

# **Government Auditing in Ensuring Accountability of Foreign Aided Projects in Bangladesh**

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**June 2011**



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## **Abstract**

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

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

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## **ABBREVIATIONS and ACCRONYMS**

ADB	Asian Development Bank
ADB PLU	ADB Project Liaison Unit
ADP	Annual Development Programme
ADG	Additional Director General
AIR	Audit Inspection Report
BSR	Broad Sheet Reply
CAG	Comptroller and Auditor General
CGA	Controller General of Accounts
CGDF	Controller General Defence Finance
CONTASA	Convertible Take Special Account
CPAM	Computerization of Project Accounting Manual
CPTU	Central Procurement Technical Unit
CQAC	Central Quality Assurance Committee
DCA	Development Credit Agreement
DCAG (A&R)	Deputy Comptroller and Auditor General (Audit & Report)
DFID	Department for International Development
DD	Deputy Director
DG	Director General
DOSA	Dollar Special Account
DP	Development Partner
DPA	Direct Project Aid
DPE	Department of Primary Education
DPP	Development Project Proposal
EAs	Executive Agencies
ERD	Economic Relations Division
FAPAD	Foreign Aided Projects Audit Directorate
FS	Financial Statement
FY	Financial Year

GoB	Government of Bangladesh
GDP	Gross Domestic Product
IAs	Implementing Agencies
IDA	International Development Agency
IGS	Institute of Governance Studies
IMED	Implementation, Monitoring and Evaluation Division
ISA	International Standards of Auditing
MDG	Millennium Development Goal
MoPME	Ministry of Primary and Mass Education
MoF	Ministry of Finance
NPM	New Public Management
ODI	Overseas Development Institute
OCAG	Office of the Comptroller and Auditor General
PA	Performance Audit
PAC	Public Accounts Committee
PAO	Principal Accounting Officer
PD	Project Director
PEDP II	Second Primary Education Development Program
PPR	Public Procurement Regulations
QAC	Quality Assurance Committee
RPA	Reimbursable Project Aid
SAFE	Special Account Foreign Exchange
SAI	Supreme Audit Institution
SFI	Serious Financial Irregularity
SoE	Statement of Expenditure
SWAp	Sector Wide Approach
TAPP	Technical Assistance Project Proposal
TOR	Terms of Reference
UNDP	United Nations Development Program
VFM	Value for Money
WB	World Bank

## **Acknowledgement**

I would like to record my sincere thanks and gratitude to all who have extended their unstinted support and cooperation in preparing the Dissertation. I am particularly indebted to Professor Dr. Md. Emdad Haq, my Supervisor for his valuable advice and intellectual input during the time of collecting and collating data and information for the project. His unfettered collaboration and in-depth guidance proved to be very inspiring and helped me in accomplishing the daunting task of carrying out the investigation.

I am immensely grateful to Professor Dr. Salahuddin M. Aminuzzaman and Dr. Sk. Tawfique M. Haque, Adviser and Deputy Director of MPPG Program respectively, for their intellectual guidance and inspiration all through that helped me to deal with the issues which were relatively unknown before I embarked on the course.

I am grateful to Honourable Comptroller and Auditor General Mr. Ahmed Ataul Hakeem for allowing me to pursue this program and fulfill my dream. I owe gratitude to the officials and members of SAI Bangladesh, especially FAPAD, its management and staff - without whose unflinching and all-out support - my whole efforts would not have reached the present position. I gratefully acknowledge Mr. Manindra Chandra Datta, DCAG (A&R) as my official mentor who had been, from the beginning, very supportive with his ever helpful and professional guidance. My deep appreciation for Hon'ble ex-CAGs Mr. M. Hafizuddin Khan and Mr. Asif Ali, the invaluable experience and knowledge of whom I tried to utilize to the optimum.

I am more than ever grateful to Mr. Shameem Al Mamun, Deputy Secretary, for the inspirational guidance and constant support I have received from him. My special thanks to senior representatives of ADB, and members of ADB PLU, who shared with me valuable insights and familiarity into the system of PEDP II. I am also grateful to the faculty and all members of, as well as my course-mates from 2<sup>nd</sup> MPPG Program for their critical scrutiny and encouragement all through.

I owe immense debt to NOMA (Norad's Programme for Master Studies) for financial assistance and to GCE Department of North South University, for institutional support and for honouring me by nominating to conduct this study.

Finally, I owe more than I can ever express to my husband, family members and friends, whose love and wishes supported me all through in every possible way to assist me to complete the course successfully.

June, 2011

**Tanzila Chowdhury**

# Chapter 1

## Introduction

### 1.0 Context of the Study

Government auditing in Bangladesh, though has an illustrious history, its significance and contribution towards achieving public governance of the country are yet to be well recognized by the wider people. One of the cornerstones of democracy is the people's right to know how public money is collected and spent. In parliamentary democracies, the government therefore, must report to the Parliament on how the money was spent. This is what constitutes accountable governance of public finances. To fulfill this demand, the government relies on independent audit of public operations which is done by the Supreme Audit Institutions (SAIs) in all countries. In Bangladesh, the chief responsibility for financial monitoring of government lies with the office of the Comptroller and Auditor General (World Bank, 1996). Being the SAI of the state, OCAG performs the function of watchdog in ensuring public accountability.

SAI Bangladesh, headed by the CAG, was established in 1973 as per provisions of the Constitution of the republic. The auditing functions carried out by the various audit directorates under CAG, contribute to the promotion of transparency and accountability of the government to the Parliament (OCAG, 1997). Statutory audit also performs an advisory function for the auditee organizations to establish financial discipline. The area of study of the present research is one of the directorates under CAG, namely Foreign Aided Projects Audit Directorate (FAPAD). As a specialized dedicated arm of the SAI of the state, FAPAD audit aims to provide independent assurance to Parliament as well as to Development Partners (DPs) on the proper accounting for and use of project resources (FAPAD, 2007). Therefore the major stakeholders of FAPAD audit are SAI Bangladesh, Public Accounts Committee (PAC) of the Parliament, Development Partners (DPs), line (concerned) Ministries, project management/ Project Directors (PDs) and Economic Relations Division (ERD) of the government.

More often than not, there are reports of dissatisfaction at the slow implementation rate of the development programmes/projects of Annual Development Programme (ADP), the misuse and mismanagement of the public resources and the practice of corruption. Examples are aplenty where misdeeds are unearthed and some of the public institutions are marked as the centre of corruption. The reasons often shown for such plight are lack of transparency and accountability in public institutions (Chowdhury, 2009). Auditing in this regard is considered a vital mechanism to oversee the best use of public resources and make the executives accountable for their action. It needs not be mentioned that both the government and DPs are increasingly concerned about the better management, and the effective use of foreign assistance. Various political forums, government high-ups, different local and international organizations, survey reports, seminars and workshops, media, etc – report of concerned government agencies’ inability to utilize a large part of the foreign assistance in time. This not only deprives the people of the benefits of the development projects, but the government has to pay commitment charges as fine to DPs. Besides, the tendency to rush to complete the projects’ annual target – financial and physical – at the very fag end of the financial year, inevitably results in unnecessary wastage of resources and poor quality of work. However, some of this significant information is not always reflected in the audit reports. Moreover, the accountability regime has been shifted from an emphasis on procedures, to accountability for results and performance. The FAPAD audit is yet to undertake Value for Money (VFM) or Performance Audit (PA), and hence, the policy planners cannot get real information about the end results of the operations of government programs and projects.

The purpose of the present study is to contribute to the assessment of FAPAD audit effectiveness in conducting its responsibility as one of the key oversight agencies on government spending of foreign aided programmes/projects, and thus securing the accountability thereof. It will analyze the extent of value-addition through FAPAD reports in meeting the accountability requirements pertaining to Government of Bangladesh (GoB) as well as the development partners in foreign funded programs and projects.

## 1.1 Statement of the Problem

As a developing country with limited resources, Bangladesh is largely dependent on foreign assistance for its national development. The ADP is the key implementation instrument of the government's development policy. It is prepared keeping in view of achieving the main objectives of poverty alleviation, rapid economic growth and macro-economic stability (Planning Commission, 2008). Availability of both internal and external resources and their utilization are considered in the preparation of ADP. It is worth mentioning here that the ADP allocation for FY 2009-10 was Tk.28,500 crore, of which Tk.11,300 crore was project aid, i.e. almost 39% of total ADP allocation. This portion is currently under the purview of FAPAD audit for fiscal year 2010-11.

All foreign aid, loan or grant, are part of the consolidated fund of the republic. Therefore it is of utmost importance for a resource-scarce country like ours to maintain financial discipline for the optimum utilization of the borrowed money, which adds burden of debt on the future generation too. Needless to say, one single institution cannot ensure accountability in public governance. Accountability enhancement in the public sector is a collective responsibility and each and every institution belonging to this partnership, mainly, the Parliament, the public sector and the CAG has to play its role effectively (Ali, 2004). Articulating on the importance of SAIs in curbing corruption, Dye and Stapenhurst (1998) termed SAI as one of the "pillars of integrity", and expressed that audits are fundamental to accountability - a key component of Klitgaard's equation ( $C=M+D-A$ )\* - and are a necessary component of public sector performance. In the case of FAPAD, another major partner in this accountability relationship, is the donor agencies.

Country representatives of DPs also are accountable, to their authorities – the aid giving country/head office of the agency – for the best practice applied in the utilization of the funds provided by them to the recipients. And though they have their own mechanisms to

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\* Corruption = Monopoly+Discretion-Accountability

monitor this, they rely on statutory audit for certification. From this viewpoint, audit reports of FAPAD carry significant values, both for the country itself and for the DPs, in upholding a true and fair picture of development expenditure and proper use of funds. An objective analysis of the situation in this regard will provide an understanding of the level of effectiveness of FAPAD audit and what needs to be done, if gap detected, to make audit more effective to enhance accountability of foreign aided projects.

### **1.2 Scope of the Study**

The area of study selected for the research is the Directorate of Foreign Aided Projects Audit (FAPAD), under OCAg. The study therefore will endeavour to explore the level of effectiveness of FAPAD auditing in upholding the vision and mission of OCAg, on its behalf, in ensuring accountability and transparency in public financial management (in case of FAPAD - project management), for achieving good governance. Case study will be conducted on audit activities pertaining to Second Primary Education Development Program (PEDP II). Representing one of the vital sectors that constitute the economic development of the country, the project concerns the education sector. Visibility (national importance) of the sector, financial materiality, risks to good management, significance (magnitude of the operational impacts), coverage of the program - justify review of audit effectiveness and responsiveness of the auditees to improved accountability on the basis of audit recommendations.

### **1.3 Objectives of the Study**

Accountability is an important element of public governance and also essential for economic growth and development. Audit as a formal control mechanism can assess the best practice applied, or not applied, by the custodians of the resources. Therefore an effective auditing can ensure that a sound financial management system is in place across the government operations. The general objective of the research is to assess the effectiveness of FAPAD auditing in ensuring accountability of foreign aided projects.

The specific research objectives are to:



- Assess the role of FAPAD as per its obligation to and expectation of its major stakeholders, to ensure accountability of donor funded projects;
- Examine the level of cooperation the Executing Agencies (EAs) and line ministries provide to audit function as an aid to project management.

#### **1.4 Research Questions**

The study aims to answer a couple of questions related to the effectiveness of government auditing in ensuring accountability of donor-funded projects. The findings of the queries will render the researcher illustrate the prevailing condition, identify weaknesses in the system, as well as leave scope for recommendations for further improvement, depending on the findings. This is because the response and views on the research topic will be collected from the major partners of the accountability chain – audit personnel, auditee entities, PAC, donors and representatives of ministries . The key questions that the study attempts to explore are:

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

#### **1.5 Rationale of the Study**

CAG as the head of SAI, is the only authorized agency acceptable to all donors to provide auditing services on the accounts of the foreign aided projects (FAPAD, 1996). Audit is viewed as an aid to management. It addresses irregularity of public financial management in three dimensions – detection, correction and prevention. Besides, its recommendation role leaves scope for further improvement in the project management. In this perspective, statutory audit, particularly of development programs, is a crucial tool that can contribute not only to the national development but also to the international image building.

Issues of accountability are an increasing concern for policy-planners and funding agencies. An effective audit can ensure the answerability of the public officials (in this

case, project management) who are responsible for the management and custodianship of the public resources they are entrusted with and are thus accountable to the public for the economic and efficient use of fund. INTOSAI\* standards state that the quality of the work of the SAI can be enhanced by strengthening internal review and by independent appraisal of its work (cited in Rahman, 2001). Hence importance of assessing the effectiveness of auditing bears much significance. FAPAD currently carries out compliance/regularity and financial (certification) audits of project accounts. And since FAPAD is a deadline-oriented organization that has to submit Audit Inspection Reports (AIRs\*\*) to DPs and executives on schedule, resource (human resource, time, budget) constraints make it less viable to conduct performance audit. Work experience of the researcher showed that despite concerted effort of the audit workforce and the importance given to FAPAD auditing by the DPs, the quality and usefulness of FAPAD audit reports have not attained the desired expectation.

Against this backdrop, some pertinent questions may subsequently come to the fore for users of FAPAD audit reports - as for example - What are the factors that contribute to and/or affect an effective FAPAD audit? or How much effective a mechanism is government auditing to uphold project accountability? or What is the degree of usefulness of FAPAD audit reports for its users? Apart from some articles or essays on FAPAD auditing published in departmental journals or presented in seminars, there is not much in-depth academic research conducted in this field. Thus a study aiming to examine the areas questioned above, is important not only for the directorate itself, but will add a

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\* INTOSAI is the professional organization of Supreme Audit Institutions (SAIs) in countries that belong to the United Nations or its specialist agencies. Founded in 1953, at present INTOSAI has 189 Full Members and 4 Associated Members. Bangladesh is an active member since 1973.

\*\*AIRs are the preliminary audit reports issued by FAPAD - at the completion of audit and after approval by the Director General - to project management/Project Directors, Principal Accounting Officers of line ministries and the concerned Development Partner(s).

new dimension to the understanding of the present state of affairs. And in this way, the study, through its findings and analysis hopes to assist the appropriate authorities to identify any weaknesses in the system, and thus improve its oversight functions. Apart from putting forward some suggestions for the concerned audit directorate towards the best utilization of its resources, the present study is also expected to leave scope for the stakeholders of FAPAD audit reports (both preliminary reports and CAG’s audit reports) to review their ownership in the chain of the accountability framework.

### **1.6 Research Methodology and Design**

A combination of qualitative and quantitative method is applied to attain the objectives of this study. Qualitative data is collected through interviewing five target groups, comprising 12 respondents. Quantitative data is obtained through questionnaire survey of two groups of respondents, the number being 33. Besides, a particular project under audit coverage of FAPAD has been selected as a case of study, to form a comprehensive understanding of the level of effectiveness of public audit in upholding its objective. This will help the research present an in-depth analysis of areas that need attention so as to make the auditing functions more effective. The sample size is 45, and purposive sampling technique was used to select the population, comprising members of audit department, representatives of auditees (project and line ministries), PAC personnel, representatives from DPs and ex-CAGs. The composition of the sample size is shown in Table A1 (Appendix-A). Techniques of data collection entail both primary and secondary modes. Three methods are used to collect primary data - questionnaire survey, interview and case study. The following two tables (Table 1.1 and Table 1.2) show detail outline of the empirical approaches followed:

**Table 1.1: Target groups for interview**

<b>Category of Respondents</b>	<b>Number</b>
Senior officials of SAI (Gr II and III )	2
Ex-Comptroller and Auditor General	2

Representatives from Ministry and PEDP II	3
Representatives from Development Partners (DPs)	3
Members of Public Accounts Committee (PAC)	2
<b>Total</b>	<b>12</b>

A semi-structured form of interview has been chosen as the best alternative because it helps researcher in getting quality information based on interviewees' experience (Denscombe, 1998) and at the same time help in managing the interview with reasonable flexibility. The questions for interview were designed to explore the views and opinions of the senior officials involved in the chain of accountability relationship, from both audit and project management. Also, the valuable insights of former auditors general, Chairman and member of PAC, representatives from donor agencies were recorded, regarding the effectiveness of auditing in ensuring project accountability.

**Table 1.2: Target groups for questionnaire survey**

<b>Category of Respondents</b>	<b>Number</b>
Audit Officials of SAI (Gr V-IX)	20
Representatives from Auditee Agencies and Ministry	13
<b>Total</b>	<b>33</b>

Survey method is intended to gather primary data about the effectiveness of auditing with a semi-structured questionnaire. Questionnaires were administered face to face (in majority cases) which ensure good response rate and quality of information (cited in Rahman, 2001). Questionnaires contain both close ended and open-ended questions enabling them to provide both quantitative (factual) and qualitative information. Questionnaires 1 and 2 (Appendix- B) are developed to get data from audit personnel and

auditee entities. Since the study aims to examine government audit effectiveness, so a case-study approach was followed where the study is focused on measuring and analyzing the effectiveness of FAPAD audit of a specific development programme, namely PEDP II, funded by eleven donors with ADB as the lead donor. Besides, secondary data has been collected through content analysis of various literatures, scholarly writings and documents related to the subject matter. Documentation provides valuable information. Among the documents that have proved valuable are the constitution of People's Republic of Bangladesh, Annual Reports of the Office of CAG, Organization Chart of FAPAD, FAPAD Audit Manual, Government Auditing Standards and Code of Ethics for Government Auditors, Audit Code, FAPAD AIRs and audit reports on PEDP II, reports of ADB PLU of PEDP II, VFM Audit Manuals and Guidance materials, FAPAD Annual Audit Plan, Audit program and other official documents, Reviews, Journals of OCAg, written and recorded materials such as correspondences with DPs, minutes of meetings, relevant circulars and orders issued by the C&AG from time to time, online articles, e-books, notes etc.

Data Analysis Plan - Qualitative and quantitative analysis have been followed to analyze data. Open ended questions have been analysed synthetically and close ended questions analysed applying possible statistical analysis, and use of percentage, some graphical representations were also used.

### **1.7 Literature Review**

The obligation of government to answer for its action is called accountability. There are a number of literature and studies done on auditing and the importance attached to its role in ensuring accountability of public sector operations. Significance of records keeping and public accountability for better administration and people's welfare, is found in the early works of great statesmen and political scientists like Aristotle in his *The Politics* or in Kautilya's *The Arthashastra*. The latter work of the 4<sup>th</sup> century BC which is primarily a discourse on the imperative of economic growth was concerned, at least to some extent with accountability. Singh (2000) has shown, for example, Kautilya recommended specifically the listing of revenue collected from "fines paid by government servants"

and “gifts”. It also said that the designated official shall report (to the King) the true facts about the nature of the work, the income and the expenditure, and the King shall, by rectification, ensure the good conduct of the people of the kingdom.

Every age has its own concepts and dimensions to offer, related to accountability of public administration, and the role of government audit. Modern literatures on the subject merit much importance. According to publications of UK DFID, accountability for the use of public funds is a cornerstone of good public financial management. SAIs are the national bodies responsible for scrutinizing public expenditure and providing an independent opinion on how the executive has used public resources (DFID, 2004). Holders of public office, said Khan (1997), should be accountable to the people for exercise of their authority – an effective safeguard against misuse of power and abuse of authority.

