an awards system that recognises and rewards individual staff and teams who make a significant contribution to achieving our business objectives. This includes such areas as client service, people management, business management, and audit management and innovation. The award system comprises, in order of importance: the Auditor-General's Annual Awards for Outstanding Achievement; the National Australia Day Council Medallions; and the Auditor-General's Certificate of Appreciation. This helps build future leadership for the organization.

Sri Lanka has a separate department for research and development led by a deputy auditor general. This department undertakes issue based research, impact of audit, impact of selected public sector projects, formulate and enforce code of conduct, prepare training, human resource and capacity development plans and help the AG in liaising with international agencies, etc.

5.4 Effectiveness

Planning is very important for effective performance. The Auditor General of Australia practices a very effective planning process. It prepares a corporate plan, reviewed in every three year. This plan incorporates output-wise objectives and strategies that are directly linked to the mission of the Office. In addition, the Office also prepares an annual business plan in accordance with the corporate plan, which stipulates activities of the year ahead and targets realization of the part of the objectives set in the corporate plan. An annual portfolio budget plan is prepared to show output-wise fund availability. This sound planning leads to better evaluation of the effectiveness of the Office. In its annual report, the Office presents a balanced scorecard, following the business plan and portfolio budget plan to show how much it realized its target.

⁷ Scope of responsibility of the CAG of Bangladesh is almost similar to that of the Auditor General of Sri Lanka and India.

The enforcement of audit recommendations and their follow-up are critical to the effectiveness of the audit office. The Auditor General Act of Canada requires the government to apprise the Parliament about the actions taken in accordance with the recommendations of the Parliament within 150 days since receipt of the recommendations. In India, auditable entities have to submit Action Taken Notes (ATNs) on the recommendations of the PAC within the four months from the submission of the report to the Parliament (Report No. CA 1 of 2008 of the CAG, India). Both Australia and India submit follow-up reports to the Parliament. The AGs of the UK, Canada and Australia regularly share audit reports and findings with the media and the people. Australian Auditor General conducts periodic survey on its stakeholders to measure whether his report is adding value to the accountability and efficiency chain of public management. Such public relations made those SAIs transparent in one hand, and able to mount public pressure on the government for prompt compliance on the other.

Most of the SAIs studied have the power to submit their audit reports to the Parliament directly. As per the Article 154(6) of the Constitution of Sri Lanka, the Auditor General shall lay audit reports directly to the Parliament at any time, but not later than ten months from the end of a fiscal year. This helps the Auditor General to avoid tardy channel of the Prime Minister to the President to the Finance Division to the Parliament, as we follow in Bangladesh.

Critical to the effectiveness of audit are access to information and exercise of independent professional judgment. The AGs of Australia and Canada have the power to examine persons under oath. The former has also some penal power against any preventing, prohibiting and corrupt acts.

6. Conclusion

The volume of the objected amount, as stated earlier, implies that the OCAG is playing a commendable role in facilitating stewardship of public purse. On the other hand, if someone considers the extent of financial irregularities of the country, one could infer that the Office is performing below the mark. This is because when financial irregularities are widespread, it becomes easier for the auditors to identify irregularities. And if audit cannot be able to regulate irregularities over time, the OCAG should shoulder part of the responsibility of such failure. Following our theoretical framework and findings, we can conclude that problems lying with independence and accountability of the Office are basically prohibiting the Office from performing efficiently and effectively. The Office does not have the power to recruit and restructure according to its demand. The mode of financing, recruiting, and service conditions have some technical problems that hardly allow the Office to take independent decisions on developing institutional capacity for producing timely and standard audit reports. In the absence of formal accountability, the Office is removed from the pressure for performance. The Office thus developed a reactive culture, mostly responding to problem rather than improving its performance. It is imperative to shift from a reactive to a proactive management culture for effectively ensuring value-for-money of the public resources. Critical to the success of the Office is how external actors like Parliament, parliamentary committees and auditee organizations respond to audit reports. Probably, media and civil society can play a viable role through mounting pressure on Parliament and the auditees to take prompt actions against audit observations in one hand, and on the OCAG for improving quality of audit reports.

