

## Unit 5: Parliament and the audit of public accounts

### Learning objectives

#### What is parliament's role in the audit of public accounts?

After studying this unit you should be able to:

- Recognize different types of supreme audits institutions
- Explain some of the different types of public audit systems
- Assess your country's procedures against accepted norms for national audits
- Discuss various approaches of parliamentary engagement with the audit process, including the role of committees in reviewing audit reports
- Understand the importance of effective follow-up procedures to ensure that audit recommendations are implemented

### **Introduction**

The purpose of this unit is to introduce the function of public audit and the way in which parliament engages with this process. There is growing recognition of the importance that supreme audit institutions play in ensuring accountability and good governance (Pope 2000; O'Donnell 1998). Good linkages of the audit process with parliament are essential for its effectiveness (SIGMA 2002). The following sections look at different types of supreme audit institutions; the different types of audit they produce; how supreme auditors interact with parliaments; the role of parliamentary committees in reviewing audit findings; as well as follow-up mechanisms to ensure that action is taken to address issues raised in audit reports.

### **Types of supreme audit institutions**

There are two basic types of supreme audit institutions, the court model and the auditor general model. While across the world there are many variations of these models and a number of hybrids, several basic distinctions are noteworthy. In particular, the auditor general model is based on closer interaction with the legislatures than the traditional audit court model. The court model has tended to focus on the legality of spending

whereas the auditor general model has proven innovative in developing different types of audit, such as performance audits. These differences will be discussed in the following sections. Here is a brief summary of the institutional fundamentals of these two types of supreme audit institutions (Stapenhurst and Titsworth 2001).

In the Napoleonic system the audit court has both judicial and administrative authority. It is independent of both the legislative and executive branches of government and an integral part of the judiciary (Prétot 2000). The court makes judgments on government compliance with laws and regulations and can also consider whether public funds are well spent. The court audits every government body, including ministries, departments, and agencies; commercial and industrial entities under the purview of ministries; and social security bodies. Napoleon put in place the first modern *cour des comptes* in 1807. This model is used in particular in Roman Law countries. It can be found in the Latin countries of Europe (France, Italy, Spain, Portugal), Turkey, and many Latin American and francophone African countries.

In the Westminster system, the office of the auditor general is an independent body that reports to parliament. Made up of professional auditors and technical experts, the office submits periodic reports on the financial statements and operations of government entities. The office serves no judicial function but, when warranted, its findings may be passed to legal authorities for further action. The auditor general model has its origins in the United Kingdom, where the Exchequer and Audit Departments Act of 1866 required all departments, for the first time, to produce annual appropriation accounts to be investigated by the Comptroller and Auditor General. Similar institutional setups are widely used across the world and can be found in many Common Law countries. This model is most prevalent among Commonwealth members including Australia, Canada, New Zealand, the United Kingdom, and many Caribbean, Pacific, South West Asian and Anglophone Sub-Saharan African countries.

**Box 15**

## Lima Declaration of Guidelines on Auditing Precepts

The International Organisation of Supreme Audit Institutions (INTOSAI) has put down fundamental standards for national audit in the Lima Declaration of Guidelines on Auditing Precepts. Here are some key excerpts:

- The traditional task of Supreme Audit Institutions is to audit the legality and regularity of financial management and accounting.
- In addition to this type of audit, which retains its significance, there is another equally important type of audit – performance audit – which is oriented towards examining the performance, economy, efficiency and effectiveness of public administration.
- Supreme Audit Institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence.
- Supreme Audit Institutions shall have the functional and organizational independence required to accomplish their tasks.
- The independence of the members shall be guaranteed by the Constitution. In particular, the procedures for removal from office also shall be embodied in the Constitution and may not impair the independence of the members. The method of appointment and removal of members depends on the constitutional structure of each country.
- Supreme Audit Institutions shall be provided with the financial means to enable them to accomplish their tasks.
- The relationship between the Supreme Audit Institution and Parliament shall be laid down in the Constitution according to the conditions and requirements of each country.
- Supreme Audit Institutions shall audit in accordance with a self-determined program. The rights of certain public bodies to request a specific audit shall remain unaffected.
- The members and the audit staff of Supreme Audit Institutions shall have the qualifications and moral integrity required to completely carry out their tasks.
- The Supreme Audit Institution shall be empowered and required by the Constitution to report its findings annually and independently to Parliament or any other responsible public body; this report shall be published.
- The reports shall present the facts and their assessment in an objective, clear manner and be limited to essentials. The wording of the reports shall be precise and easy to understand.
- The basic audit powers of Supreme Audit Institutions shall be embodied in the Constitution; details may be laid down in legislation.
- All public financial operations, regardless of whether and how they are reflected in the national budget, shall be subject to audit by Supreme Audit Institutions.