The Audit Office’s role is to assist Parliament to strengthen the effectiveness, efficiency and accountability of the instruments of government (Islam, 2008). A study conducted by IGS (2009) states that the Parliament of Bangladesh has the ultimate responsibility to ensure financial accountability and transparency in the management of public resources. 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 his audit reports. This indicates that the effectiveness of OCAG is dependent to a great extent on an active and effective PAC (and vice versa), which scrutinizes audit reports to ensure public accountability. Now-a-days, the scope of public audit has further extended as the citizens are demanding for more value for money. Preferences for performance audit alongside traditional ones are the demand of all stakeholders of audit reports. The traditional financial and compliance audits, reflected a recent PAC report, though necessary, are “not enough” for a detailed representation of the irregularities concerning serious issues, as well as upholding transparency and accountability (*PAC 1<sup>st</sup> Report*, 2011). Thus comprehensive and performance audit, in addition to traditional auditing, is the demand of time, reflected the report. One of the indicators selected to assess the effectiveness of FAPAD audit is the type of audit

(Financial /Compliance and Performance audit) conducted to achieve the audit objective. Besides, role of PAC is an independent variable taken, that will be assessed in making audit output effective.

The link between governance and economic development is perhaps one of the most topical issues in the development arena today, stated Dye and Stapenhurst. Their writing asserts that auditing is a function that serves accountability as it adds credibility to the assertions of the person or entity rendering account and it provides valuable insights and information to the person or entity conferring the responsibility. As the agency responsible for auditing government income and expenditure, public sector auditing acts as a watchdog over financial integrity and the credibility of reported information (Dye and Stapenhurst, 1998). Stating on the importance of examining the role of oversight agency in India for holding the executives to account, Joseph opined that it is “vitally important that we spend our scarce financial resources in the most effective way possible, if we are to develop fast, it is necessary to examine as objectively and dispassionately as possible, the role of government audit in India” (Joseph, 1986).

The SAI everywhere derives authority from the constitution and has more or less similar responsibilities and powers to audit and report on the public accounts to the legislature. “The Comptroller and Auditor General is a lynch pin in the system of public accountability to Parliament”, points a World Bank (2002) study. Based on the traditional form of parliamentary accountability, Sahgal (2007) relates the critical relationships involved in the process of holding the executive arm of government to account in pursuit of democratic governance – the role of “the three men in the boat”. These three sets of relationships, of each to the other, involve the legislature, the executive and the external auditor.

Much emphasis has also been laid upon the necessity of “harmonization” among all the institutions engaged in public accountability, in order to promote accountability in the public sector. Kaul (2004) called to “synergise” the efforts of these institutions. And as public expenditure in developing countries is also funded by multilateral and bilateral

donors, these agencies too become “stakeholders in the public accountability domain”. The present study has undertaken to assess the part played by development partners as a factor (independent variable) in making audit activity effective. A handbook on financial accountability by Queensland Government (2010) emphasizes the duty of both the major parties of the accountability relationship, i.e. the accountable (management) as well as those (auditors) who hold the other accountable, to ensure accountability of the public sector. Agency follow-up of audit issues is an integral part of good management. Similarly audit should be advised of the actions taken by agencies in response to recommendations received. This research takes the responsiveness of auditees/management as a significant factor contributing to FAPAD audit effectiveness.

### **Bangladesh Scenario**

Development Partners (DPs) are conscious of the best use of the loans and grants they provide. In September 2010, the multilateral development bank, the World Bank, which is also the country’s leading aid giving agency, has announced its 4-year (FY 2011-14) Country Assistance Strategy (CAS) for Bangladesh with a record financial support of \$6.1 billion in low-interest loans (*The Daily Star*, Sept 2010). The Bank is said to focus more on its demand for good governance and reduced corruption, which it says is eating up valuable money here. A country study conducted by World Bank in 1996, accounted how crucial to a system of democratic government is a robust mechanism that ensure transparent financial accountability, and the OCAg, is the chief financial monitoring mechanism of the government. As PAC relies on reports of the CAG, the study underscored the effect of audit activities on government accountability. The study further stated the importance of constitutional/statutory oversight bodies in enhancing accountability and responsiveness of the government.

Audit Code (1999), Government Auditing Standards (1999), Code of Ethics for Government Auditors (2001) - all issued under the authority of Article 128 of the Constitution and the CAG (Additional Functions) Act, 1974, by the CAG of Bangladesh, relate that independent audit by the CAG is one of the ways to ensure that public money is accounted for, well managed and propriety is ensured by the custodian of public assets.



These documents postulate the standards and values to be followed by OCAg and its staff in carrying out audits of public sector organizations and their programmes and activities, to sustain the aim of the Office to promote public accountability and foster sound financial management practices in government. Specific standards and values of these normative basis form indicators of the present study that provide a framework for analyzing FAPAD audit effectiveness.

However, to look into the other side of the coin, one may think about the impact of audit on the improvement of management practice - a prime aim of audit activity. The Policy Note on OCAg by IGS, BRAC University (2009) underscores the performance of OCAg Bangladesh, as pivotal in promoting accountability in managing public resources. The study however, reflects that though the OCAg activities result in saving a significant amount of public money each year from misappropriation, rampant public corruption and inefficiency in the country indicates the need for strengthening CAG's audit functions further to act as an effective deterrent. Citing a number of reasons, a World Bank Country study (1996) observed that reports of CAG do not offer satisfactory ex-post checks over spending agencies. Among the most pronounced reasons are weak staff skills, the use of outmoded concepts and procedures, dual responsibility of accounting and auditing, inadequate coverage of reports, delays in issuing reports, lack of comprehensiveness and poor quality of reports, and inadequate attention to follow-up action.

Most developing countries' auditors, pointed Sahgal, tend to report on individual transactions. The emphasis is on "accidents" (deliberate or inadvertent) rather than on "road conditions" (Sahgal, 2007). The OCAg of Bangladesh has many limitations, reported Dayal (2006), both internal and external, that inhibit its capacity to carry out quality audits to internationally accepted auditing standards and to fulfill its legislative role. The most serious shortcoming is the lack of suitably qualified, experienced and trained staff. Audit planning is inadequate, and there is lack of active involvement by audit managers in the audit process. According to media reports, the members of present PAC of Bangladesh National Parliament (9<sup>th</sup>), declared to meet almost every working day to clear huge backlog of unresolved audit reports, so that it can scrutinize audit on recent

expenditures. Commenting on the audit reports as mostly superficial “lacking substantial information”, the Committee chief asked the CAG to update audit reports as well as compile reports primarily based on “performance” of ministries and government departments (*The Daily Star*, April 2010).

All the citations given above provide valuable information regarding the significance of auditing of the public spending, and factors of effective audit. The literatures also point some significant concerns where audit functions are not competent enough and need development to carry out its oversight functions effectively. Review of such studies have added to the analysis of the subject proposed in the present study. Moreover, some factors of effective auditing are applied in shaping the analytical framework of the study. Due to limited work conducted on the particular area of the present research, there is ample scope to contribute through an in-depth study, to the benefit of the users of this research, particularly FAPAD.

### **1.8 Structure of the Research Work**

The thesis has been organized into six chapters. Chapter 1 presents the outline and context of the study. It includes the research objectives and questions, rationale and scope, existing literature and research methodology followed for the thesis work. Concepts related to the subject matter of the research and theory/concepts that are applicable to the study, are reviewed in Chapter 2. This leads to the analytical framework of the study. The definitions of the variables supporting the framework for analysis are operationalized in the latter part of the chapter. Chapter 3 focuses on the status of foreign aid in Bangladesh till present time, and its accountability mechanisms. It also relates the funding mechanisms of the donor aided projects. The chapter ends with the accountability mechanisms of the foreign aid in Bangladesh. Chapter 4 is of fundamental importance as it gives an overview of the auditing arrangement of SAI Bangladesh, with particular concentration on the area of study – FAPAD. It also gives a description of the case study. This chapter is thus divided in three main sections. Presentation of data and analysis of findings are illustrated in Chapter 5. The data are sequentially presented in accordance to the variables framing the analytical framework of the study. The

concluding chapter, Chapter 6, sums up the research findings and throws light on recommendations based on the findings. The recommendations founded primarily on discussions with the respondents, are also developed from certain ground realities that both the auditors and auditees come across in the audit fieldwork.

## **1.9 Conclusion**

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

## Chapter 2

# Theoretical Perspectives and Analytical Framework

The primary objective of the present study is to assess the effectiveness of government auditing of donor-funded projects. To this end, the central aim of this chapter is to develop a framework for analysis. Accordingly, the chapter has been divided into three sections. The first section constitutes discussion of concepts/themes taken up in the study. Relevant theory/model of accountability relationship has been examined in the second section, which provides the theoretical basis of the study. Departmental standards of auditing and code of ethics also are applied to form basis for analysis. The final section furnishes a framework for analyzing FAPAD audit effectiveness. The factors that influence an effective audit function, would therefore be analyzed in the context of the relevant literatures and theory/concepts, as well as auditing standards. In fact, in line with the fundamental issue that the research endeavours to address in this study, a comprehension of key concepts and theories leading to the framework for analysis is essential. The following section is mainly concerned with this.

### 2.1 Accountability: As it is Understood

To state very simply, the concept of accountability involves *someone* being held responsible for *something* by *somebody* or *something*, in a particular prescribed way. It may be horizontal, that is between parallel groups (such as the executive and the legislature) or vertical (for instance between the electorate and the legislature). Accountability may result in the allocation of praise or blame (cited in Weisband and Ebrahim, eds. 2007). Accountability for the use of public funds is a cornerstone of good public financial management. Koehane and Grant (2005) describe accountability as involving justification of an actor's performance vis a vis others, the assessment or judgement of that performance against certain standards, and the possible imposition of consequences if the actor fails to live up to applicable standards. 'Accountability' seems to be an ever-expanding concept, stated Mulgan (2003). Accountability as 'the

relationship between an actor and a forum, in which the actor has an obligation to explain and justify his or her conduct, the forum can pose questions and pass judgment, and the actor may face consequences' (Bovens, 2006).

#### **a. Public Sector Accountability**

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

#### **b. Financial Accountability**

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

(PAC), Public Undertaking Committee (PUC), Public Estimates Committee (PEC), etc. The statutory audit of government organizations and enterprises are carried out by CAG (cited in Mowla, 2005).

## **2.2 Foreign Aid and Donor Agencies**

Foreign aid comprises external loans given on concessional terms and grants, both tangible and intangible, available from a foreign source. These resources can be cash foreign currency, technical or consultative asset, commodity, food and local currency. In terms of economic classification, these are either loans or grants (ERD, 2002). According to Arnold (1985), foreign aid is the flow of resources of capital and technical assistance, from more advanced economies to less advanced or developing countries.

Loans and credits are those foreign resources that have to be repaid to source, and carry a rate of interest calculated on annual basis. Some of these include late charge or penalties and commitment charges. Grant means foreign resources bearing no interest, penalties or commitment charges, and is non-repayable. On account of their repay ability, loans can be soft and hard. The former denotes loans whose interest rate is 0.75% to below 5% per annum and repayable within 32 years plus a grace period of up to an additional period of 10 years. The hard ones' interest rates are above 5% per annum and repayable within 11 years entertaining no grace period (Ahmed, 2008). About 33 international government agencies, banks and other organizations are extending aid to Bangladesh. Of these the WB, ADB and Japan provide about 72% of total foreign aid. Fortunately, each of these three provides soft loans.

A donor agency is an organization that gives funds for projects of development nature. Mostly used in development management arena, donors refer to the supplier of the resources in the form of external assistance to the recipient (ERD, 2002). Developing and under-developed countries rely heavily on donor assistance for socio-economic development as well as for technical know-hows. At present though, the donors are addressed as Development Partners (DPs).

### **2.3 Development Projects**

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

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

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

### **2.4 Public Sector Auditing**

The Canadian Comprehensive Auditing Foundation (CCAF, 1991) defines public sector audit as:

“... the independent, objective assessment of the fairness of management's representations on performance or the assessment of management's systems and practices, against criteria, reported to a governing body or others with similar responsibilities.”

The purpose of auditing, says Noseworthy (1999), is to give an independent assurance that public sector operations are reflected ‘fairly’ in accounting statements and reports prepared by management, and to obtain the information needed for reports on performance. The objective of reporting is to provide facts, comments and recommendations which will firstly, help Parliament review the operations of Government, secondly, help Government review the operations of Management, and

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

## **2.5 Theoretical Context of the Study**

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

### **a. Principal-agent relationship**

The principal-agent concept of accountability relationship, and the role of oversight agency in this connect, is found in a number of scholarly writings. Numerous authors have, in their portray of the nature of accountability, identified it as, “the process of holding actors responsible for actions” (cited in Weisband and Ebrahim, eds. 2007) or “the means by which individuals and organizations report to a recognized authority and are held responsible for their actions”. These and others point to a “core sense” of accountability which Mulgan (2000) identifies as having a set of three key features; i) it is external; ii) it involves social interaction and exchange; and, iii) it implies rights of authority.

This is essentially a principal-agent view of accountability in which the lead actor or principal sets goals and employs agents to accomplish them (Weisband and Ebrahim, 2007). The key accountability problematic thus lies in “constraining opportunistic behaviour” of agents. And the logic of accountability flows from this. For Mulgan (2000) this “original core of accountability” is based on external scrutiny, supported by justification, sanctions, and control. In public institutions, particularly in modern democracies, such forms of accountability can be applied to two broad sets of relations: between citizens who, as principals, elect candidates to office as their agents; and, between those elected politicians who oversee the work of public administrators and



other bureaucrats who act as their agents and, by extension, as agents of public. The present study will analyse the second set of relations. The literature further identifies 4 core components of accountability in overall governance (cited in Weisband and Ebrahim, eds. 2007): Transparency, Answerability or Justification, Compliance and Enforcement or Sanctions. As each of these components builds on the others, accountability relies on the presence of all four.

Bovens, Schillemans, and Hart (2008) have elaborated 'the relationship between an actor and a forum' from three different theoretical perspectives on public accountability: democratic, constitutional and learning. The democratic perspective is more relevant in the present study, as public accountability is extremely important from a democratic theory perspective. It enables citizens and their representatives to make those holding public office, answer for their deeds. Though this idea, state Bovens, Schillemans, and Hart, harks back to Rousseau and Weber, these days it is often conceptualized in terms of a 'principal-agent model'. It stipulates that a modern representative democracy can be described as a concatenation of principal-agent relationships. The citizens, who are the primary principals in a democracy, have transferred their sovereignty to popular representatives, who, in turn, have transferred the drafting and enforcement of laws and policy to the government, and are reported back on the performance by statutory audit.

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

as well as its management of citizens' financial resources.

Illustrating on the system of “legislative control of the public purse”, Sahgal pointed to the “three critical relationships” involved in the process of holding the executive arm of government to account in pursuit of democratic governance. He called it the role of “the three men in the boat”. First, there is the accountability relationship between the legislature and the executive – the paramount relationship. Second, the relationship between the external auditor and the executive. Third, there is the relationship between the auditor and the legislature and its committee. This too is a strong relationship. The tenure of the committee, regularity of its meetings, timely actions and rigorous follow-up are equally important areas for promoting the effectiveness of the oversight function (Sahgal, 2007). The SAI provides the critical link, observes Dayal (2000), in the accountability chain between the public sector, parliament and the community. Public financial accountability may be said to be a triangular arrangement involving the executive arm of government, the Parliament and the Supreme Audit Institution (headed by the Auditor-General). It may be shown in a diagram as follows (Figure 2.1):

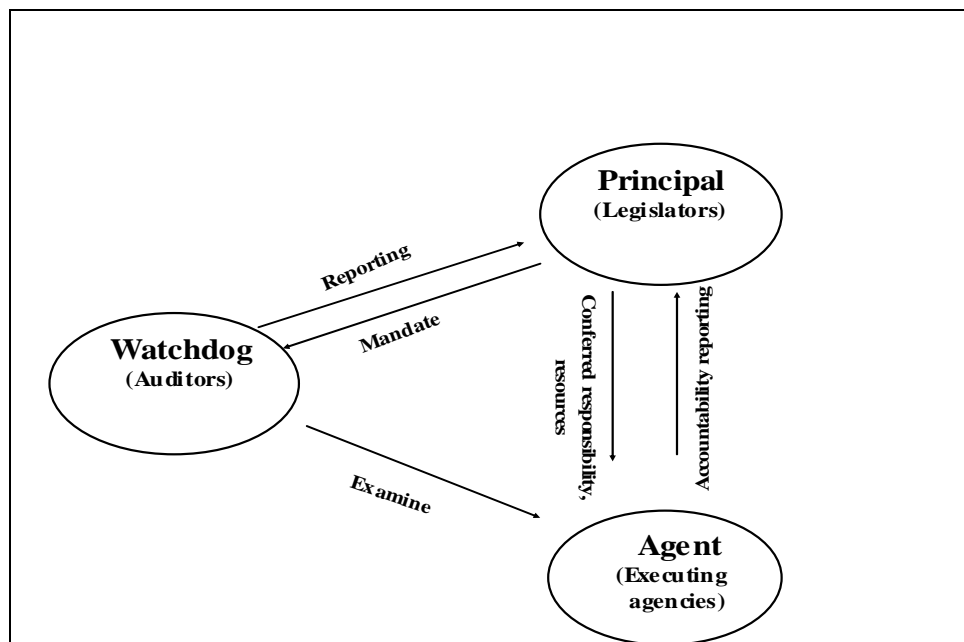


Figure 2.1 : **Principal-agent relationship**

Source : Sahgal, 2007; CCAF, 2008

The above diagram clearly defines the auditor's role in the principal-agent relationship. In relation to the present study, the government auditors (FAPAD auditors, as representing CAG), are assisting the principal, i.e. the parliament (PAC), thus acting on its behalf, in providing independent objective assessments of the agents' (executive agencies) performance as regards the fund management of programs/projects aided by development partners. The development partners, are among the stakeholders of the accountability chain, since they are also providing resources, the co-financiers of the principals in the implementation of the government's policies. The underlying significance is the concerted effort of the actors (both principals and agents) involved in the relationship to sustain the accountability in the public financial management.