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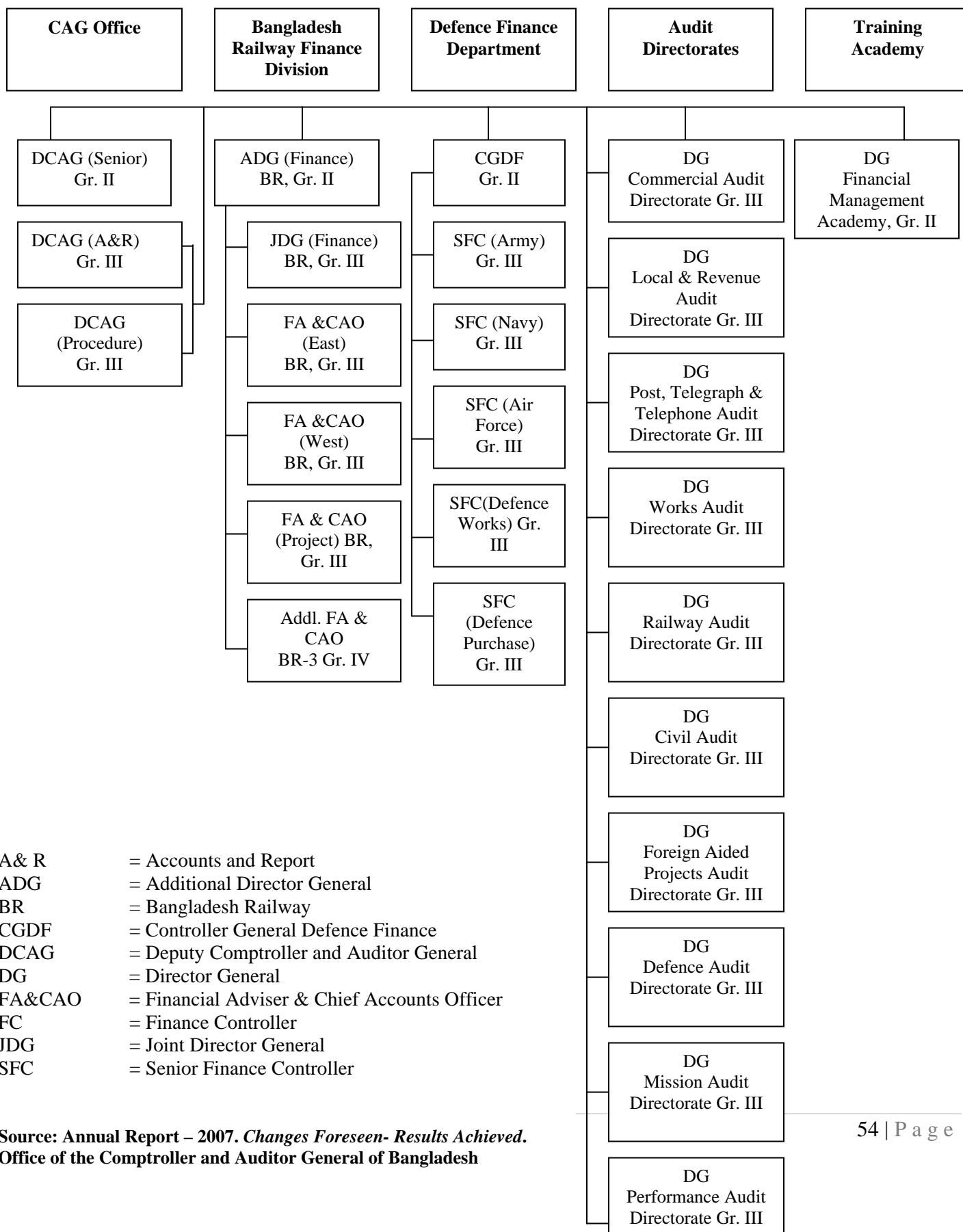
Appendix-I: Financial Propriety

Section 29 of the Audit Code describes the audit of financial propriety in detail. The section is presented below verbatim:

Auditors must also consider matters that appear to involve improper expenditure or waste of public money or assets even though no obvious irregularity has occurred. Auditors must, therefore, go beyond a review of the observance of rules and consider whether sound principles of financial management and propriety have been observed. The audit approach in respect of propriety will require care, tact and discretion. Any challenge against expenditure should be based on what is recognized as sound principles of financial management and propriety. No precise rules can be laid down for regulating the course of audit against propriety. Its object is to support a reasonably high standard of public financial morality, of sound financial administration, and devotion to the financial interests of the State. Auditors in the performance of their duties should in any case apply the following general principles which have for long been recognized as standards of financial propriety:

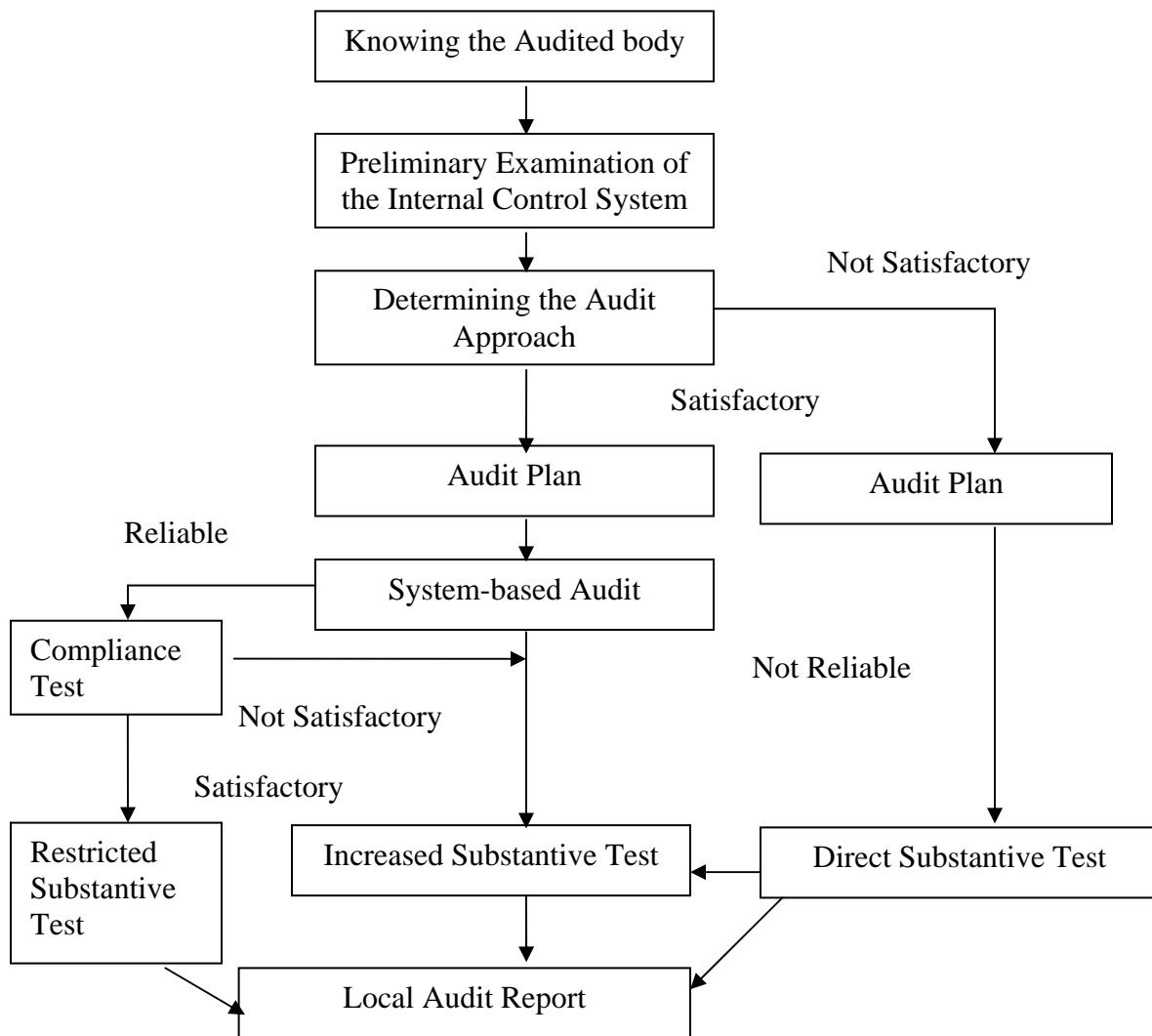
- (i) Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money;
- (ii) The expenditure should not be, *prima facie*, more than the occasion demands;
- (iii) No authority should exercise its powers of sanctioning expenditure to pass an order which will be directly or indirectly to its own advantage;
- (iv) Public money should not be utilized for the benefit of a particular person or section of the community unless:-
 - (a) the amount of expenditure involved is insignificant; or
 - (b) a claim for the amount could be enforced in a court of law; or
 - (c) the expenditure is in pursuance of a recognized policy or custom.

Appendix II: Organizational Structure
Comptroller and Auditor General of Bangladesh
 Administrative Control