Source: INTOSAI (1998), [http://www.intosai.org/2\\_LIMADe.html](http://www.intosai.org/2_LIMADe.html)

One variant, the board system is similar to the Westminster model in that an audit board is independent of the executive and helps the legislature to perform oversight. The system involves an audit board composed of an audit commission, which functions as the decision making body, and a general executive bureau as the executive organ. The president of the board is the de facto auditor general. The board's primary mandate is to analyze government spending and revenue and report its findings to the legislature. Audit boards are prevalent in Asia and can be found for example in Indonesia, Japan, the Philippines and South Korea.

## Types of audits

As the Lima Declaration recognizes, the work carried out by public sector auditors falls into two broad categories, namely the audit of financial transactions and the audit of performance or 'value for money.' This section outlines some of the key differences between these two categories (White et al 1999; Kristensen et al 2002; Stapenhurst and Titsworth 2001). Reports produced by the supreme audit institution should generally be available to the general public, although exceptions might in some countries be considered permissible.

<b>Table 8: Are the findings of the national audit body available to the public?</b>		
	<b>Number of countries</b>	<b>Percentage of total</b>
Always	20	50%
Generally, but with some exceptions*	18	45%
Never or rarely	2	5%
<b>Total</b>	<b>40</b>	<b>100%</b>

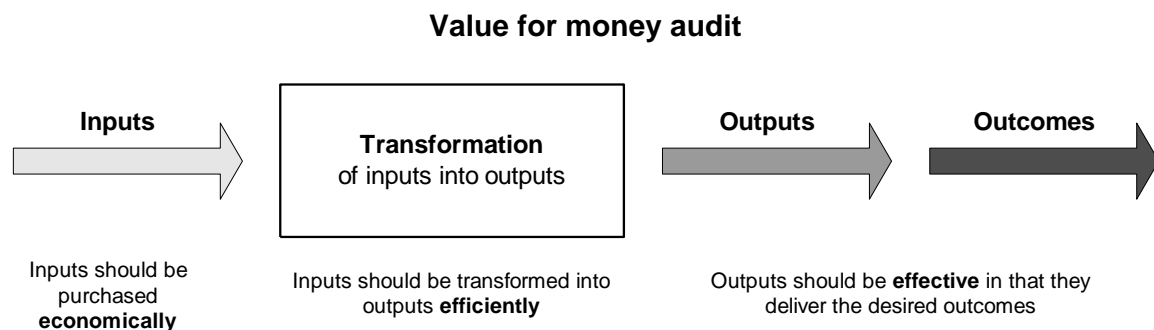
Source: OECD (2003), <http://ocde.dyndns.org/>

Note: \* For example audits of the military.

Financial audit is the traditional focus of public sector auditing. In the auditor general model, financial audit focuses on the accounts of government departments in order to present a judgment about the accuracy and fairness of an organization's financial statements. Because it is impossible to check every single transaction, auditors use strategies such as sampling techniques or the examination of the auditee's financial system to arrive at their judgment. The main skill needed for financial audit in the auditor general tradition is knowledge of accountancy. In the audit court model, the

emphasis of financial audit is on certifying the legality of spending, to see whether government revenue and spending have been authorized and used for approved purposes, and whether departments and agencies have conformed to all pertinent laws and regulations. This means that financial audit in the court model requires mainly legal skills.

In addition, many audit institutions increasingly perform value for money or performance audits. This is a comparatively recent development that has emerged over the last twenty to thirty years. The term value for money captures the 'Three Es' of economy, efficiency and effectiveness. Economy is concerned with minimizing the monetary cost of inputs (such as staff and buildings). Efficiency is concerned with the output (a particular good or service) achieved for a set of inputs. Effectiveness considers whether outputs deliver the desired outcomes (the impact on society).



The following might be a simple example from the health sector to illustrate some of the concerns of value for money audit. A hospital purchases inputs such as staff, equipment and medical supplies; it transforms these inputs into outputs in the form of medical services to the community, for example operations performed; the outcomes of the operations are the effects on patient health. The purpose of performance auditing would be to check for economy, efficiency and effectiveness in this process. This might entail asking, respectively, whether the relevant medical supplies, equipment and staff are purchased for the cheapest possible price; whether an adequate number of successful operations are carried out with these inputs; and whether the operations improve patient health and the health status of the community that the hospital serves. It is

sometimes summarized that the 'Three Es' each require spending less, spending well, and spending wisely.