#### **b. Standards forming theoretical base**

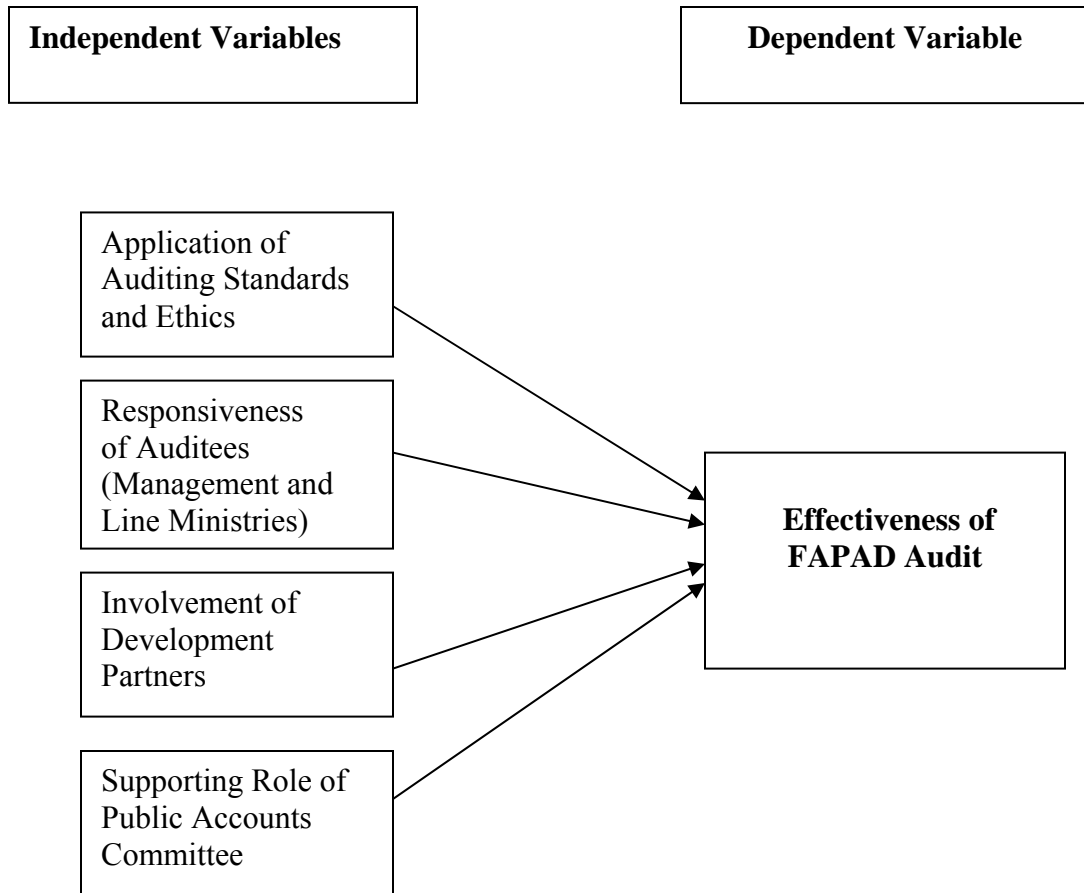
The constitution of the republic gives CAG wide discretionary powers in interpreting and applying his mandate in deciding what, how and when to audit. This unique position of trust places a responsibility on his Office to carry out its work in accordance with the highest professional standards. These standards provide a framework for the establishment of procedures and practices to be followed in the conduct of audit (OCAG, 1999). Government Auditing Standards (1999), that lay down the basic standards that auditors are expected to meet in conducting their audits, put stress on the importance of independence and professional competence of staff; exercising due care; proper planning and supervision; reasonableness of criteria; sufficiency, reliability, and relevance of evidence to support conclusions; and fairness and completeness in reporting. As a result of adoption and application of these standards and values, the Office is believed to be able to play a more effective and enhanced role in promoting greater transparency, accountability and good governance in the public administration of Bangladesh (OCAG, 1999). Besides, conduct of moral standards and ethical values would ensure a credible environment of professionalism, and earn trust, credibility and respect from the stakeholders of audit (OCAG, 2001). Code of Ethics for Government Auditors (2001), which is a comprehensive statement of the values and principles guiding the daily works of auditors, should be viewed as a necessary complement reinforcing the Government Auditing Standards in the discharge of auditing function. Any deviation or delinquency in

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

## **2.6 Analytical Framework of the Study**

The analytical framework of the study has been formed on the basis of the auditors' role in the principal-agent relationship as well as the general standards of auditing provided in the government auditing standards. It needs be stated clearly that from functional viewpoint, the performance of FAPAD may depend upon two kinds of activities: first, functions directly related to the audit process, e.g. audit planning, programming and processing, audit methodologies, etc. and second, functions needed to perform to acquire environmental support in favor of the audit activities. The prime environmental actors for FAPAD are the auditees (project management and line ministries), the Parliament, and the Development Partners. The present study takes as the dependent variable, the effectiveness of FAPAD audit. Apart from the professional skill and the strategies of audit exercised, the factors leading to the effectiveness of FAPAD audit are the roles played by the major stakeholders of FAPAD audit reports – the Development Partners (DPs) who assist the GoB in co-financing the development programs/projects, the executives of the republic and the auditee agencies whose attentiveness regarding the objectives of audit makes audit meaningful, an active and effective PAC upon which depends the effectiveness of audit. Based therefore on the different literatures discussed so far and the concepts and the models mentioned, the following analytical model (Figure 2.2) is used to operationalize the variables.

**Figure 2.2: Framework for Analyzing FAPAD Audit Effectiveness**



**a. Indicators for independent variables**

The following table presents the indicators selected for the independent variables and the assessing criteria.

**TABLE 2.1: Indicators for the Independent Variables**

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

<b>Supporting Role of PAC</b>	<ul style="list-style-type: none"> <li>• Timeliness in examination of audit reports</li> <li>• Follow-up of PAC recommendations.</li> </ul>	<ul style="list-style-type: none"> <li>• Frequency/ promptness in reviewing audit reports</li> <li>• Effectiveness of Follow-up mechanisms to see implementation of PAC recommendations.</li> </ul>
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**b. Operational definition of dependent and independent variables and their indicators**

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

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

**Dependent Variable**

The dependent variable of the research is discussed below.

## **Effectiveness of FAPAD Auditing**

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

## **Independent Variables**

The independent variables and their themes are elaborated as follows.

### **1. Application of Auditing Standards and Ethics**

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

#### **a. Exercise of independence, competence, and integrity**

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



integrity (e.g. honesty, fairness, truthfulness) in the course of their work and in the relationship with the audited bodies.

#### **b. Types and process of auditing**

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

#### **c. Resource of auditing**

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

#### **d. Quality control/assurance of auditing and reporting**

OCAG aims at producing quality assured credible audit reports with improved audit management (OCAG, 2007). Quality control/quality assurance is ensured both at the audit directorate level as well as in the OCAG. At present, there is a two-tier quality assurance procedure in FAPAD. Firstly, the Quality Assurance Committee 1 (QAC 1) headed by a Deputy Director, is responsible for overseeing quality of the initial audit

observations included in the AIRs. And secondly, after issuance of AIRs, the QAC 2, headed by Director, is responsible for selecting the SFIs\* that are transmitted to Principal Accounting Officers (PAOs) for taking necessary actions at their ends. Further, there is a Central Quality Assurance Committee (CQAC) in the office of CAG to scrutinize the standard and quality of CAG's audit reports meant to be placed to parliament. Added to this, integrated quality improvement initiatives that the directorate undertakes as part of CAG's strategic planning include, among others:

- checklist for briefing audit teams;
- 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;
- checklist for monitoring, supervising and inspection of the work of audit teams;
- guidelines for assessing, controlling and enhancing the quality of audit observations and audit reports by mid and senior level managers.

## **2. Responsiveness of Auditees (Project Management and Line Ministries)**

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

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\*Serious Financial Irregularity. These are audit observations of serious nature and also called Advanced Paras. They are issued to Principal Accounting Officers of ministry/division, for necessary action on their end.

and effectiveness of public expenditure. The indicators to assess the above variable include:

**a. Co-operating in audit objectives and activities**

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

**b. Responsiveness to audit recommendations**

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

**3. Involvement of Development Partners (DPs)**

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

**a. Monitoring of management**

An effective monitoring of the project management by the DPs, contributes to a positive impact of the audit function for improvement of management practice based on audit recommendations. As an aid to management, audit can help reduce irregularities through

detection, correction and prevention. Pressure from DPs to act upon audit recommendations would help ensure accountability of the public sector development expenditure.

#### **b. Meetings /Capacity building programs for auditors and auditees**

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

#### **4. Supporting Role of Public Accounts Committee (PAC)**

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

**a. Timeliness in examination of audit reports**

CAG's reports provide information, advice and assurances to Parliament and the public about all aspects of financial operations of the donor-assisted programs/projects. Thus regular and timely discussions of audit reports and findings would ensure transparency and accountability in the project activities. Experiences have shown, due to delay in formation of PAC, or absence of it, huge number of audit reports remains pending.

**b. Follow-up of PAC recommendations**

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

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

## Chapter 3

# Foreign Aid and Accountability Mechanisms

Bangladesh, since its independence, has been making all out efforts to accelerate the pace of its socio-economic development in rapid strides through resource mobilization and investment in the most economic, efficient and effective manner. The government of Bangladesh prepares long-term, mid-term plans and annual development programme to rotate the wheel of economic development (Haq, 2007). The financing for ADP is done from two basic sources:

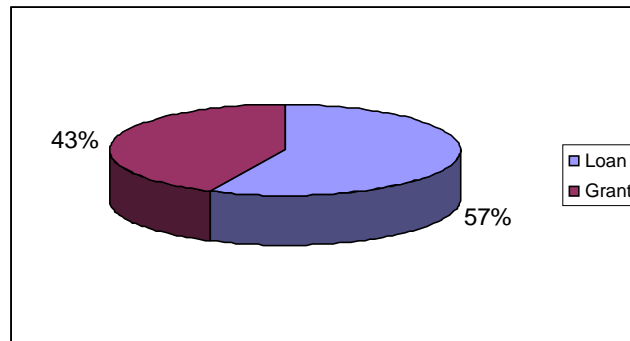
- Domestic Resources
- Foreign/External Aid.

The direct taxes and indirect taxes constitute the major national income for the government and are reflected in the ADP. Domestic resources required for the development activities are not sufficient to implement all the programmes necessary for improvement in the quality of life and its sustainability. This financing gap requires external resources through assistance in order to supplement the budgetary need for the development process. External assistance is considered a significant factor in the economic development of Bangladesh in order to bridge the gap between savings and investments and balance of payment (ERD, 2011).

### **3.1 External Assistance in Bangladesh**

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

**Figure 3.1: Foreign Aid, loans and grants**



Source: ERD, 2011

### **3.2 Aid Scenario**

Over the years, Bangladesh has been receiving different types of external assistance. If classified by purpose, foreign aid falls into three broad categories: Food Aid, Commodity Aid and Project Aid (ERD, 2011). Among the aid disbursed till June 2010, 12.52 % was disbursed as food aid, 20.74 % as commodity aid and 66.74 % as project aid (ERD, 2011). The largest share of foreign assistance, and the most known and popular type comprises of project aid - foreign currencies of the host country as well as of other countries. It is extended by the development partners primarily to finance the projects included in the ADP. In Bangladesh, project aid is received from DPs in mainly two forms, grants and loans.

Significant changes have taken place in the total aid package to the country over the years. The share of grant is declining gradually. The decreasing volume of grant has resulted in a larger proportion of loan in the total aid package. The share of grant which was 88.2 % in 1972/73 declined to 53.2 % in 1979/80, 55.4 % in 1984/85 and 28.69 % in 2009/2010. Furthermore, the flow of Food Aid and Commodity Aid has drastically declined. Food Aid has declined consistently from 47.9 % of total aid in 1971/72 to 4.19 % in 2009/2010, Commodity Aid has similarly fallen from 50.8 % to nil during the same period, while project aid has increased sharply from 1.3 % to 95.81 % over the same period. Among the bilateral donors, Japan tops the list in terms of cumulative disbursement followed by USA and Canada. International Development Association (IDA, the soft lending window of the World Bank) is the largest amongst the multilateral

development institutions followed by the Asian Development Bank (ERD, 2011). The aid package, covering both grants and loans, has undoubtedly contributed to the development of the economy, but is also leading to growing external indebtedness.

### **3.3 Per Capita Debt Obligation**

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

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

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

The Annual Development Programme is contributing to GDP growth rate and GDP growth rate has scaled from 3.5% in 1972 to 5.7% in 2010 (MoF, 2010). The need for sustainable development requires a sound and pro-people oriented development programme. Projects are smallest units through which objectives and outputs of national



plans are achieved (Haq, 2007). Bangladesh is a resource-constrained country and to address the poverty alleviation, it is essential to maximize the benefit out of this scarce resource. Moreover, the country has to bank on international assistance to drive the wheel of economy through project implementation. As stated earlier, projects included in the ADP are financed either entirely by GoB fund, or/and financed both by GoB and Development Partners in the form of i) bilateral, ii) multilateral assistance. There are also some projects completely financed by donor(s).

The main modes of funding mechanisms for the disbursements of funds for the aided projects are discussed below:

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

**ii. Reimbursable Project Aid (RPA):** In this mode of fund management, project specific expenditures are incurred by PD and funded by donor. The donor credits the Special Bank Accounts with an imprest amount of fund. Whenever this imprest balance has been expended by the project, PD submits claim through withdrawal applications to the donor, who would then replenish the imprest amount. This transaction is done through a commercial bank account under the project and is operated by PD. The four types of bank accounts in operation for RPA are SAFE; CONTASA; DOSA and IMPREST Account.

**iii. Direct Project Aid (DPA):** This relates to expenditures incurred directly by the donor as laid down in the project agreement, and the donors have control over the expenditure. DPA funds can be spent by DPs outside Bangladesh or inside the country through their project managers. Therefore, these transactions cannot be directly included in GoB accounts since source data is not readily available to accounts offices or even to Project

Directors (Mowla, 2005). If only when informed by the donor, the PD will record it in the project accounting. The information can only be gathered from Statement of Expenditure (SoE) provided by donors. DPA is the grey area of development assistance (Datta, 2007). Due to scope limitation auditors (here, FAPAD auditors) cannot make any comments on the DPA amount spending.

### **3.5 Aided Projects and Accountability Mechanisms**

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

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

**ii. Implementation, Monitoring and Evaluation Division (IMED):** IMED under Ministry of Planning is the central and apex organization of the Government of the People's Republic of Bangladesh for monitoring and evaluation of financial and physical performance of the public sector development projects included in the ADP. The Central Procurement Technical Unit (CPTU) of IMED acts as a central organ of the government for policy formulation, coordination, monitoring and improvement of the public procurement process in Bangladesh.

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

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

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

This chapter may be concluded with a note on audit's three roles – oversight, insight and foresight – that define the ways in which public sector auditors add value to the operations of government, government agencies, and the broader public sector (Jacques, 2008). Through these roles auditors help the public sector operate with greater transparency, probity and equity. They help reduce risk, improve accountability and maintain the public trust.

## **Chapter 4**

# **Public Auditing of Foreign Aided Projects**

The current chapter aims to provide an overview of government auditing in Bangladesh. It is divided into three sections that will sequentially explicate the Supreme Audit Institution of the country, to be followed by the study area – FAPAD. And the concluding section is a description of the project taken as a case study. The implementation capacity of the development programs/projects are a testimony to a government’s commitment towards socio-economic upliftment. As a developing country with limited national resource, Bangladesh needs all the more to apply best practice in the proper utilization of these resources. Ensuring accountability of foreign aid utilization has become an important consideration for both DPs and recipients. On one hand, donors are accountable to their taxpayers, and on the other hand, foreign aid forms a significant portion of the recipients’ budget, having crucial role in fiscal policy formulation and implementation. This increasing role of foreign aid in domestic economy ‘illustrates growing demand for accountability and improved basis for internal management’ (cited in Mowla, 2005).

### **4.1 Office of the Comptroller and Auditor General: An Overview**

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

### **a. Historical Background**

Preface to the First Edition of *Audit Code* of 1938 of British India mentions the set-up of the office of the Auditor-General under the Government of India Act, 1935 (OCAG, 1999). The genesis of the CAG's office was in pre-partition India, and audit methodology was originally set out in the 1938 Audit Code of India. Three auditing models are seen worldwide: the Napoleonic/Court model, the Westminster model and the Board System. Bangladesh inherited the Westminster model from the British rule, which is designed to have an Auditor General (AG) who makes periodic reports for the Parliament using the professional audit staff of the Office of the AG (IGS, 2009). The basic structure of the SAI was inherited from the British system following the Exchequer and Audit Department Act, 1866, of the United Kingdom (Shamsuzzaman and Rahman, 2003).

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

### **b. Legal mandate**

The CAG heads the SAI and is appointed by the President of the Republic. He derives authority for exercising his functions from the Constitution of the Republic and relevant acts and ordinances. Article 128(1) of the Constitution mandates the CAG or any other person authorized by him, unrestricted access to any records in the possession of any person in the service of the Republic. Article 128(4) ensures complete independence of the CAG in the exercise of his functions. Under the authority of Article 131 CAG fulfills

his comptrollership functions through prescribing the form and manner of keeping public accounts, and certifying annual appropriation and finance accounts of the government. As head of SAI, CAG has the mandate to determine the scope and extent of audit. According to the Article 132, the reports of the Auditor-General relating to the public accounts of the Republic shall be submitted to the President, who shall cause them to be laid before Parliament. The Parliament in turn acts on these reports through its committees like Public Accounts Committee and Committee on Public Undertakings.

### **c. Vision and Mission**

Vision of OCAG: Attaining Accountability and Transparency in Public Financial Management for achieving good governance.

Mission of OCAG: Conducting effective audit of public sector operations for optimum utilization of public resources providing reliable and objective information to assist in establishing accountability and transparency in government activities (OCAG 2009).

### **d. Organization and responsibilities**

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

Approximately four thousand (3947) officers and staff are presently working in the OCAG. About thirteen (13%) percent of the employees are female. Class I officers

constitute 1267 in number, Class II, 553. The bulk is the Class III staff comprising of 1814 in total, and 39 of Class IV staff (OCAG, 2009).

The concern about the rights of the citizens and helping policy makers in attaining their objectives through good governance has had SAI responsible to look at the things from within and outside. An analysis of what the government has planned to achieve and how, made SAI's task both friendly and unpleasant. So the SAI cannot let the money of the taxpayers to be wasted, at the same time let go the aspiration of the government astray (Ali, 2005). Directors General (DGs), the heads of the audit directorates are responsible for conducting audit on behalf of the CAG in the government offices as well as the public sector undertakings.

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

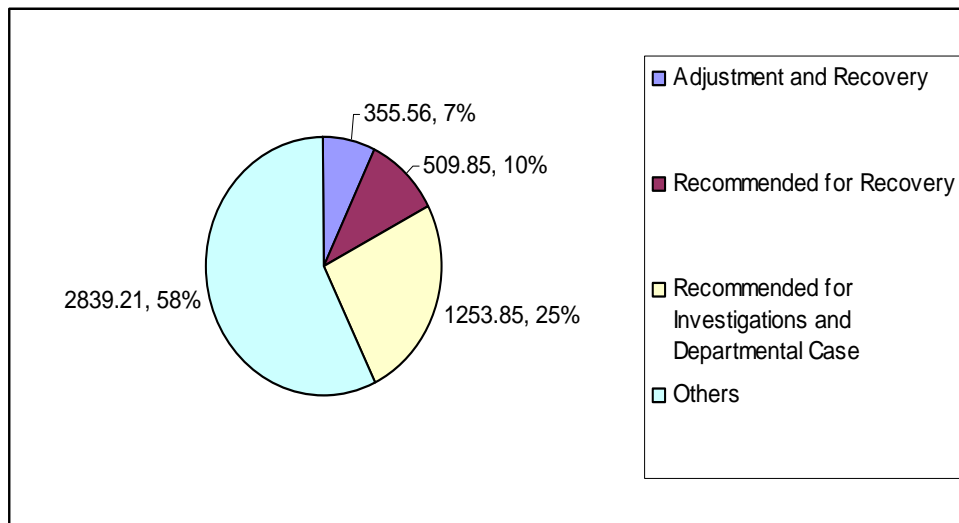
The audit processes involved in the audit activities of the directorates are more or less of similar nature. The OCAG prepares the annual audit plan on the basis of its strategic plan. Audit issues are selected considering risks to good management, financial materiality and significance of the issue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

### e. Financial impact of audit activities

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

The following table shows at a glance the amount of money involved in audit observations discussed in PAC meetings of the 9th Parliament, till Mach 2011. These involve recommendations of adjustment and recovery, recommendations for investigations and departmental case and others (eg. settled, tripartite meetings decision, physical verification, follow-up of PAC recommendations, etc) based on recommendations of PAC. Total amount involved in the audit observations discussed is Tk. 4,958.47 crore.