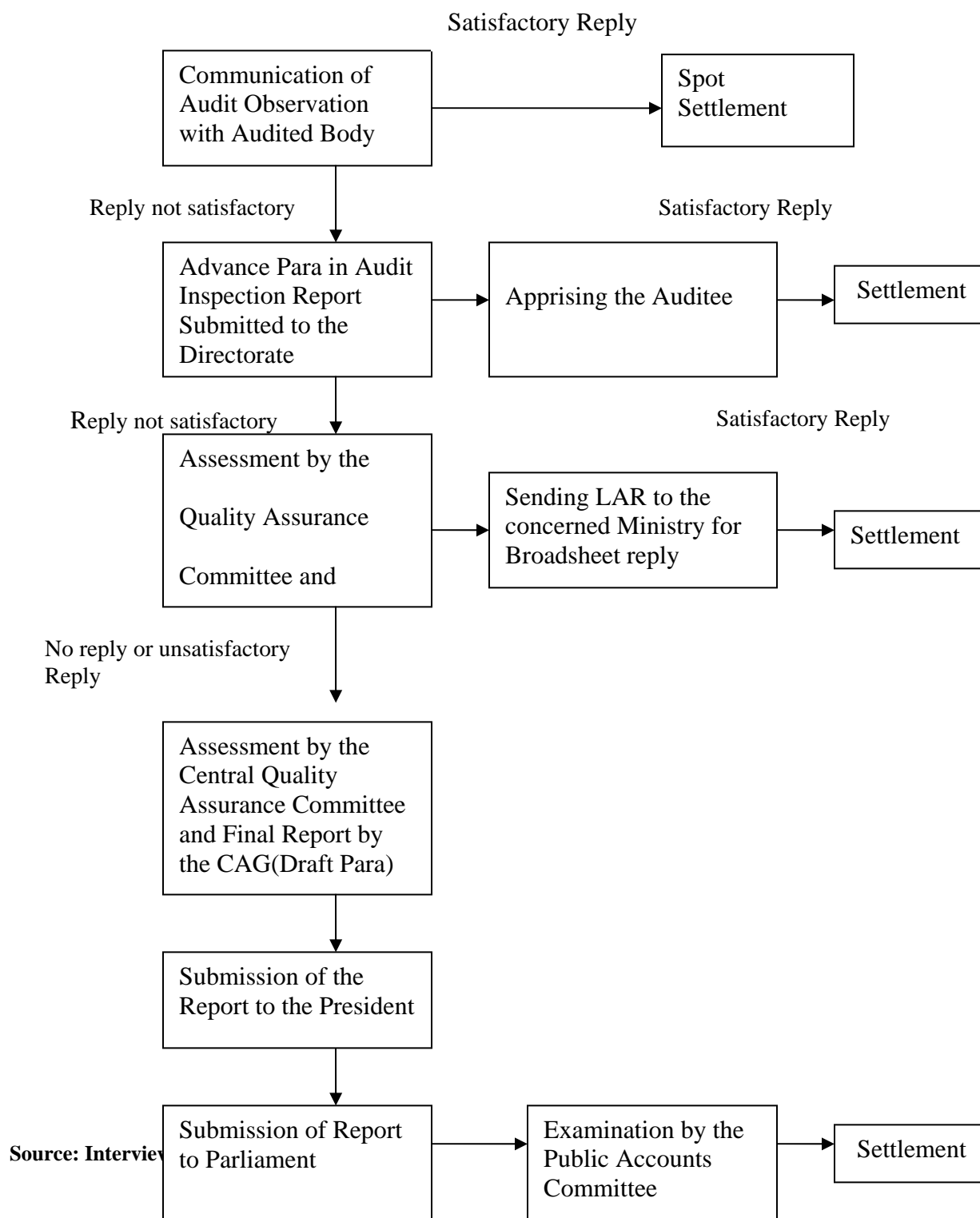
- A & R = Accounts and Report
- ADG = Additional Director General
- BR = Bangladesh Railway
- CGDF = Controller General Defence Finance
- DCAG = Deputy Comptroller and Auditor General
- DG = Director General
- FA&CAO = Financial Adviser & Chief Accounts Officer
- FC = Finance Controller
- JDG = Joint Director General
- SFC = Senior Finance Controller

Appendix III: Formation of Audit Observation



Source: Interview

Appendix IV: Settlement Process of Audit observations



Appendix V: Supervision and Inspection of field audit

Name of office	2006		2007	
	Audit Briefing	Inspection	Audit Briefing	Inspection
CAG Office	-	-	-	-
Controller General Defence Finance	-	7	-	21
Senior Finance Controller (Army)	-	4	-	11
Senior Finance Controller (Air Force)	-	-	-	5
Senior Finance Controller (Navy)	-	-	-	3
Senior Finance Controller (Works)	-	5	-	-
Senior Finance Controller (Defence Purchase)	-	-	-	20
Additional Director General (Finance) Bangladesh Railway	-	4	-	2
Financial Adviser and Chief Accounts Officer (East), Chittagong	-	256	-	38
Financial Adviser and Chief Accounts Officer (West), Rajshahi	-	188	-	323
Financial Adviser and Chief Accounts Officer (Project)	-	-	-	30
Civil Audit Directorate	4	2	2	23
Local and Revenue Audit Directorate	11	66	16	115
Works Audit Directorate	4	12	11	14
Commercial Audit Directorate	23	47	10	55
Mission Audit Directorate	7	-	6	-
Foreign Aided Projects Audit Directorate	24	25	38	10
Posts, Telegraphs and Telephone Audit	4	8	42	22
Defence Audit Directorate	13	13	3	9
Railway Audit Directorate	4	-	17	22
Performance Audit Directorate	-	-	2	-
	94	637	147	723

Source: Annual Reports 2006 and 2007 of the OCAg