#### Box 16: The Principle Duties of the Commission on Audit (The Philippines)

- Examine, audit and settle all accounts pertaining to the revenue and receipts of, and expenditures or uses of funds and property owned or held in trust by, or pertaining to, the government.
- Promulgate accounting and auditing rules and regulations including those for the prevention and disallowance of irregular, unnecessary, excessive, extravagant or unconscionable expenditures, or uses of government funds and properties.
- Submit annual reports to the President and the Congress on the financial condition and operation of the government.
- Recommend measures to improve the efficiency and effectiveness of government operations.
- Keep the general accounts of government and preserve the vouchers and supporting papers pertaining thereto.
- Decide any case brought before it within 60 days.
- Performs such other duties and functions as may be provided by law.

Source: Article IX-D of the 1987 Philippine Constitution

## **Interaction between supreme auditors and parliament**

The relationship between parliament and the audit institution varies between systems. In the court model tradition, parliamentary engagement with the audit process leads to a formal vote on public financial management. The French National Assembly in 1819 adopted the practice of passing an annual law approving the execution of each budget. The practice evolved because accounting officers were held personally responsible for any misspent funds until the passing of a formal vote by parliament for granting discharge. To this day, a formal vote on budget execution closes the cycle of financial control in public finance systems that were influenced by the French traditions (National Audit Office 2001). Refusal to grant discharge can be a serious political threat. For instance, when the European Parliament rejected the discharge motion for the 1996 budget, this eventually led to the resignation of the entire European Commission in March 1999.

### Box 17: Audit in Mongolia

Mongolia is an interesting case study as it has moved away from the Board model towards the Westminster model. The Mongolian National Audit Office (MNAO) was established in January 2003 by a law on State Audit. The MNAO replaced the State Audit and Inspection Committee (SAIC), which itself had only been operational since 1995. The MNAO, headed by an Auditor General appointed by parliament, has functional, organizational, and financial independence and has the power to carry out new forms of auditing such as performance audits and financial statement audits.

Article 38.1 of the Public Sector Management and Finance Law of Mongolia stipulates that the government's Year-end report must be submitted to the National Audit Office before March 20. The MNAO completes the Audit Report by 20 April and the Ministry of Finance submits the Audited Year-end report to the Parliament. The government's Year-End Report is scrutinized by parliament standing committees and subcommittees. The law does not specify the total number of reports to be submitted to the legislature except for the MNAO's annual business report, but it can submit an issue to parliament whenever it deems necessary. Reports from the MNAO are published on the website.

Despite the recent improvements in the public audit system, concerns have been expressed that budget oversight provided by the MNAO is inadequate because the SAI does not have sufficient resources to meaningfully exercise its mandate. Follow-up is also an issue: the MNAO does not issue reports on the follow-up steps taken by the executive to address audit recommendations.

Sources: IPU (2011); International Budget Partnership (2010); MNAO (2011)

By contrast, the purpose of parliamentary audit in the Westminster tradition is not to pass a vote on the basis of audit findings but primarily to generate recommendations for improving public spending. In the auditor general model, parliament is the principal audience of the auditor. All audit reports are addressed to parliament, and the latter might also request advice or comments on specific issues under consideration. While parliament depends on high quality audit reporting to exercise effective scrutiny, the auditor general in turn requires an effective parliament to ensure that departments take audit outcomes seriously. The power of the auditor general is to issue independent reports, but s/he cannot force government to adopt any recommendations. Parliament is the forum in which these reports receive public attention, which creates pressure on government to respond to and address issues of concern. The mutual dependency of parliament and the audit institution is underlined where the auditor general has been made, by statute, an officer of parliament.

In a number of countries supreme audit institutions have established parliamentary liaison offices and accompany audit related work of parliament on an ongoing basis. Such support may involve answering questions from parliamentarians and the provision of requested information. Some public accounts committees draw on the auditor general's office for secretariat assistance either on an ad hoc basis or through a program of regular secondments. More recently, many supreme audit institutions have also developed a more ad hoc advisory function, whereby the legislature requests advice or opinions on specific issues under consideration. Especially in the absence or lack of dedicated legislature research capacity, this can broaden the access of parliament to independent expert analysis and advice.