**Figure 4.1 : Amount Involved in Audit Observations Discussed in PAC meetings**



Source: 2<sup>nd</sup> Report of PAC of 9th National Parliament, June 2011



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

#### **4.2 Foreign Aided Projects Audit Directorate (FAPAD)**

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

##### **a. Establishment**

Audit of foreign-aided projects became institutionalized in our country with the establishment of the Foreign Aided Projects Audit Directorate (FAPAD) in 1982. According to a Report of the Martial Law Committee on organizational set-up of the Directorate of Audit, Foreign Aided Projects, Finance Division, Ministry of Finance and Planning (December, 1982), FAPAD was created in 21-11-1982 with 100 posts of officers and staff as sanctioned by the Finance Division at the initial stage. The establishment of the new office and its organizational structure was prepared at the desire of and in consultation with, the World Bank (WB) and the ERD of the government. In order to conduct audit of Foreign Aided Projects as outlined by the WB in their letter, dated 9-6-1981, and to ensure timely submission of audit report to satisfy the requirements laid down in the credit agreements, the top level supervision was required to be strengthened (Chief Martial Law Administrator's Secretariat, 1983). Prior to that, there was no separate audit office to conduct audit of the foreign-aided projects, and this work was carried out by different directorates under CAG rather haphazardly (Khan, 1996). The directorate has been entrusted with the responsibility of auditing the accounts of all foreign aided projects of Bangladesh. Every year all development and technical assistance programmes and projects in the public sector funded by foreign aid, and

appearing in the Annual Development Programme of the government, come under the audit jurisdiction of FAPAD.

The existing manpower of FAPAD is 178 (OCAG, 2009), against a sanctioned provision of 300. Among the officers and staff currently working in FAPAD almost 38% are Class I officers and only 6% cadre officers. The DG, who heads the directorate, conducts audit and prepares audit reports on behalf of the CAG, according to Article 128 of the constitution. DG is assisted in this work by his staff. In any directorate Deputy Director functions as the focal point of audit activities. Sector 1, 2, 3 and 4 of FAPAD are assigned to carry out the field audit of the listed projects.

#### **b. Functions of FAPAD**

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

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

#### **c. Distinguishing features of FAPAD – Its twofold responsibility**

The CAG, as the head of SAI Bangladesh, has the constitutional responsibility to conduct audit of all foreign-aided programmes and projects, certify their accounts and submit

audit reports to Parliament. FAPAD, on behalf of CAG, is responsible for verifying ex-post, that the donor-funded development expenditures conform to administrative, legal, legislative and donor requirements. This working arrangement in FAPAD is different in comparison to other audit directorates. The other audit directorates have to produce audit report to meet the audit requirement of the Parliament. But audit responsibility of FAPAD is primarily twofold. First, it has to meet the audit requirement of the National Parliament. That is, it has to fulfill the constitutional obligation of CAG to audit the foreign aided programs/project accounts and submit audit reports to Parliament through the President of the Republic. Secondly, it is required to meet the requirements set out by the lenders/donors which have been agreed to by the GoB. As per provision of the Development Credit Agreement (DCA) or the project loan/grant agreement, the DPs and the loan giving countries/agencies are to be furnished with audit certificates on schedule. Each DP has their ToR for auditors and timeframe when they require the annual report, known as the Audit Inspection Report (AIR), to be furnished. This is the preliminary audit report issued to DPs and auditee organizations.

The main function of FAPAD is to certify the annual financial statement (FS) and other special accounts of the project. In doing so, as said before, FAPAD follows the certification of International Standards of Auditing (ISA) practice and certify the FS as i) Unqualified, ii) Qualified, iii) Disclaimer and iv) Adverse. Besides this, FAPAD makes comments and observations on conformity of financial regulation and compliance of conditionality as laid in the agreement between GoB and DPs. In addition to these, FAPAD also make remarks on the internal control of the project management. Thus FAPAD report is comprehensive and exhaustive. FAPAD communicates its report to the line ministry of the government responsible for overseeing and executing the project implementation, and to respective donor(s). This is intended for making a transparent and accountable project management and to ensure the utilization of available resources pumped by GoB and donors (Haq, 2007). FAPAD annually prepares a report of unresolved issues and submits to CAG for his approval in placing before parliament for discussion in PAC. Therefore the major stakeholders of FAPAD audit are OCAG, Public Accounts Committee (PAC) of the Parliament, Development Partners, line (concerned)

Ministries, project management/Project Directors (PDs) and Economic Relations Division (ERD) of the government.

The major development partners of Bangladesh are WB, ADB, UNDP, UNFPA, JICA, IDB, UNICEF, DFID, CIDA, USAID, and DANIDA etc. Some DPs have specific timeframe to get the FAPAD audit reports. FAPAD has to meet the deadlines. FAPAD Audit Calendar is shown in Appendix C.

#### **d. Auditable units and audit teams involved**

The number of auditable units under FAPAD for a given period (1 financial year) depends on the number of foreign aided projects included in the ADP of the government. 489 auditable units are under FAPAD audit coverage for FY 2010-11 (FAPAD, 2010). That is, almost 35% of the total budget allocation and expenditure of the ADP come under the audit jurisdiction of FAPAD. It may be stated again, that the revised ADP allocation for FY 2009-10 was Tk.28,500 crore. Of this, Tk.11,300 crore was project aid, i.e. almost 39% of total ADP allocation. This portion is currently under the purview of FAPAD audit for FY 2010-11. There are two-member 36 regular audit teams/parties in FAPAD at present engaged in field audit. However, this number varies as per requirement. Manpower involved in the field audit is almost 41% of the existing strength, according to sources from the directorate.

#### **e. Annual Audit Plan**

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

## **f. Scope of audit**

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

## **g. Types of audit**

FAPAD usually conducts three types of audit:

- ◆ Financial Statement Audit
- ◆ Compliance Audit/Regularity Audit
- ◆ Performance Audit (in a limited scale).

Financial Statement (FS) prepared by the project is the key document of FAPAD audit. The preparation and issuance of FS is the responsibility of project management. FAPAD certifies FS and has to make opinion on

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

FAPAD audit at present is mostly limited to financial and compliance audit, i.e. regularity audit. But the stakeholders, mainly the parliamentarians are interested to know whether the project objectives have been achieved or not. PAC in 1998 in its second report requested the OCAG to extend performance auditing to at least 1% of public sector organizations by the year 2000 (cited in Azad, 2007). By a decision of CAG, FAPAD is supposed to carry out 40% regularity audit, 40% issue based audit and 20% performance audit of all foreign aided projects (cited in Mowla, 2005).

The local audit reports of FAPAD are called the Audit Inspection Reports (AIRs). These reports are issued to the Principal Accounting Officer of the Ministry/Division, the project management or the Project Directors, the Development Partners, ERD. The final report approved by CAG and to be placed to the President to be laid to the Parliament, is known as the CAG's Audit Report.

#### **h. Achievements**

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

#### **i. Settlement of audit observations**

The total process of audit para settlement involves 90 days, starting from issuance of AIR to management till discussion at PAC sittings on Draft Paras incorporated in CAG's Audit Reports. A total of nine audit observations were settled in 2008 and 2009 by the OCAG. This settlement is subject to the final approval of the PAC. The following table shows the status of settlement of FAPAD audit observations along with the amount involved:

**Table 4.1: Status of observations settled through PAC recommendations**

<b>Year</b>	<b>Number of Observations Settled</b>	<b>Amount Involved (Taka)</b>
2009	3	2,24,52,827.83
2008	6	13,35,799.00

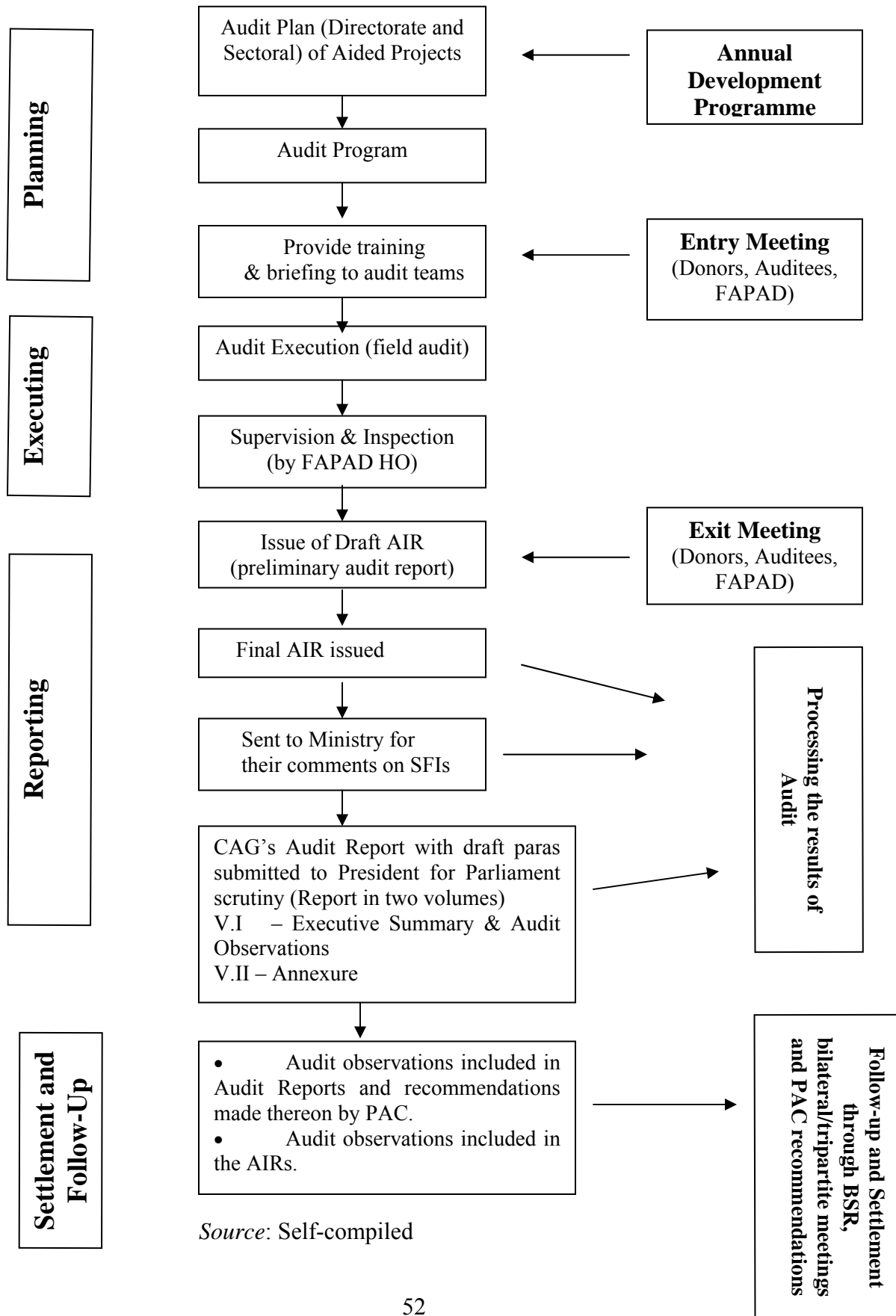
*Source: Annual Report of OCAG 2008; 2009*

The impact of audit cannot be assessed only from the limited standpoint of audit reports placed and discussed by the PAC (Datta, 2011). A considerable part of the audit efforts are reflected in the AIRs that are issued to the audited organizations and followed-up subsequently. A huge number of accumulated audit observations are being settled every year through Broadsheet Reply given by management, by holding regular bilateral and tripartite meetings with a resultant impact in terms of recovery, adjustment and regularization of public money.

**j. Steps of FAPAD audit**

The whole audit process undertaken by FAPAD involves three broad stages: Planning, Execution, and Reporting and settlement of audit observations. The output of the audit activity is the FAPAD local audit report that is the Audit Inspection Report, which is to be finally developed into the audit report of CAG. As stated earlier, FAPAD audit starts after the project accounts are closed at the end of a financial year, and the accounts are prepared in line with accepted accounting standards. The planning of the actual audit begins with the preliminary data collection by the auditors, at the completion of preparing the Financial Statement by the project management. The steps of FAPAD auditing are summarized in the following diagram (Figure 4.2).

**Figure 4.2 : Steps of FAPAD audit**



Source: Self-compiled



### **4.3 PEDP II, a case study**

The Second Primary Education Development Program (PEDP II) was officially launched on 8 September 2004. It is the first sector wide approach (SWAp) in the education sector in Bangladesh, financed jointly by the Government of Bangladesh (GoB) together with 11 development partners (DPs). The cost of PEDP II 2<sup>nd</sup> Revision has stood at Tk. 749,982.58 lakh (GoB: Tk. 246,905.27 lakh and Project Aid: Tk. 503,077.31 lakh). (Source: *DPP 2<sup>nd</sup> Revision*, October 2010: 5). The closing date of PEDP II was also extended to 30 June 2011.

The goal of PEDP II is to reduce poverty through universal primary education and sustainable socioeconomic development and equity in Bangladesh's society as envisaged in the Millennium Development Goals (MDGs). Its specific purpose is to provide quality primary education to all eligible children in Bangladesh through its four components which are all aimed at improving quality of primary education. The Directorate of Primary Education (DPE) is the executing agency (EA) under the overall guidance of implementing Ministry of Primary and Mass Education (MoPME).

#### **a. Audit activities under PEDP II**

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

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

Both FAPAD and external auditors audit the accounts, records and activities of the 4 implementing agencies – Department of Primary Education (DPE), Local Government Engineering Department (LGED), National Curriculum and Textbook Board (NCTB), and National Academy for Primary Education (NAPE). While FAPAD focuses on audit function, the external auditors were also involved in system development and capacity building for DPE, especially in the last two years (FY 2009-10 and 2010-11) of the program. As government statutory audit agency, FAPAD has its own mandate and

procedures to follow, and DPs have little role to influence the process or outcomes of the audit. For external auditors, there is flexibility and an opportunity for DPs to shape or guide the process through the scope of work and Terms of Reference.

#### **b. FAPAD audit**

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

#### **4.4 Summary**

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

## Chapter 5

### **Effectiveness of FAPAD Auditing**

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

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

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

incorporating the responses (in both absolute number of responses and in percentage), and charts are described in the following part of the chapter. Data collected from the survey has been presented chronologically with findings and necessary analysis, supported by case study. The findings are presented corresponding to the independent variables taken and indicators selected. For convenience, the responses are listed relating to the questions, followed by brief interpretation/analysis.

### **5.1 Findings through Data Analysis**

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

The work nature and standard of FAPAD, as stated, is unique in comparison to the other directorates under CAG. As FAPAD has to meet the deadlines of the Development Partners (DPs), the Audit Inspection Reports (AIRs) have to be made available to DPs as per the timeframe agreed between GoB and DPs in the loan agreement. There were two research questions that this study sought to address, one was related to the extent of FAPAD audit being effective in carrying out its responsibility of auditing foreign aided projects, and the second one was on the degree of auditee entities' responsiveness towards audit. With a view to addressing the above mentioned questions, the survey has been conducted on 45 respondents to collect primary data. Besides, content analysis was also completed as a source of secondary information. These were discussed in the research methodology section in the first chapter. Keeping in mind the research questions and objectives of the study, all these are done to justify the analytical framework of the study. The following part elaborates the findings and interpretation of the data collected during interview with the target groups of the research work. The analyses are arranged in sequence to the independent variables of the study.

### 5.1.1 Application of Auditing Standards and Ethics

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

#### a. Type of audit

The full scope of OCAG's mandate includes financial statement audits, regularity (or compliance) audits, and performance audits. The question regarding the type of audit usually undertaken by FAPAD was asked to audit personnel only. The respondents of this question were chosen particularly from mid-management level of SAI, i.e. Director and Deputy Director level. This is because officials of this level carry out the directives or strategies as laid down by OCAG and complied by the DGs of directorates under CAG. Here the number of respondents is 10.

**Table 5.1: Type of audit traditionally conducted by FAPAD** (n = 10, audit)

Type	Financial Audit and Compliance Audit	Performance Audit
Comment	10	0
%	100%	0

*Source: Survey Data*

In response to the type of audit undertaken by FAPAD, all the 10 respondents (100 percent) commented that generally both Financial Audit and Compliance/Regularity Audit are concurrently carried out by the directorate. The scope of audit, commented a senior SAI official, is limited to examining the regularity of financial transactions and compliance with rules. Though audit observations on performance related matter of the

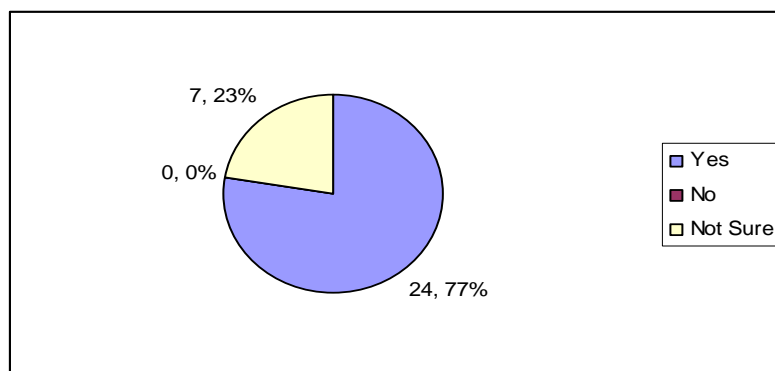
projects/program implementation were noticed occasionally in the FAPAD AIRs, but Value for Money (VFM) audit is not regularly conducted. Owing mostly to the deadline oriented nature of the directorate, Performance Audit (PA) is conducted in a very limited scale on sectoral basis. Since VFM or PA, remarked one of the leading authorities of the directorate, usually requires to be conducted at the end year, or one or two years subsequent to project/program completion in order to evaluate the outcome, or the intended objective, its scope is very limited in FAPAD. The directorate does not have “pick and choose” option or cannot divide the auditable units under A, B or C category like the other directorates. Besides, there is a separate directorate, called Performance Audit Directorate, established in 2005, that is responsible for conducting VFM audit.

**b. Effectiveness of VFM Audit**

Parliamentarians particularly, are not satisfied with only the audit findings focusing on what went wrong in the financial transactions of the project expenditure. They want to be ensured of the value for money, and want the remedial measures to be pointed by audit. The traditional Financial and Compliance Audits, commented both PAC Chairman of the 9<sup>th</sup> Parliament and a member, though necessary, are not enough for upholding transparency and accountability of donor assisted projects. A corresponding query to the above mentioned question was made to members of audit and auditee entities whether PA / VFM audit would yield better result in ensuring overall project accountability. A total of 31 respondents were asked about it.

**Figure 5.1: Effectiveness of Performance/VFM Audit in ensuring project accountability**

{n=31= Audit (20), Auditee (11)}



Source: Survey data

The general perception supports the assumption that PA audit would ensure the project accountability more effectively if conducted along with the traditional ones. Majority of respondents (77 percent) expressed in the affirmative that audit will be much more effective in ensuring overall project accountability if PA is conducted alongside traditional audits, i.e. financial and compliance audits. It is true that due to resource (time, budget, personnel etc.) constraints, PA is conducted in a very limited scale by FAPAD, viewed its top management. There is also a shortage of expertise to conduct VFM audit, since the majority of audit personnel involved in field audit are non-cadre members, and the bulk of them are class II and class III personnel. However there is sometimes special audit taking place in the directorate, which involves senior management members as team leaders.

According to a senior bureaucrat of commerce ministry, many projects in Bangladesh are donor driven, and not need based. As a result despite the fact that many projects are able to show economy and efficiency, they are hardly seen to yield the desired results. And herein lies the need for PA for the aided projects in Bangladesh to ensure accountability. He further remarked from his own experience, that auditee organizations are comfortable with PA, but the auditors are not capable of conducting PA at this stage, of so many projects. A senior PAC member agreed fully. Though PA is the demand of time, FAPAD auditors need the required potential and orientation for it, as it involves technical skill and expertise. Expressing dissatisfaction at the quality of FAPAD audit reports, he reiterated the need for training to make audit reports/observations of more substantive nature. Lack of quality makes audit ineffective, thus affecting its intent and efforts. For this the PAC member called for more involvement of cadre officers at field audit, especially of significant projects. According to SAI officials, due to shortage of cadre officers, as well as the deadline-oriented nature of FAPAD, it is usually not possible for the Deputy Directors (DDs), who are in charge of the audit teams, to conduct the field audit themselves. DDs can at best monitor/supervise through telephone the teams under him/her, or carry out physical inspections to ensure the quality of audit work to an acceptable standard. Their foremost responsibility is to meet the deadlines of donors and

ensure quality of AIRs after the teams submit the AIRs at the head office on completion of field audit. It may be inferred in this regard that there exists some weakness on the part of FAPAD, ultimately OACG, for not attaining the competence or quality to effectively ensure accountability of the auditee.

**c. Adequacy of FAPAD audit resource**

The main resource of audit is the available competent workforce and time for auditing and reporting. FAPAD, reported Dayal (2000), which alone has the responsibility to audit 650-700 projects per year, is facing problems, like other directorates, as the number of available audit staff is seriously inadequate to do justice to the volume of audits. The auditable units of FAPAD for the financial year 2010-11 is 489, and the number of audit teams are 36, comprising of around 80 personnel. A World Bank Country Study (1996) reported that one of the major reasons why audit office does not perform satisfactorily is insufficient and weak staff skills. Respondents from the two main strata (audit and auditee) were asked whether they think the existing resource of FAPAD is sufficient in auditing donor-funded projects' expenditure.

**Table 5.2: Response to adequacy of FAPAD resource in auditing projects' expenditure** {n=31, Audit (20), Auditee (11)}

Adequacy of human resource	Audit Officials		Executives of auditee bodies		Total	
	No. of Respondents	%	No. of Respondents	%	No. of Respondents	%
<b>1 (Not Sufficient)</b>	1	5%	0	0	1	3.225 %
<b>2 (Partially Sufficient)</b>	5	25%	0	0	5	16.12 %
<b>3(Moderate)</b>	9	45%	5	45.45 %	14	<b>45.16 %</b>



<b>4 (Fairly Sufficient)</b>	5	25%	5	45.45 %	10	32.25 %
<b>5 (Fully Sufficient)</b>	0	0	1	9.09%	1	3.225 %
<b>Total</b>	<b>20</b>	<b>100%</b>	<b>11</b>	<b>100%</b>	<b>31</b>	<b>100%</b>

*Source: Survey Data*

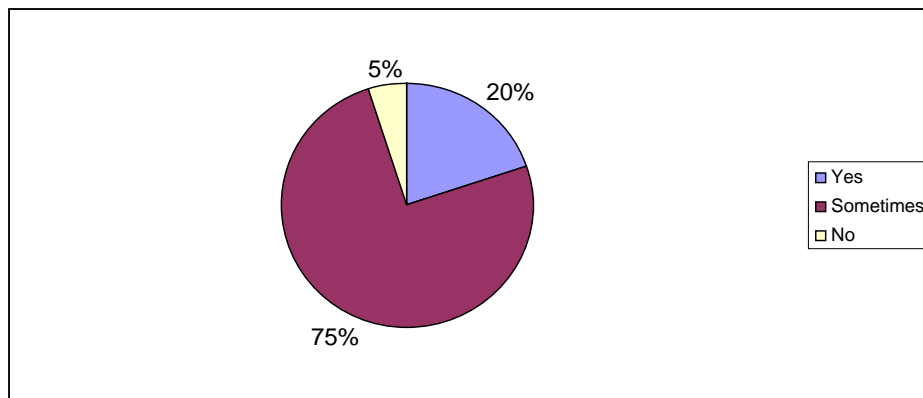
Majority i.e. 45 percent of respondents (out of total 31) saw FAPAD resource being moderately sufficient, and 32 percent believed it was fairly sufficient or more than moderate. Only 3 percent opined it was fully sufficient. A higher FAPAD authority commented resource as ‘not sufficient’. FAPAD is working with a little more than half of the sanctioned resource, and the auditable units are 400 plus. It was found that against a sanctioned post of 300 personnel the existing human resource of FAPAD is 179 (OCAG *Annual Report, 2009*). Moreover, time allocated for the audit of the different projects also prove very less to reflect an in-depth picture of the internal control system of the project management, according to some team leaders of audit. The problem, observed an ex-CAG, is two-fold. Firstly, quantity could not necessarily ensure quality. The bulk of the audit workforce is clerical personnel having no expert auditing skill. Secondly, there is scarcity of professionally capable personnel. The findings of the survey put up with the assumption that resources have an impact on audit effectiveness. It may be deduced from this, given the work load in the directorate, there is a general requirement for more audit resource, particularly quality human resource, to produce better audit result.

It is observed that the modal value for affirmative responses lie in the class of ‘moderate’. But accepting the weightage towards the possession of ‘fairly sufficient’ leads to the support towards acceptable/ satisfactory level of manpower availability in the audit sector.

#### d. Importance of audit operational plan

Individual audit work plan prepared by the concerned audit team is an important audit strategy that helps the team to perform audit in an efficient and timely manner, making the optimum use of audit resources. The lack of planning and the limited number of staff and time allotted for the large volume of audits result in superficial examination and more reliance on management provided information (Dayal, 2000). According to a senior audit official, if you do not plan properly, you plan for your failure. In a response whether audit work plan is prepared by every team, a mixed feedback was received. The following chart and responses during interviews, present the findings.

**Figure 5.2: Regularity of individual audit plan** (n = 20, audit)



*Source:* Survey Data

Only the audit related people were asked of this matter, as this is concerned with an audit strategy. According to FAPAD auditing system, audit planning is done once at the directorate level, i.e. there is an Annual Audit Plan prepared by the directorate, based on the list of projects included in ADP and as per requirements of DPs. These auditable units are quite satisfactorily complied with within the timeframe of DPs, as well as within a given year. However, individual audit operational plan is, in most cases, not developed before field audit, by the teams. Among 20 respondents, majority (75 percent or 15) agreed that audit plan is rarely, or only sometimes prepared prior to actual audit, and is not a regular practice. Most of the team leaders (AAOs) expressed that it is not made mandatory for teams to develop individual audit plan.

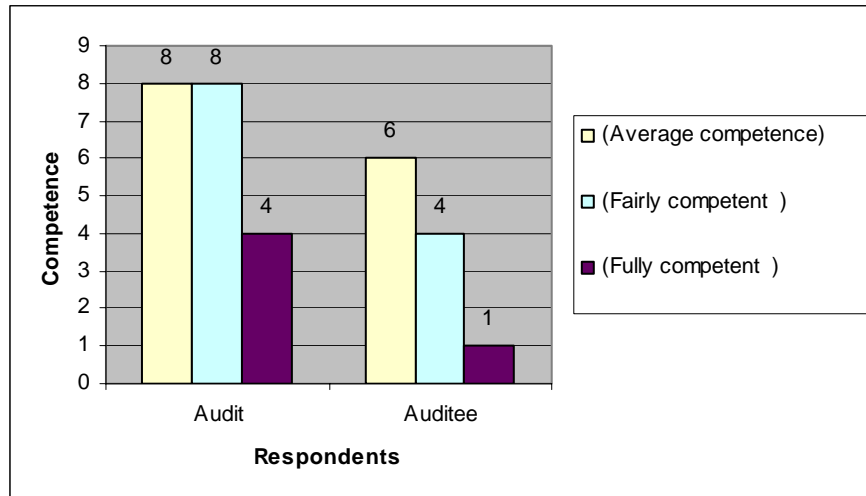
Among the reasons for it, 20 percent of total respondents out of 16 said ‘Teams get insufficient time for developing plan’, 20 percent said that ‘Plans are not always made compulsory or monitored afterwards’. 18 percent said documents and files are not up-to-date to provide adequate information for audit plan, while another 18 percent put the reasons on all the statements given. According to some representatives from audit management level, it is only audit program that is prepared, not audit plan, or prepared rarely. Lack of knowledge regarding necessity of operational plan is also a reason, viewed another mid-level audit manager. It gives the impression here from the system of FAPAD, that management level has a role in this regard. Lack of active involvement by audit managers in the audit process, and making audit plan not mandatory or supervising afterwards, along with audit teams getting insufficient time, are in most cases the reasons why audit plans are not prepared.

**e. Competence and skill of FAPAD human resource**

Skill and expertise of an office are its most valuable assets. This is more significant in case of FAPAD, as the directorate has to furnish audit opinions on financial statements prepared by management that requires sound understanding of the system. Moreover, as all the project documents (DPP, DCA etc) are prepared in English, and the AIRs are also prepared and issued in English, language ability is of vital importance. So both technical skill and language proficiency are necessary. *Country Financial Accountability Assessment* conducted jointly by the UNDP and the World Bank on SAI Bangladesh in 2000, observes that lack of adequate staff and quality control has limited the effectiveness of audit reporting (cited in OCAG, 2000:6). The most serious shortcoming of the OCAG is the lack of suitably qualified, experienced and trained staff (Dayal, 2000). A total of 31 respondents were asked about competence of FAPAD audit personnel. The chart below shows the response.

**Figure 5.3: Perception about competence of FAPAD**

**workforce** {n=31 (audit=21,auditee=11)}



Source: Survey Data

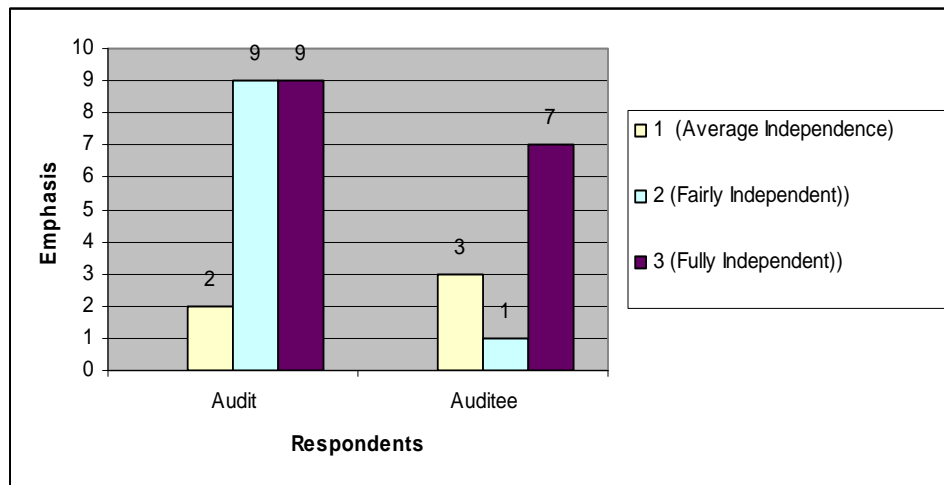
While ranking the extent of competence and skill of FAPAD workforce in auditing donor-funded project expenditure (where the scale was used from 1 to 5, 1 for lowest, 5 for highest), majority (little less than 50 percent) respondents among 31 (8/20 from audit, and 6/11 from auditee), gave opinion that competence or skill of FAPAD resource is of moderate/average standard. Almost 39 percent (8/20 from audit and 4/11 from auditee) are quite satisfied with the standard, as more than average. Thus the score is mostly between average and more than average about the skill of auditors. 16 percent gave a full score, with no score given for the scale 1 and 2. FAPAD audit demands expert skill and proficiency in English, pointed out an ex-Auditor. Even if quantity is increased, there is dearth of professionally skilled manpower in FAPAD. All the findings indicate that resource (both in quantity and quality) needs to be increased to meet audit objective, and to meet stakeholders' expectation from FAPAD reports. This was equally emphasised in the interviews taken of senior representatives of projects, donors, member of PAC and SAI. A PAC member observed that posting in FAPAD should be done on a very selective basis, with an eye to the academic background and professional skill of auditors, both at managerial and staff level. The objective of FAPAD audit would be compromised otherwise, since quality audit cannot be expected of incompetent auditors.

**f. Independence of auditors in discharging duties**

Auditor’s independence is the basic foundation for the credibility of audit. The audit function should be independent from those it is required to audit. Organizational independence as well as auditor’s individual independence allows the audit function to conduct audit work without interference by the entity under audit. Consequently, users can rely on the objectivity and the accuracy of the auditor’s result and reports. The Constitution of Bangladesh has given enough independence in terms of mandate. In the present research, independence is related to the functional side, which is independence of auditors in discharging their duties. Question was asked on how much independently FAPAD can carry out its duties, on behalf of SAI Bangladesh. The following chart depicts the responses from both the audit side and auditees regarding the matter.

**Figure 5.4: Extent of independence of FAPAD auditors**

{n=31 (audit=21, auditee=11)}



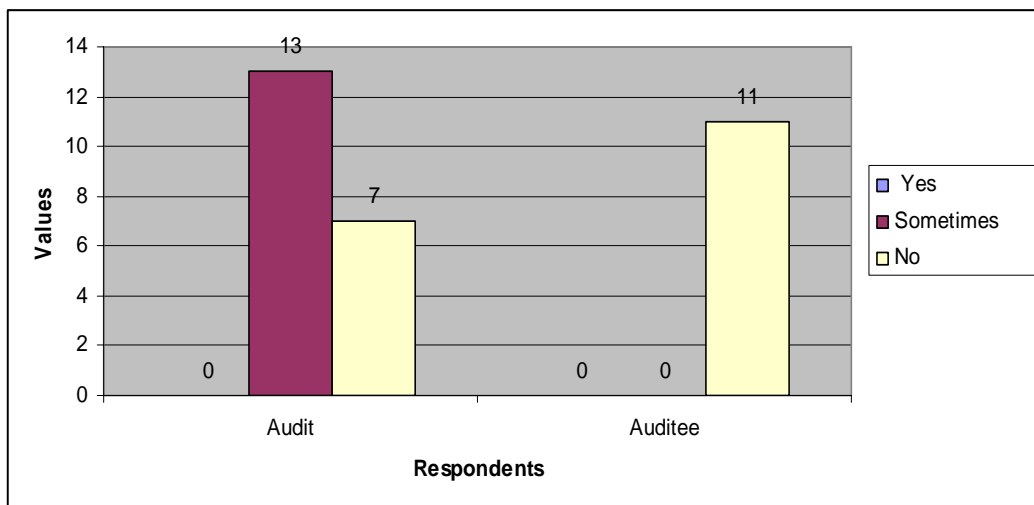
Source: Survey Data

It is taken to be a very significant indicator that FAPAD auditors should remain free from any kind of pressure or influence from the executives, audited entity and other outside interest groups in all matters relating to the audit work to make audit effective. Majority i.e. 26 out of 31 respondents or almost 84 percent observed that auditors can work more or less independently during audit, and ranked it between 4 and 5. However, according to a significant observation by an ex- Auditor General, “freedom of audit does not necessarily depend on mandate, intent is very important”. In fact there is no official

hindrance or threat to audit independently as per the mandate of the Constitution, reflected a Deputy Secretary, however, there are quite a few other factors that unofficially hinder the independence. One of them is the poor amount of daily allowances paid to the auditors. Consequently, the auditors most often have to depend on the auditees for food and lodging.

In a parallel question, respondents (31) from audit and auditee were asked: *Have you ever been reported or know of any incident where FAPAD audit teams faced any sort of compulsion/pressure while auditing that hampered their independence?* The following chart depicts the response.

**Figure 5.5: Response regarding awareness of instances whereby independence of FAPAD auditors got affected** {n=31(audit=21, auditee=11)}



Source: Survey Data

Interestingly, all the auditees (11 or 100 percent) responded in the negative, i.e. they had not heard/been reported of any incident whereby the auditors' mandate to work independently, under any influence at all, was hampered/affected during audit activity. It may be implicit from this response that management/auditees are defensive of their position and this extreme value obtained seems a bit subjective. From the on-job experience the researcher also cannot confirm that there was no attempt observed to influence auditors while conducting audit. Whereas, among the total (20) audit

respondents, 13 or 65 percent opted for ‘Sometimes’. This means they are aware or reported of instances whereby the auditors’ independence was affected and impaired. Their response about the context/nature of situations that had an impact on the independence of an auditor’s activity, are shown in the following table:

**Table 5.3: Nature of influence on audit independence** (n = 13, Audit)

<b>Nature of Influence on audit independence</b>	<b>Response</b>	<b>%</b>
Political pressure/interference	0	0
Pressure from line ministry	2	15.38
Influence from project management	8	<b>61.53</b>
Influence from development partners	2	15.38
Physical threat/ situational pressure	1	7.69

*Source: Survey Data*

The tabular data above indicates highly the prevalence of project management exerting influence that can have a serious and direct impact on the expected performance during field audit. The funds are used by the project management. If they have the chance of exercising influence, the independence of OCAG is hampered in the operational level executed by the FAPAD auditors.

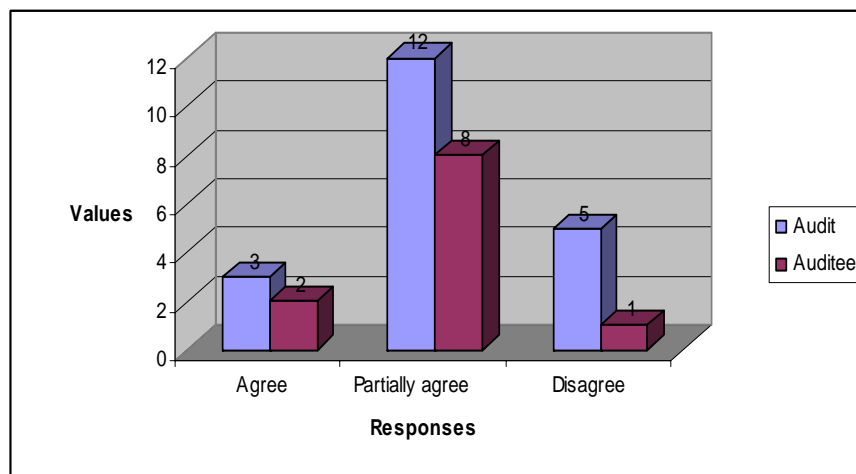
Other comments : Interestingly, some respondents (15 percent) from audit teams remarked that there were instances where they sometimes faced pressure from some departmental senior officers from audit, as well as from the accounts side, including some on lien/deputation in projects/ministry, that try to “exert influence on auditors’ freedom”. This impairs their independence to some extent, that impacts on audit quality. It is to be noted here that as the sample size of the study is small and comparatively the source database of this research is of qualitative type, hence this assertion from the respondents require some attention. The example of response may be three or 15 percent, but certainly the information obtained seems detrimental to the framework of accountability and internal control.