## **The role of parliamentary committees in national audit**

A few legislatures do not consider audit findings in detail, but to ensure effective scrutiny most parliaments use committees to examine the reports of the public auditor on the accounts of government departments. There are different options for establishing committee capacity to consider audit findings. In some legislatures the same committee that is responsible for approving the budget is also tasked with considering audit reports. In Indonesia the eleven Commissions of the DPR and the four Ad-Hoc Committees of the DPD carry out investigations of past expenditures on a case-by-case basis by calling government ministers to committee hearings (Sherlock, 2007). Juwono & Eckardt (2008) report that the Indonesian Supreme Audit Board submits its audit report for parliamentary review, but the parliament pays more attention to budget formulation compared to ex post oversight. This contrasts to most Westminster-type legislatures which are usually stronger in ex post oversight.

Another option that is closely linked to the auditor general model of public audit is to use a dedicated public accounts committee for the scrutiny of audit findings. Other parliaments involve departmentally related committees, such as those responsible for health, education or defense, to scrutinize audit findings in their relevant area.

Germany is an example of a country that uses the first option of tasking the budget committee with the scrutiny of audit findings. In Germany, audit reports are considered

in the audit subcommittee of the Budget Committee, where membership is proportionately distributed according to party representation in parliament. Each member is assigned the role of rapporteur for a specific ministry, and has to scrutinize the remarks on this entity in the audit report. The relevant ministers, or at least high-ranking bureaucrats, finance ministry officials and auditors take part in the discussions. The Mongolian parliament exercises oversight over public spending through the sub-Committee on Budget Expenditure. The sub-Committee is always headed by a member of a minority party.

The second and more elaborate option for parliamentary audit is a dedicated audit committee. Parliament in the United Kingdom created its Public Accounts Committee as part of the Gladstonian Reforms in 1861. The committee acquired full functionality when the first complete set of accounts was presented and examined in 1870. These reforms established an audit model predicated on close interaction between a specialized audit committee of the legislature and the auditor general, which has been adopted in most Commonwealth countries (McGee 2002). A Public Accounts Committee has also been established in Vietnam. It is often a long-standing (but not universal) tradition that the chairperson of the public accounts committee has to be a member of the opposition. This supports the nonpartisan tradition of these committees and indicates the government's willingness to promote transparency.

The public accounts committee process has its starting point with a report from the auditor general. After receiving an audit report, hearings are the principal mechanism by which officials from departments, agencies or other relevant bodies answer to the committee. The summoned officials appear in front of the committee during the hearing. In most public accounts committees, interrogation focuses not on the relevant minister but on the accounting officer. The accounting officer is the civil servant in a department who is accountable to the legislature for financial management, usually the administrative head of a department. A draft report on the hearing is prepared and debated in the committee. While it is not normally required that reports have to be adopted unanimously by the committee, some committees have found it useful to hold back reports until consensus has been established.

<b>Table 9</b>		
<b>Selected results from a survey of public accounts committees</b>		
	<b>Yes</b>	<b>No</b>
Is the chairperson from an opposition party?	67%	33%
Are departmental officials normally summoned?	97%	3%
Is the auditor general normally summoned?	79%	21%
Are ministers normally summoned?	31%	69%
Is the committee required to be unanimous in its decisions?	33%	67%
Are committee reports freely available to the general public?	87%	13%
Are hearings open to the press and the general public?	55%	45%
Does the committee depend primarily on the auditor general's report?	85%	15%
Is the committee report debated in the legislature?	57%	43%
Is the executive required to respond to committee recommendations?	80%	20%
Are mechanisms in place for the measurement of committee performance?	33%	67%

Source: McGee (2002); based on a survey of 70 branches of the Commonwealth Parliamentary Association.

Not all legislatures use a single dedicated committee to consider audit findings. Some legislatures have found it useful, where appropriate, to devolve the consideration of audit reports to departmental or sectoral committees, for instance in New Zealand. This can inject subject relevant expertise into the audit process in the legislature. In turn, sectoral committees might benefit from more intimate knowledge of the audit outcomes with regard to their respective departments. Proponents argue that scrutiny can be enhanced by involving sectoral committees, as audit reports would get more attention than the capacity of one single committee allows. Skeptics of this approach suggest that the strong and in-depth relationship that can be developed between auditors and legislators when interaction is focused in one dedicated committee might not be replicable for a larger number of committees, at least unless the audit institution receives commensurately more resources to meet increased legislative demand.