### g. Code of Ethics for Auditors

Principles and moral standards are very vital characteristics in auditors engaged in the audit activity. These are essential in attaining the audit objective of ensuring accountability of projects. SAI acts as a watchdog over financial integrity and the credibility of reported information. If the auditor's integrity is compromised in terms of corruption, the independence of auditor is impaired and the role of watchdog is undermined and audit report to Parliament will no longer serve the purposes for which budget is approved. There is no denying the fact that management level has to rely on personal morality and firmness of the officials and staff for performance.

It is sometimes alleged that audit teams cannot always adhere to the values of code of ethics for auditors, like integrity and objectivity, while performing their duties. Comments/response regarding the issue, along with indicating the party responsible for this frame of mind, were asked of the respondents. The chart below presents the response to the indicator.

**Figure 5.6: Non-adherence to ethical values by auditors** {n=31=Audit(20),Auditee (11)}



Source: Survey Data

Only 19 percent (6/31) disagreed to the observation that auditors “cannot adhere to ethical standards” for them, as laid down in Code of Ethics for Auditors. This portion is mostly from audit. The rest 25 or 81 percent agreed/partially agreed to the truthfulness of the allegation. 25 respondents out of total 31 opted for ‘auditee’ solely or ‘both’ – auditor and auditee, who may be held responsible for auditors’ failing to abide by the code of ethics for government auditors while carrying out audit of donor aided projects’



expenditure. And among this 81 percent i.e. 25 respondents, 72 percent (18/25) laid the blame on both auditor-auditee, who are responsible for this sort of mindset. It was observed that, the 8 respondents from audit side who said ‘Both’ are responsible, are all Director and Deputy Director level officers, i.e. cadre officers. And the 7 respondents who said ‘Auditee organizations’ are the singular cause for the auditors’ failure to adhere to ethics in auditing, are all AAOs – non-gazetted Class I officers. They are the major portion involved in field audit. Interestingly, none from auditee side opted for only the auditors/auditees who may be taken into account for auditors’ failing to maintain ethical standards. Rather, the 10 respondents who agreed/partially agreed that it is true that auditors cannot always remain ethical, commented that ‘Both’ (Auditor and Auditee organization) bear responsibility for it.

Findings show that majority of respondents held both auditors and auditees at fault, but since auditors are the holding the positions of trust, they are to be blamed the most, commented an ADB senior member. Appendix C (Table C1 and C2) represent the percentage, as calculated from response provided by the respondents who blamed ‘both’ the sides (Auditor and Auditee organization) for auditors’ failing to abide by ethical values. In both cases the modal value indicates that the cause of non-adherence to code of ethics significantly indicates towards the auditors bearing the major share of the blame. The highest percentage from audit side was 80 (i.e. Auditor 80%, and Auditee 20% responsible), while auditees gave 60 percent as highest to auditors.

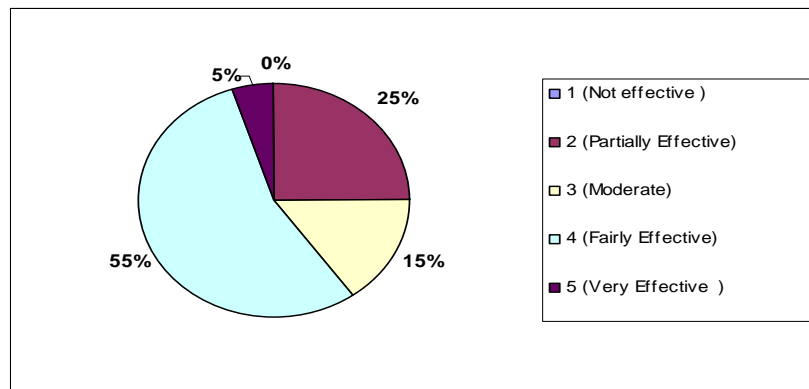
#### **h. Effectiveness of quality control/ assurance of audit and reporting**

There are no benchmarks for quality in the audit process, observed Dayal (2000), and further stated that a relatively small number of generalist audit managers, who themselves lack sufficient audit training and experience, are expected to provide direction, guidance and supervision to a huge number of largely unqualified and untrained auditors. Quality control and quality assurance mechanisms of auditing and reporting that are in practice in FAPAD, are supposed to prove effective as means of better audit output. These control tools are also laid down in the FAPAD Manual. These are also in line with the directives set by OCAg for the audit directorates, for quality auditing. The opinions of the

respondents are reflected in the following chart. Respondents from audit (n=20) were asked to comment on it, with a scale ranging from 1 to 5 (1 for lowest, 5 for highest).

**Figure 5.7: Effectiveness of quality control/ assurance mechanisms of audit**

(n = 20, Audit)



Source: Survey Data

Majority gave much importance to the processes to ensure quality audit output. These are conducive to better auditing and reporting, they felt. The query received a mixed reaction. 55 percent said it is quite effective, i.e. the system is well in practice and satisfactory. 15 percent ranked it as moderate, 25 percent as below moderate or partially effective. Only 5 percent ranked it as very effective. This however, was less felt in the views given by members of PAC and senior project management, who felt the quality/standard of audit needs much improvement. Auditees were not directly asked to comment on the above indicator, as they may not be aware of this audit system. However, their response to the quality of audit and reporting are given in the later section of the chapter.

### **5.1.2 Responsiveness of Auditees (project management and line ministries)**

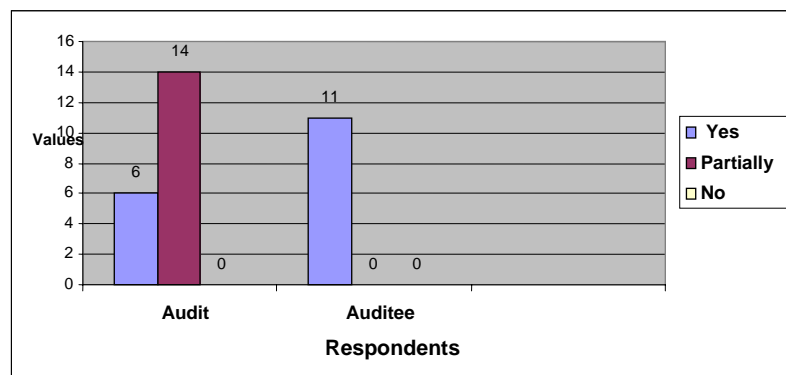
To uphold the audit objective in making its oversight function meaningful, the cooperation of the audited entities and the line ministries is an indispensable criterion. These actors, in fact, are the subject of audit oversight functions, and important partner in the chain of accountability relationship. The findings of audit would have little effectiveness if the auditees are not serious about the audit activities and objectives to

improve the financial management of the projects' performance. Findings on the indicators of this variable are summarized as follows.

**a. Audit as an aid to management**

Audit is said to be an aid to management, its objective to promote accountability and transparency for improved public financial management (PFM). Question was incorporated in this regard to find out from both auditor and auditees how much they agreed to this, as reflected in the relationship between auditor-auditee in the overall audit functions. In fact, auditor and auditee require a sound relationship between themselves, one of good rapport and devoid of prejudices. This should be based on mutual understanding and respect of each others' responsibilities. Auditors undertake audits and prepare programs and methodology unilaterally, were the observations of a senior member from donor agencies. An agreed approach is missing. On the other hand, the auditees are also indifferent to audit matters and do not give much attention to audits while being conducted. 31 respondents were surveyed to get their views on audit as an aid to management, as reflected in their reciprocal relationship.

**Figure 5.8: FAPAD audit as an aid to management {n=31=Audit(20), Auditee (11)}**



Source: Survey Data

14 respondents from audit (out of 20), which is 70 percent of the total from audit side, replied that the attitude or mindset of accepting audit as aid to management is reflected in the relationship of auditor-auditee in the overall audit functions, but only partially. And these 14 blamed it not on auditors, but either on 'auditees' solely, or 'both' - auditors and auditees combined. In the words of an ex-CAG, audit mostly fails to render "substantive management improvement inferences", whereas the management (auditee) similarly is

“non-respectful of whatever management improvement opinion is offered in the audit report”. Partially agreeing to audit acting as aid to management, he is of the opinion that both are equally responsible for FAPAD audit not being able to act fully as aid to management. But interestingly, all 11 (100 percent) of the auditees agreed (‘Yes’) that there is no doubt that auditor-auditee share a good working relationship and audit is viewed positively as aid to management, by auditee. Thus according to them there is no conflict of interest arising out of audit activities and there is a smooth environment prevailing in the system. This *extreme value* seems a one-sided view, which may either be biased or maybe the auditees who were surveyed refrained from giving the real picture. Senior management from audited organizations and representatives from ministry however, gave an otherwise opinion.

The Table below shows the response of audit side (i.e. of the 14 respondents who partially agreed that audit acts as aid to management), whereby it is seen how much auditor and auditee are to blame respectively that affects (negatively) in regarding audit as an aid to management.

**Table 5.4: Response showing extent to which auditor/auditee is responsible for partially regarding audit as aid to management (n = 14, Audit)**

Type	Auditor	Auditee organization	Both
Comment	0	4	10
%	0%	28.57%	71.42%

*Source:* Survey Data

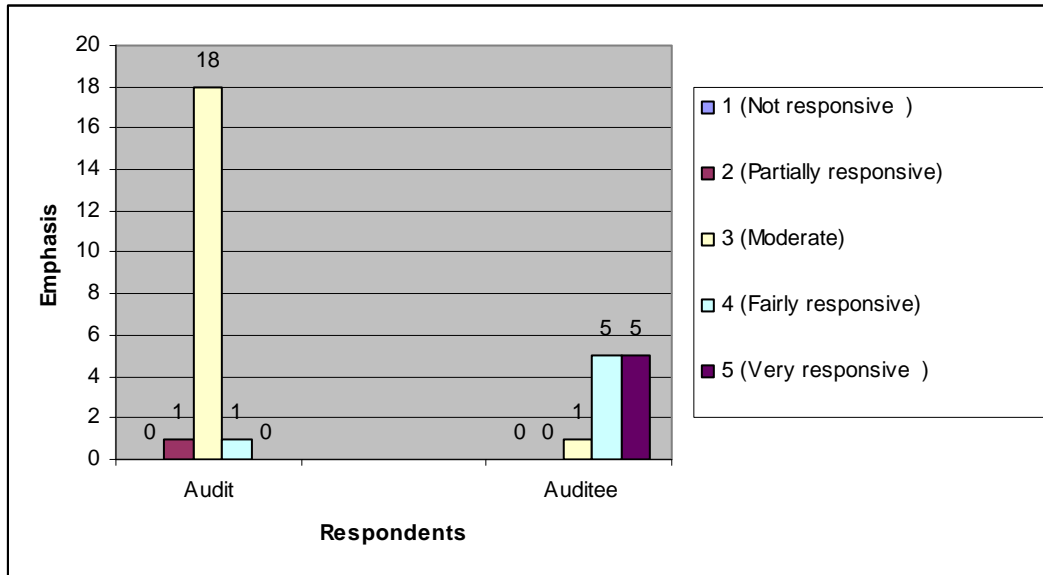
The 4 respondents (among 14 from audit) who blamed it on ‘Auditee’ solely are AAOs, and the 10 respondents who said ‘Both’ are Directors/ DDs and AAOs. It may be noted that none from cadre service viewed that only auditee is to blame for it, rather both are party to it. To show a follow up query, Appendix D (Table D3) depicts the percentage regarding the extent to which audit side regard both auditor and auditee responsible for a lack of positive mindset towards audit as aid to management.

**b. Responsiveness of the project management**

Responsiveness of the project management in giving/taking timely and proper reply/action as per audit recommendations against observations raised is an important aspect rendering effective audit. The FAPAD reports by themselves, even if they are of substantial nature, will not be meaningful and prove effective if the auditees are not responsive to audit findings and recommendations, to bring improvement to management. Review of FAPAD AIRs showed that often the management’s approach to the audit observations raised, are their inclination to giving answers (spot replies) “later on after verification of relevant records”. This not only hinders an effective audit result, but results in an increase in audit observations.

**Figure 5.9: Extent of responsiveness of the project management towards audit**

{n=31=Audit(20), Auditee (11)}



Source: Survey Data

While perception of major portion, i.e. 90 percent of audit people (18/20) expressed average/moderate satisfaction about the responsiveness of the project management in giving/ taking timely and proper reply/ action as per audit recommendations against observations raised, majority. i.e. almost 91 percent of auditee (10/11) ranked it between 4 and 5 in the scale, that is, fairly high and very satisfactory. Here the response again seems to be a little prejudiced on the part of auditees. Majority of senior audit officials

viewed as average the responsiveness of auditees. Inability of auditee (project management) to prepare accurate and reliable accounts and financial statements deter meaningful audit, remarked an ex-CAG. Audit is also not sufficiently skilled to decipher credibly the financial transactions and financial statements. This affects the auditees' responsiveness/acceptability of audit in some cases.

### **c. Seriousness of the line ministries towards audit**

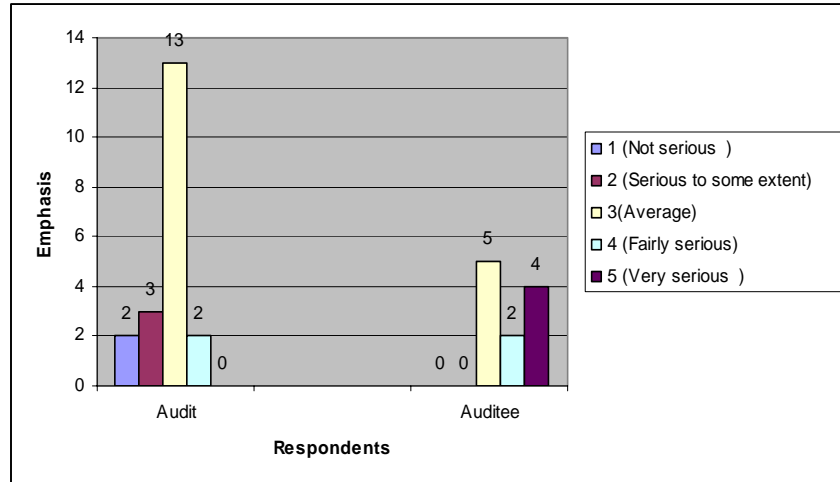
In a recent view exchange meeting with the media, the present CAG said that though it is the duty of Principal Accounting Officers to ensure financial discipline in their respective organization, they do not do it let alone rectifying those anomalies and misappropriation reported by the CAG (*The Daily Star*, May 2011). *How much serious are the line ministries when responding to audit observations of serious nature - Advanced Paras\* (APs) or Draft Paras\* (DPs) - concerning projects of their ministries?* – This was included in the list of questions to find out the mindset of line ministries towards audit. The following figure focuses on the response from both the sides.

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\* Advanced Paras are audit observations of serious nature, which are also called Serious Financial Irregularities (SFIs). These are transmitted to Secretaries of ministries/divisions for their replies. If auditees fail to give satisfactory answers to APs they are incorporated in CAG's audit reports as Draft Paras to be placed to the Parliament/PAC, for scrutiny.

### **Figure 5.10: Extent of seriousness of the line ministries towards audit**

{n=31=Audit(20), Auditee (11)}



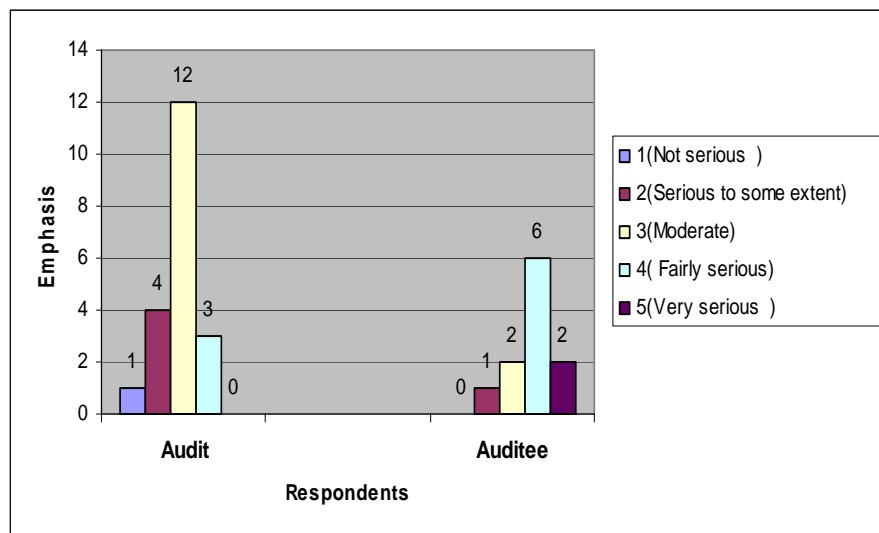
Source : Survey Data

Again, majority of audit respondents – 65 percent (13/20 from audit) viewed ministries as harbouring a moderate attitude or seriousness towards audit, while more than 50 percent of auditees (6/11) saw it as prevailing a quite satisfactory attitude of line ministries towards audit. While taking interview of a representative of DP, it was found that line ministry takes quite a long time to sign the response or Broadsheet Reply (BSR) given by project management and takes audit by and large, casually. A senior member of project management agreed to this. Audit will have a narrow impact as means of ensuring accountability of the use of state’s exchequer, observed a director of an audit directorate, if ministry does not own the results/consequences of projects’ expenditure taking place in the ministry. According to media reports, as the PAOs, in most cases do not ensure accountability in expending the taxpayers’ money, the country’s financial anomalies and corruption keep rising consistently (*The Daily Star*, May 2011). DG, FAPAD agreed that auditees are reluctant to respond as per audit requirement. Official letters or DO letters are issued against PAOs, but if they do not respond timely and accurately, audit cannot enforce them. However he also acknowledged of an improvement in the situation. Ministries are at present much proactive, thanks to a very active PAC, he observed.

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

Response was sought about consciousness of the auditees (project management and ministries) to check/avoid recurrence of similar irregularity - detected through auditing - in future. If same type of error/irregularity takes place in the following year in the financial transactions of the same project, despite previous audit objection in similar area, will be indicative of the minimum effectiveness of audit as means of improvement of PFM. From self experience, the researcher has often witnessed that similar errors continue in the financial transactions of the project funds. The following chart focuses on the response from both the sides.

**Figure 5.11: Extent of seriousness of the auditees towards non-recurrence of similar audit objections** {n=31=Audit(20), Auditee (11)}



Source: Survey Data

Maximum, i.e. 12 respondents or 60 percent from audit side ranked auditees as moderately conscious to check recurrence of similar audit objections. Very few (3 or 15 percent) from audit said auditees are even ‘Fairly serious’. On the other hand, almost 73 percent (8/11) from auditee saw management/ministry being quite or very serious about non-recurrence of same nature of error/lapse in the management of financial resources, as detected by audit. In a relating query on how much effective audit will be if auditees give proper and regular response to settle audit objections based on audit recommendations



(Appendix D, Table D4), almost all the respondents (90 percent) acknowledged the significance of it for an improved PFM. In practice however, it was found that where auditors give a Qualified Opinion\* on FS of projects' accounts, it often goes unheeded by project management, even DPs, whereas the main concern is to get settled/reduce the number of observations. This narrows down the effectiveness of the unique nature of financial statement audit conducted by FAPAD.