Audit reports should be delivered in a timely and reliable manner; in those parliamentary systems which pass a vote on the basis of audit findings it should ideally be sent to Parliament before the end of the calendar year. Delays can occur, however, when the Government fails to provide information to the SAI. This has been cited as a problem in Cambodia (Parliamentary Centre, 2007).

## **Follow-up mechanisms**

The finalization of a report on audit findings by a legislative committee should not be the end of the ex post scrutiny process. In some countries, committee reports have to be

followed by a formal response from the government. However, such reports only have practical value if the government addresses the issues they raise, and implements the recommendations of the committee. In practice, while experiences vary, a formal response from the government is not always sufficient for ensuring that the committee's recommendations are acted upon.

Some countries, such as Germany, go further in their follow-up through the use of a formal tracking report produced regularly by the audit institution. Such a report systematically considers or 'tracks' the extent of implementation of each recommendation made in an earlier report. Rather than a separate tracking report, some auditors include a chapter that reviews departmental action on previous recommendations in their annual audit report, for instance in Canada. In addition, with regard to particularly important issues, the legislature might consider interim reporting requirements to ensure that the government takes remedial action as speedily as possible. This can take the form of periodic committee briefings by relevant officials.

### **Box 18**

#### **The Public Service Accountability Monitor in South Africa**

Lack of government responsiveness can present a major challenge. An example of an innovative response is the work of an independent initiative, the Public Service Accountability Monitor (PSAM) in South Africa. One of the activities of the PSAM is to follow-up reported cases of corruption and misconduct with the departments concerned. Once the relevant details of the case have been established, a summary of these details together with a list of potential breaches in regulations is faxed to the head of the department. After one month, the head of department is contacted to establish what the disciplinary outcome of the case was. This response is recorded by way of a telephonic interview and is made available in text and audio format on the internet. In the event of a non-response the PSAM will then request this information in terms of the Promotion of Access to Information Act. The success of the initiative demonstrates how legislative scrutiny can be actively supported and complemented by civil society.

Source: Public Service Accountability Monitor, <http://www.psam.org.za>

## **Conclusion**

Supreme audit institutions have evolved according to different traditions. The audit court and auditor general models are the two main types, but there are variations and hybrids. Public audit has focused on financial audit, but the past few decades this has

been complemented increasingly with performance or value for money audits. The independence of supreme audit institutions has been recognized as a core fundamental of effective audit. Supreme auditors interact in various ways with parliament, in accordance with national traditions. The closest linkage is between auditor generals and public accounts committees, but there are various models for parliamentary committee involvement in national audit. Devising effective follow-up mechanisms is important for parliament to ensure that audit findings and any recommendations are actually implemented to improve public expenditure and administration in general.

### **Unit 5 Questions**

Please answer each of the following questions. If you are taking this course in a group you may then meet to discuss your answers.

- In what ways do the auditor general and court models of public sector auditing differ? Which audit model is used in your country?
- What is the difference between financial audit and value for money audit? What types of reports are produced in your country?
- To what extent would you say that public audit in your country complies with the Lima Declaration?

### **Relevant internet resources**

Argentina: Auditor General  
<http://www.agn.gov.ar/>

Australia: Joint Committee of Public Accounts and Audit  
<http://www.aph.gov.au/house/committee/jpaa/index.htm>

Canada: Office of the Auditor General  
<http://www.oag-bvg.gc.ca/>

Canadian Council of Public Accounts Committees  
<http://www.ccpac.ca>

Chile: Comptroller General  
<http://www.contraloria.cl/>

France: Court of Accounts:  
<http://www.ccomptes.fr/>

Germany: Federal Court of Audit  
<http://www.bundesrechnungshof.de/>

Hungary: State Audit Office  
<http://www.asz.gov.hu/>

India: Committee on Public Accounts  
<http://parliamentofindia.nic.in/committee/p17.htm>

International Organisation of Supreme Audit Institutions  
<http://www.intosai.org>

Philippines: Commission on Audit  
<http://www.coa.gov.ph/>

Public Service Accountability Monitor  
<http://www.psam.org.za>

South Africa: Office of the Auditor-General  
<http://www.agsa.co.za/>

South Korea: Board of Audit and Inspection  
<http://www.bai.go.kr/>

Sweden: National Audit Office  
<http://www.riksrevisionen.se/>

United Kingdom: National Audit Office  
<http://www.nao.org.uk/>

United Kingdom: Public Accounts Committee  
<http://www.parliament.uk/commons/selcom/pachome.htm>

United States: General Accounting Office  
<http://www.gao.gov/>

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