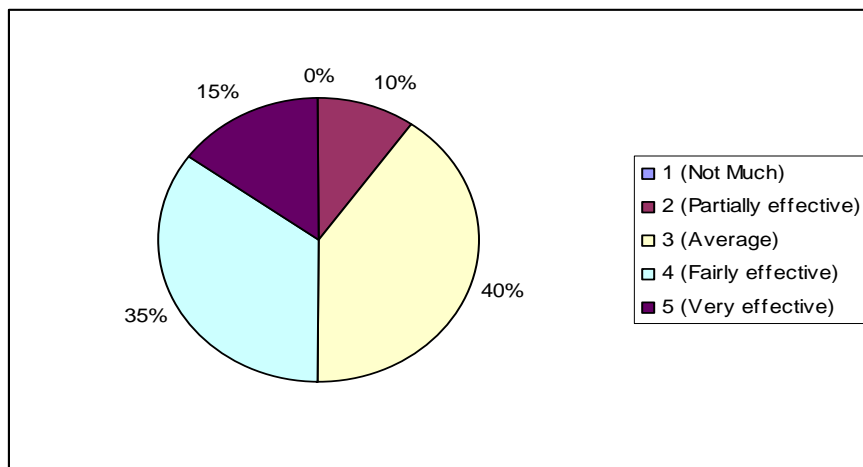
### **5.1.3 Role of Development Partners (DPs) in facilitating effective auditing**

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

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\*Qualified Opinion – In this situation where the auditor gives a Qualified Opinion on the financial statement (FS), the auditor disagrees with or is uncertain about one or more items in the FS. The auditor's report in that case, clearly states and explains the matters of disagreement, giving rise to the qualified opinion. Here, the auditor is not satisfied in all material respects that the FS have provide adequate disclosure, or present fairly the financial position of all material matters. The management is required to rectify the FS in such case so that project accounts is fairly reflected in project FS.

**Figure 5.12: Response showing audit quality assured through meetings and trainings arranged by DPs** {n=31 ; Audit(20), Auditee (11)}



Source: Survey Data

74 percent of respondents, involved in the field audit believed that FAPAD audit will be more effective to uphold project accountability if more training programmes are arranged by DPs for capacity building of both auditors and auditees. More than 50 percent of audit personnel (among 20 respondents) and almost 90 percent (among 11 respondents) of auditees commented that meetings, trainings facilitated/funded by DPs would render a better understanding of the requirement of audit (on the part of auditee), as well as that of the DPs (on the part of both auditors/auditees). Especially, entry and exit meetings, remarked an ADB representative, are very effective for quality auditing as these meetings provide opportunity not only to understand each others' viewpoints, promote better understanding and cooperation, but also enrich knowledge on audit methodology and subjects of audits. Some AAOs observed that, since transfer posting is an ongoing phenomena in audit department, the newly posted audit workforce of both Class I and II level, need training and orientation. This has a positive impact on auditing in field level.

It was found during interview that mechanisms are in place whereby DPs monitor closely that project financial management is improved, based on audit recommendations. The table below is an indication that role of audit will be enhanced if DPs monitor project

management, so that its financial management is improved based on action taken, as per audit recommendations.

**Table 5.5: Audit effectiveness through monitoring of management by DPs**

(n=31, audit- 20, auditee-11)}

Effectiveness of audit through monitoring of management by DPs	1 (Not much effective)	2 (Partially effective)	3 (Moderately effective)	4 (Fairly effective)	5 (Very effective)
<b>Audit</b>	0	1	6	5 (25%)	8 (40%)
<b>Auditee</b>	0	1	2	6 (54%)	2 (29%)
<b>%</b>	0	6.45%	25.80%	<b>35.48%</b>	32.25%

Source: Survey Data

In fact, monitoring by DPs may be said to be one of the main factors why auditees are much active nowadays to respond timely to audit recommendations. 65 percent of audit workforce and 83 percent of auditees gave high score that role of audit will be enhanced if DPs monitor project management regularly, so that its financial management is improved based on action taken, as per audit recommendation. Responding to another query on how much accurately the AIRs can reflect on areas of interest to DPs, pertaining to the projects they fund, (i.e. project specific financial statement; internal control; performance measurement/implementation), 30 percent among audit (total 10) responded in the positive and rest 70 percent responded as partially. When a representative from DPs was asked on it, he commented that, AIRs report on FS and project implementation quite well. However, the treatment of internal control is found insufficient.

#### **5.1.4 Supporting role of Public Accounts Committee (PAC) in rendering effective FAPAD audit**

PAC give recommendations based on audit findings, but very few are implemented (cited in Azad, 2007). Government departments are not also serious to implement PAC recommendations. Audit effectiveness gets narrow or is affected in such case.

Responding to the query on how much they agreed that PAC is assisting in audit effectiveness by its timely scrutiny of audit reports/objections, majority however responded in the affirmative. The table below shows the respondents' views on how much they agreed that PAC is monitoring or following up of its recommendations by auditees.

**Table 5.6: Response regarding PAC follow-up of its recommendations**

(n=31, audit- 20, auditee-11)}

<b>Extent of agreeability about PAC role in following up of its recommendations</b>	<b>1 (Disagree)</b>	<b>2 (Partially agree)</b>	<b>3 (Moderately agree)</b>	<b>4 (Fairly agree)</b>	<b>5 (Fully agree)</b>
<b>Audit</b>	0	1	14 (70%)	2	3
<b>Auditee</b>	0	2	3 (27%)	5 (45%)	1
<b>%</b>		9.67 %	<b>54.83%</b>	22.58%	12.9%

*Source: Survey Data*

On the response whether PAC is playing its role satisfactorily by reviewing /monitoring the follow-up reports on auditees' timely implementation of PAC recommendations, majority (70 percent) of audit personnel among 20, moderately agreed to it. Almost 72 percent of auditee responded between 'moderately' and 'fairly' agreeing to PAC's role in following up of its recommendations. If the total number of 31 respondents are taken, majority (54.83 percent) thinks that the role of PAC in monitoring the follow-up or reviewing the follow-up reports on auditees' timely implementation of PAC recommendations, is average or moderately satisfactory.

Chairman, Public Accounts Committee made some very noteworthy remarks. Yes, there are some barriers of PAC, he agreed, like lack of permanent secretariat, and inadequate personnel, so workings of PAC (monitoring, follow-up) get affected. It is also true ministry is less serious in implementation of PAC recommendations. However the fact that PAOs have to attend and answer in PAC sittings is in itself an effective message of accountability. Audit, he commented, is a part of good governance. But audit needs to be

more active and strong to report on the follow up of PAC recommendations. Audit has to take initiatives to get the work done by PAC, to make its efforts effective. It has the constitutional authority to conduct audit on the public sector, so audit should exercise that authority with command and respect. The last word in a democracy, he said, is to work for the rights and interest of the people- the ultimate source of power.

When another member of PAC was interviewed, he made a very positive response about role of PAC of the current (9<sup>th</sup>) Parliament. Especially after the present Chairman of the Committee took over in February 2010, PAC has been conducting regular sittings on audit reports. That they are summoning the PAOs of line ministries, regarding audit objections pertaining to their ministries, is enough of a deterrent effect of audit. But what he mostly highlighted was that auditors need much more trainings and orientation, for capacity building to make audit more effective. DG FAPAD made a similar remark that present PAC is a very active one. More sittings had taken place under the present set-up, than perhaps the total PAC meetings combined during the previous governments. For audit to be effective, both quality and action are necessary. One should be ensured by audit, another by PAC. Statistics show that since independence only 10-15 percent of the PAC recommendations were complied with. The reason for the wholesale non-compliance is that PAC does not monitor or follow up its recommendations in most cases, commented an ex-DG, FAPAD. According to a Deputy Secretary, CAG (FAPAD) is simply a watchdog. It has no teeth to bite with. It is the Parliament/PAC which is the teeth for CAG. Hence if Parliament/PAC is not functional, audit will not be effective. An ex-CAG emphasized much on political commitment towards establishing accountability in the public sector. And only then will audit be able to play its oversight function over public expenditure more effectively.

## **5.2 Analysis of the Case Study**

This section is based on practical findings of a case of study. The findings highlight the perception of stakeholders of FAPAD audit related to matters of audit findings, follow-up actions and current status related to PEDP II.

## Case Study

### Second Primary Education Development Program (PEDP II)

So far, FAPAD carried out 7 rounds of annual financial audit of PEDP II – from FY 2003-04 to FY 2009-10. FAPAD raised a total of 129 audit observations in these final AIRs. These observations were related to accounting, financial management, internal controls and procurement issues, at both the central and field level cost centers. Consequently, concerned agencies have taken actions to address the issues and systemic weaknesses including punitive actions against contractors, suppliers, and personnel who were involved in misprocurement. DPs have also deducted their share of contribution for the proven cases of irregularities in procurement. To cite an example, in FY 2007-08, an audit observation of SFI nature (Para No. 01) was raised, related to excess payment made to contractor for 6 packages worth \$492,531. The payment had been made in excess to the actual physical progress of the civil works at various stages. Current status-LGED is pursuing the case with the contractor to return the excess amount totaling \$131, 947. The concerned Upazila Engineer (UE) was already dismissed from job. LGED also terminated the contract. (Source: *Governance Report*, PLU, PEDP II, April 2010).

Some of the causes of irregularly and loss, as identified from FAPAD AIR are: Non compliance of – Government financial rules & regulations, Conditions of contracts/work order, PPR-2003 and 2008. Inefficient fund management, Weak monitoring and supervision by PD office, Equipment and vehicles management was not proper, Books of Accounts were not maintained properly. etc. were also other reasons of errors (Source : FAPAD AIR on PEDP II, FY 2009-10, Pg 6).

#### Synopsis of findings

- Audit activities had been fairly effective in impacting on financial management of the program. During interview with Joint Program Director, PEDP II, he was hopeful that the audit findings would act as learning/advice for management, which would help them to maintain fairly the accounts system for the next phase of the program (PEDP III) about to start in July 2011. He also said about the deterrent effect of audit. Sometimes undue favours are sought by elected representatives of the concerned ministry (esp. regarding cars/fuels etc). Audit becomes a potent factor to be taken into account in such cases.
- While discussing on the skill and expertise of audit personnel, senior members of DPE noted that though auditors are quite competent, their professionalism needs to be more increased. Auditors should be more oriented to the system of projects and programs. For instance, auditors sometimes treat programs as projects, and miss to understand the ground reality of the implementation pattern. Quantity does not necessarily establish quality, and raising bulk of objections narrow down the audit effectiveness. Rather, substantive audit observations that will bring an improvement, was welcomed by management. While issuing large number of audit paras, sometimes unnecessary, the real weakness, or error gets overshadowed/hidden.

- It was seen from the FAPAD AIRs of the last four years, that the audit Opinions on all the FS are Qualified. However, despite the areas pointed out by FAPAD auditors, the subsequent FS was also reported as Qualified. This suggests that the accounts are not accurately reflected in the FS, moreover, the management did not respond to the corrective measures pointed by the auditors, for rectification, resulting in recurrence of similar audit observation in the consecutive years. Auditor's Report describing the Qualified Opinion for FY 2009-10, is given in Appendix E.
- Both auditor and auditee, are responsible for audit being effective and vice versa. When asked about the seriousness of line ministry, towards audit, JPD pointed to a somewhat less serious attitude of ministry. As they are not the implementing agencies, they seem a bit indifferent about monitoring/inspecting DPE implementation, and see audit as a continual process, with their priorities fixed on some other immediate pressing issues.
- This sentiment was also contained among members of ADB PLU, and Team Leader of the Program. According to them, both the management and line the ministry need to be more serious and involved in the audit process. MoPME takes quite a lengthy time only to sign the BSR sent from DPE, that are to be forwarded to FAPAD for decision/resolution. As a matter of fact, remarked a member of ADB-PLU, it was mainly through an initiative taken by PLU, that ministry arranged for two Audit Review Meetings (ARM) in 2010 (Feb 17 and Dec 02, 2010) to address the remaining unsettled audit observations from FY 2004-05 to 2008-09. The meetings were held at MoPME, chaired by PAO, involving MoPME, DPE and FAPAD. And as this step was more or less an initiative from donor side, ministry and management were well prepared with audit requirements. A number of observations were recommended to be settled in these meetings. Again, regarding the last ARM (Dec 2, 2010), based on agreed decisions taken for settlement of some SFI audit objections, it was found that official confirmation/notification by FAPAD is still awaited. Here it also seems a presence of lengthy procedure taken by audit office to take action for an already recommended matter. The present status of unsettled paras also could not be confirmed from FAPAD database.
- Role of DPs was found effective in rendering audit effectiveness. DPs are monitoring the follow up of audit activities. The rigorous monitoring and follow-up by the Procurement and Finance Working Group (PFWG) on FAPAD audit and external audit of procurement and financial management is lending significant support to improved governance in core operational areas. In fact, DPs' monitoring is one of the main factors why auditees are more active nowadays to respond to audit recommendations, admitted a senior representative of management.
- According to ADB PLU *Governance Report*, April 2010, FAPAD has carried out their mandate effectively to audit accounts, records, operations, and activities both at the central and field levels. FAPAD's findings have indicated weak areas in financial control, procurement procedures, and maintenance and control of records of fund utilization and assets among others. Based on FAPAD's findings, ADB-PLU have identified core areas that need to be strengthened at DPE and subsequently involved external auditors to assist DPE to improve their operations especially in the accounting and financial control. DPE have been asked to strengthen their accounting control, financial management, and capacity of their staff. ADB-PLU is providing support in this area. It is expected that with the adoption of the computerized accounting system at DPE and cost centers which was expected to be completed by now, the capacity of DPE in this area will be strengthened. This may be said to be the result of audit activities.

The table below shows the number of observations raised during the seven annual financial audits conducted on the accounts of PEDP II, and the amount involved.

**Table 5.7: Summary of FAPAD Audit Observations for FY 2004-05 to 2009-10**

Financial Year	No of Audit observations as of 15.02.2011			Amount involved (millionTk.)
	Part-A (SFI)*	Part-B (Ordinary)	Total	Amount in Tk.
2004-05	14	19	33	267.680
2005-06	6	11	17	153.590
2006-07	2	12	14	92.510
2007-08	4	18	22	44.380
2008-09	7	16	23	72.081
2009-10	11	9	20	64.188
<b>Total</b>	<b>44</b>	<b>85</b>	<b>129</b>	<b>694.429</b>
<b>Unsettled (as of 15.2.2011)</b>	<b>18</b>	<b>12</b>	<b>30</b>	<b>**</b>

Source: 1. FAPAD AIRs (FY 2004-05 to 2009-10);

2. *Summary Report* on Program Completion Review Mission, May 2011, PLU, PEDP II.

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\*SFI: serious financial irregularity

\*\* Non-availability of reliable data



### **5.3 Summary of issue specific findings regarding an enabling auditing environment**

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

**i.** FAPAD as mentioned is a deadline oriented directorate, the deadline being set by the DPs. FAPAD has to meet the requirement of DPs as set out in the DCA. Again, each DP has their own timeframe (Appendix C may be referred) of submission of audited report, focus of their demand being essentially on giving an Opinion on FS. But the time required for completing the audit and giving opinion is, in many cases, too short to expand the coverage, scope (to determine the sample size and cover the areas to be audited), and preparing the AIRs, the preliminary audit report. As for instance, the deadline for submission of audit opinion on Health, Nutrition and Population Sector Programme (HNPSp), the largest audit coverage of sector-wide program, is December 31 of every year. This requires a maximum audit involvement, in terms of time, personnel.

**ii.** Financial Statement is often not furnished on time (i.e. within a month after the end of a financial year, by end July), or accurately. The executing agencies, particularly the project directors in a good number of cases, cannot prepare the FS timely, which affects directly the audit activities. As a result, undertaking of audit is delayed. Preliminary data collection on basis of FS, analysis of risk at the head quarter of FAPAD, briefing the audit teams etc are hampered. The resultant effect is, quality of FAPAD audit report is not ensured as expected. Besides, FAPAD in most cases has to certify the FS without auditing DPA expenditure, as the DPs only provide a quarterly Statement of Expenditure (SOE) to project management without any supporting documents or vouchers.

**iii.** The planning phase of audit is the most essential phase. But due to inclusion of huge number of projects every year, in addition to the existing ones, and due to number of

audit manpower being reduced year after year, the gap becomes wider. There is gap in the preparation of proper audit planning in the directorate due to manpower constraint. Moreover, the ratio between management level officers and staff is so significant, that most of the audit programmes cannot be run effectively. Effective monitoring and supervision of field level audit and work of auditors is also a key problem. Besides, the quality assurance mechanisms of audit and reporting seem not to be able to perform their assigned duties effectively. The reasons are, in many cases, their pre-occupation and involvement in matters, such as, bilateral and tripartite meeting, attending of PAC meeting, preparation of working papers and so on. These affect the quality of FAPAD reports.

**iv.** Development Partners, in most cases, are found, not taking seriously the audit opinion of FAPAD, even if opinion is Qualified. On the other hand, the general tendency of the executing agencies, in most cases, seems not to provide the required information during audit. There is also lack of initiation of proper replies/response on audit observations during the conduct of audit, as well as during follow up of audit. The EAs and DPs, as well, remain less concerned with the audit observations of the closed projects. Under such situations, sufficient and appropriate evidence of audit observations cannot be taken, hence quality of audit is affected. Besides FAPAD is found to face problem in conducting audit of closed projects. As the project people get transferred during this time, project FS and other relevant documents are not maintained properly. Thus, the last audit of those projects can't be carried out effectively.

**v.** The feedbacks received from auditee organizations, different projects, concerned ministries, etc, in many cases, are often found to be not taken care of timely by FAPAD. The responses are often not examined and reviewed carefully. As such, there is huge accumulation of unsettled audit paras. Even the SFIs are often not sent to the PAOs timely. The audit function is still viewed as means of detecting fraud and irregularities rather than as a management control function. The focus is largely to verify transactions with less regard to their values. Sometimes the presence of auditors in the Project Directors' offices becomes a matter of apprehension for the management. There is an

established attitude of ‘thief vs police’ between auditee and auditors, leading to non-cooperation. A cooperative mind of the auditors is often found missing.

#### **5.4 Conclusion**

This study has attempted to explore the circumstances that are understood to lead to FAPAD audit effectiveness and the actual state of its usefulness for its stakeholders. Using both primary and secondary data, the study has worked through the steps of audit process to assess FAPAD auditing effectiveness for the beneficiaries of FAPAD audit.

It may be stated here again that ‘effectiveness of FAPAD audit’ has been taken as the dependent variable of the present research, whereas ‘application of auditing standards and code of ethics’, ‘responsiveness of auditees’, ‘supporting role of Public Accounts Committee (PAC)’, and ‘involvement of Development Partners (DPs)’ are identified as the independent variables. At the outset, there were some general assumptions that FAPAD audit effectiveness depends much on the effective working relationship and environment between the auditors and the major actors or stakeholders in the chain of accountability. The findings of the study suggest that the factors which were assumed to have a bearing on audit activities have much relevance. For instance, the survey data reveals that 16 out of 20 respondents viewed that an important audit strategy like operational audit plan is sometimes/not prepared by the audit teams, again majority (55 percent) were of the opinion that quality control/assurance tools of audit were in place, more or less satisfactorily, however more involvement of senior audit management is required to make audit activities effective. In fact, the overall findings on matters related to audit process and standards are inclined towards an average level of effectiveness or satisfaction among the beneficiaries of FAPAD audit reports. The main actors involved in audit, i.e. auditor and auditee feel that a concerted coordination between them is a prerequisite to attain the objective of audit, also the aim of a democratic government, i.e. sustaining transparency and accountability in the use of public funds. However, findings reveal in some cases, a somewhat biased response from each side. Like, while majority from audit (18/20) side has ranked ‘moderate’ the responsiveness of auditees towards audit, major portion of auditees (10/11) on the same issue gave a high score to their

cooperation by responding to audit requirement. A gap may be perceived, that certainly need reciprocity, awareness on both sides about the importance of value addition of audit activities. An interesting observation is the role of DPs as facilitators. It is understood from the practical scenario of the case study, that regular monitoring of project management by representatives of DPs had lead to a number of audit observations getting settled at the ministry level meetings. Also, an active PAC of the present (9<sup>th</sup>) parliament had been able to build maximum seriousness of the line ministries to respond to the PAC recommendations of audit observations. A common view of all stakeholders of audit is the urgent need for resource development of audit. The findings reflect that all the indicators selected to assess audit effectiveness are agreed by respondents to be among the contributing factors of effective auditing, however their practice and implementation are not, most of the time, made at the desired extent. As the audit work takes place against this backdrop, these hold back FAPAD audit effectiveness to the expected level.

## Chapter 6

# Conclusion and Recommendations

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

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

The study has attempted to examine the effectiveness of government auditing of foreign aided programs/projects in the context of Bangladesh. Primary data collected through questionnaire survey and interview carried out with the stakeholders of FAPAD audit reports, gave various insights into the actual scenario of the audit work. Some crucial observations also resulted from content analysis, particularly documents pertaining to the case study of the research. A careful compilation and analysis of the findings has been done. The investigation revealed certain dissatisfaction regarding FAPAD audit in important areas, like lack of strategic planning, insufficient evidence of audit work, lack

of skilled human resource, less understanding of the auditee organizations, delayed issue of audit reports, poor presentation of audit report, weak monitoring as well as follow up, weak management etc. The contexts that are perceived to affect/impinge most an effective FAPAD audit are among others, lack of skilled audit manpower, lack of proper monitoring and quality assurance process of audit, delay in implementation of audit recommendations by project management and ministry, delay in discussion of audit reports by PAC, slow/non-implementation of PAC recommendations by auditees. From the study it is evident that there exists certain gaps in the working system of audit that need to be addressed. Equally important is the need for the stakeholders of audit to be more attentive to audit, as a tool of accountability.

The initial perception regarding the factors rendering an effective audit of aided projects prompted the selection of the theoretical basis to be the principal-agent relationship and the government auditing standards. The auditor's role in the public sector was shown to derive from the principal/agent relationship between elected bodies and public servants, where the auditors provide independent objective assessments of the agents' performance, to the principals. The whole arrangement of FAPAD auditing work is built on an intricate relationship between the principals - the elected bodies (and as co-financiers, the donor agencies) - and the agents, i.e. the executive agencies. FAPAD under authority of CAG, acts on behalf of principals i.e. the elected bodies in assisting them and donors with providing independent reports on the agents' performances and stewardship of resources. The auditing standards selected to test the skill and qualities of auditors have been found to be relevant and more or less significant. This study has focused mainly on four independent variables which were perceived to have affected, to different extents, an effective FAPAD audit. A detail discussion of these different factors or the assessing indicators and how much they affect the audit work in attaining its result has been presented in chapter five. The following section is a brief overview of those factors that determine an effective audit.

As mentioned before, there are two research questions that the study aims to examine: (i) the extent of effectiveness of FAPAD audit to ascertain accountability of foreign aided

projects and (ii) the extent of responsiveness of the Executing Agencies (EAs) and line ministries to government auditing of donor funded projects. To gather primary data related to the study area 45 respondents were interviewed. If we take the highest representative, empirical data reveals that 45 percent or the majority of total respondents (14/31) believe that FAPAD reports (AIRs and audit reports) are good, in terms of being fair, reasonable and timely presented. However, regarding the quality and the substantial evidence of the reports, 45 percent (14/31) ranked it as average. Again, regarding the quality of auditing itself, 42 percent or majority (13/31) ranked it as average. And though FAPAD audit is considered an effective mechanism for upholding project accountability, 58 percent (18/31) respondents saw FAPAD reports meeting partial expectation of stakeholders. In response to the first research question, it is evident that the respondents agreed that the factors or criteria selected in the study, do have a bearing upon an effective FAPAD auditing. However, the overall findings from both qualitative and quantitative data on matters related to audit process and standards are inclined towards an average level of effectiveness or satisfaction among the beneficiaries of FAPAD audit reports. The general opinion is that all the factors considered in making auditing effective are in practice, nevertheless, their effectiveness is not as per expectation. The contexts that deter audit from being qualitative, thus effective, are described in the next part of the chapter. However, an agreed reality was that an often unethical nexus between the auditors and auditees is greatly responsible for audit being partially effective.

On the other hand, in response to the second research question, it was apparent from responses that there exists biasness on the part of auditees (project management). This is manifested in their defending of their position of aiding in audit activities throughout the audit process. However, responses from audit side revealed average level of cooperation from auditees that limits audit from being effective. What was clear from the interviews and discussions with senior level officials, especially as felt by the development partners, was the existence of a gap between the auditors and auditees that affect an effective auditing from taking place. This gap comprises of lack of mutual understanding and respect to each other's objectives, and has a direct impact on the quality of auditing and reporting.

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

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

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

Third, FAPAD audit approach, planning and reporting are viewed as being not scientific and not in conformity with international auditing standards. Risk based auditing approach should be followed and auditing standards need to be followed strictly. Well structured audit plan has to be prepared for all audits and permanent file has to be maintained following ISA. Audit teams need to gather adequate and relevant evidences to prepare and report findings and conclusions so that they stand on sound footing. Auditors should not undertake audits and prepare programs and methodology unilaterally. An agreed



approach needs to be in practice. On the other hand, the auditees should also not be indifferent to audit matters and need to give much attention to audits while being conducted.

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

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

Sixth, the number of unresolved audit observations, mostly of serious nature, is piling up and less attention is given to follow-up activities by the audit directorate. In such situations, FAPAD auditors' attitudinal change or change in mindset is necessary. More interaction is needed between auditor-auditees through workshops and meetings. Regular correspondence between FAPAD, projects and line ministries is needed to resolve audit observations. The entry and exit meetings that are held presently with the leading donors are very effective for quality auditing. Based on exchanges of views in these meetings, each party can improve its approach and readiness for audit effectiveness, thus paving way for mutual respect and trust. These meetings can be held with each development

partner, more so since the auditees and DPs can be informed of the audit plan of FAPAD for the upcoming FY. DPs can offer enhanced inputs in these meetings, by which both auditor-auditee would be benefited. Again, a significant portion of foreign aid comprises of DPA. But FAPAD most often than not, cannot audit DPA expenditure, due to lack of proper evidence and donors' control over it. Donors in such case can provide to PDs monthly SOE of DPA funds.

Seventh, the existing resource of FAPAD can undertake a few PAs a year, but success and quality in pilot performance audits will only earn support within and outside the department for this new type of creative audits, which need subject matters expertise, rigors in research, diplomatic skills in getting support from the audit entity, and leadership in utilizing various resources. FAPAD can proceed and learn about performance audits only by doing them on pilot basis. For this, manpower skilled in various sectors such as engineering, health management, works, financial management should be posted in FAPAD to conduct more PAs. Moreover, positioning personnel in FAPAD having good command in English, knowledge of projects and their operations, operational modalities of donors etc. are important. Besides, the existing resource can be developed through advanced and continuous training. FAPAD needs skilled manpower with highest integrity and professionalism. Institutionalizing of in-house training and intensive audit briefing will improve quality of audit. DPs can offer joint training of both FAPAD personnel and project management. Besides, incentive packages, even appreciation certificates would boost up the efficiency and dedication of auditors.

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

The research concludes with an emphasis on the significance of effective fund utilization in a democratic government, accountability being its key component. Foreign aid plays a

vital role for the socio-economic development of resource-constrained country like Bangladesh. The findings of the study have justified that a concerted coordination among the actors engaged in public accountability relationship is desirable to build an enabling environment for an appropriate stewardship of scarce resource and effective reporting on it. Many significant findings and facts have come up in the process of the research work, pertinent of which are discussed in this chapter. Nevertheless, within the constraints of time and scope, some other crucial and relevant issues of auditing could not be addressed and covered to the fullest in this study. These can be taken up for further exploration into the heart of the matter and offer means of addressing the issues.

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## Appendix A

**Table A1: The composition of the respondents**

<b>Stratum</b>	<b>No. of Respondents</b>
Audit Officials (Gr IX-II )	22
Ex-CAG	2
Representatives from Ministry & Projects	16
Representatives from DPs	3
PAC personnel	2
<b>Total</b>	<b>45</b>

## **Appendix B**

### **Questionnaire 1**

*(This Questionnaire is designed to collect data from audit officials of SAI Bangladesh, which will be used for academic purpose. The objective is to make use of the data for dissertation under Masters in Public Policy and Governance (MPPG) Program of North South University. Title of the thesis is ‘Government Auditing in Ensuring Accountability of Foreign Aided Projects in Bangladesh’).*

From: Tanzila Chowdhury  
Student of Masters in Public Policy and Governance (MPPG)  
North South University  
Dhaka

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

#### **Basic Information about respondent**

1. Name :

2. Job Title and Office :

.....

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

Yes

No

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

Designation :

Duration :

#### **General Questions**

4. FAPAD is a deadline oriented directorate. What type of audit is usually undertaken ?

Financial Audit

Compliance Audit

Performance Audit

5. Due to resource (time, budget, personnel etc.) constraints, performance audit is conducted in a very limited scale. Do you think that performance /Value For Money (VFM) audit would yield better result in ensuring overall project accountability ?

Yes

No

Not sure

6. It is said that the main resource of audit is the available competent workforce and time for auditing and reporting. Do you think the existing resource is sufficient in auditing donor-funded projects' expenditure ? (1 for lowest, 5 for highest)

Not Sufficient

Partially Sufficient

Fully Sufficient

1

2

3

4

5

7. Individual audit work plan prepared by the concerned audit team is an important audit strategy that helps the team to perform audit in an efficient and timely manner, making the optimum use of audit resources. Is audit work plan prepared by every team ?

Yes                                       Sometimes                                       No

8. If you answer from the last two options, identify the problem/problems from below :

- Teams get insufficient time for developing plan.
- Permanent files are not updated and the contents have insufficient information.
- Plans are not always made compulsory or monitored afterwards.
- Any other comment .....

9. How would you rank the extent of competence and skill of FAPAD workforce in auditing donor-funded project expenditure ? (1 for lowest, 5 for highest)

Not competent                                      Moderate                                      Very Competent  
1                                      2                                      3                                      4                                      5

10. The Constitution of Bangladesh has given full freedom to public audit. How much independently can FAPAD carry out its duties, on behalf of SAI Bangladesh?

Not much                                      Moderately                                      Fully Independently  
1                                      2                                      3                                      4                                      5

11. Have you ever been reported of any incident where FAPAD audit teams faced any sort of compulsion/pressure while auditing that hampered their independence?

Yes                                       Sometimes                                       No

12. If your answer to the above question is any of the first two, what was the nature / context of it?

- Political pressure/interference
- Pressure from line ministry
- Influence from project management
- Influence from development partners
- Physical threat/ situational pressure
- Any other comment .....

13. It is sometimes alleged that it is not always possible for audit personnel to abide by the principles of code of ethics for auditors, like integrity and objectivity. How much do you agree ?

Agree                                       Partially agree                                       Disagree

14. If you go for either of the first two, who do you think is to blame ?

- Auditor
- Auditee organization
- Both.

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

Auditor                                      %  
Auditee                                      %





complementary. PAC is assisting in audit effectiveness by its timely scrutiny of audit reports/objections. Do you agree ?

- Yes                                       Partially                                       Not Sure

33. PAC is playing its role satisfactorily by reviewing /monitoring the follow-up reports on auditees’ timely implementation of PAC recommendations. How much do you agree? (1 for lowest, 5 for highest)

- Disagree                                      Moderately                                      Fully Agree  
1                                      2                                      3                                      4                                      5

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

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

35. How would you rank the following indicators for assessing the level of effectiveness of FAPAD auditing ? (1 for lowest, 5 for highest)

<b>Indicators</b>	<b>Poor 1</b>	<b>Fair 2</b>	<b>Average 3</b>	<b>Good 4</b>	<b>Excellent 5</b>
Quality of Auditing					
Quality of Reporting					
FAPAD audit as an effective mechanism for upholding project accountability					
FAPAD reports meeting expectation of Stakeholders					

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

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

Signature of respondent (optional)

Date :

Thank You Very Much for your Co-operation



## **Appendix B**

### **Questionnaire 2**

*(This Questionnaire is designed to collect data from auditees (project management and line ministries) which will be used for academic purpose. The objective is to use the data for dissertation under MPPG Program of North South University. Title of the thesis is 'Government Auditing in Ensuring Accountability of Foreign Aided Projects in Bangladesh'. The four variables that are taken in the study, to assess FAPAD audit effectiveness, are : Responsiveness of Auditees; Application of Auditing Standards and Principles; Supporting Role of PAC; and Involvement of Development Partners ).*

From: Tanzila Chowdhury  
Student of Masters in Public Policy and Governance (MPPG)  
North South University  
Dhaka

#### **Basic Information about respondent**

1.Name:.....

2. Job Title and Office :  
.....

[Please *tick* (you may put asterisk \* in case you mail me)or *write* as the response requires]

#### **General Questions**

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

Yes                                       Partially                                       No

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

Auditor  
 Auditee organization  
 Both.

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

Auditor      %      Auditee

5. How would you rank the responsiveness of the project management in giving/ taking timely and proper reply/ action as per audit recommendations against observations raised ? (1 for lowest, 5 for highest)





Yes  No

21. Do you think role of audit will be enhanced if DPs monitor project management, so that its financial management is improved based on action taken, as per audit recommendations? (1 for lowest, 5 for highest)

Not much Moderately Very much

1 2 3 4 5

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

Yes  Partially  Not Sure

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

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

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

<b>Indicators</b>	Poor 1	Fair 2	Average 3	Good 4	Excellent 5
Quality of Auditing					
Quality of Reporting					
FAPAD audit as an effective mechanism for upholding project accountability					
FAPAD reports meeting expectation of Stakeholders					

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

- Lack of skilled audit manpower.
- Inadequate coverage of audit reports.

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

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

Signature of respondent (optional)

Date :

Thank You Very Much for your Co-operation

**Appendix C**

**Table C1: FAPAD Audit Calendar**

<b>Development Partners</b>	<b>Deadline of Annual AIR Submission</b>
<b>WB funded projects</b>	<b>31 December</b>
<b>ADB funded projects (3 phases)</b>	<b>31 Dec; 31 March; 30 June</b>
<b>UNDP funded projects</b>	<b>30 April</b>
<b>UNFPA funded projects</b>	<b>28 February</b>
<b>JAPAN Bank funded projects</b>	<b>31 December</b>
<b>The Netherlands funded projects</b>	<b>30 September</b>
<b>IFAD funded projects</b>	<b>31 December</b>
<b>Other Foreign Funded projects</b>	<b>As per DCA or 31 Dec or 30 June</b>
<b>Comments - The stated deadlines may be subject to change as per Credit Agreement, Government or Auditor General's directives.</b>	

## Appendix D

**Table D1 : Percentage of audit and auditee responsible for non-adherence to Code of Ethics for Auditors (n = 8, Audit)**

Type	Both	
	Auditor (%)	Auditee organization (%)
<b>Comment from 8 respondents</b>	<b>80</b>	<b>20</b>
	75	25
	70	30
	60	40
	50	50
	50	50
	50	50
	40	60

**Table D2 : Percentage of audit and auditee responsible for non-adherence to Code of Ethics for Auditors (n = 10, Auditee)**

Type	Both	
	Auditor (%)	Auditee organization (%)
<b>Comment from 10 respondents</b>	<b>60</b>	<b>40</b>
	50	50
	50	50
	50	50
	50	50
	40	60
	40	60
	40	60
	35	65
	35	65

*Source : Survey Data*

**Table D3 : Percentage of audit/auditee responsible for partially regarding audit as aid to management**

(n = 10, Audit)

Type	Both	
	Auditor (%)	Auditee organization(%)
Response from 10 respondents	75	25
	50	50
	50	50
	50	50
	50	50
	50	50
	40	60
	40	60
	35	65
30	70	

**Table D4 : Effectiveness of follow-up of audit recommendations**

{n=21=Audit(10), Auditee (11)}

Effectiveness of follow-up of audit recommendations (1=lowest, 5=highest)	1 (Not much effective)	2(Partially effective)	3(Moderate)	4(Fairly effective)	5(Very much effective )
<b>Audit</b>	0	0	0	5	5
<b>Auditee</b>	0	0	2	6	3
<b>Total</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>11</b>	<b>8</b>

Source : Survey Data



**Appendix E**  
**AUDITOR'S REPORT**

*Audit Completion Date: 15.12.2010*

Secretary,  
Ministry of Primary and Mass Education,  
Bangladesh Secretariat, Dhaka.

We have audited the accompanying financial Statement of the “**Second Primary Education Development Program**” (PEDP-II) financed under ADB-2015 BAN(SF), IDA-3857 BD and other development partners namely DFID, EU, UNICEF, CIDA, SIDA, Norway, the Netherlands, UNICEF, and JICA as on 30 June 2010 and for the year then ended. The preparation of financial statement is the responsibility of management. Our responsibility is to express an opinion on the financial statement based on our audit.

II. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

III. The results of our audit disclosed the following material aspects, which affected the financial statement:

Resource:

a) The Notes to financial statement reflects that Tk.5619.83 lakh was surrendered but the programme authority surrendered Tk.881.58 lakh vide memo no. 2707 date 30.6.2010. As a result expenditure of Tk. 4738.25 lakh was understated in the F.S.

b) It is seen from the Bangladesh Bank statement that Tk. 89717.08 lakh was received as resources from development partners but the programme authority had shown in financial statement Tk. 89547.12 lakh. Thus, F/S is understated by Tk. 169.96 lakh.

c) The operating account (RPA) opening balance of Tk. 4671.41 lakh was shown in the F/S but the cash book reflects Tk.7599.75 lakh. Therefore opening balance of Tk. 2928.34 lakh of RPA fund operating account is less stated.

d) Opening balance of field offices for Tk. 330.00 lakh and CD VAT account for Tk. 2019.51 lakh are not supported by relevant evidences.

e) The opening balance of UNICEF account for Tk. 374.29 lakh is not supported by relevant evidences.

f) Fund (committed) of Tk. 6791.68 lakh was not received but was shown in F/S as resource which is misstated.

g) Per year adjustment was not clarified. So, it is traded as misstated. Necessary clarification should be furnished through detail disclosure.

**Expenditure:**

1) Less expenditure was shown for Tk. 77.29 (Tk. 76.29+01.00) lakh against UNICEF & JICA office.

2) Our stated expenditure was shown Tk. 16868.01 lakh against UEO, DPEO, PTI, URC and LGED offices.

**Opening Balance**

1) Opening balance of operating account of Tk. 2928.34 lakh is less stated.

2) Opening balance of field offices for Tk. 330.00 lakh is not supported by evidences.

**Closing Balance**

1) Closing balance of imprest account for Tk. 90.41 lakh is overstated.

2) Field office balance for Tk. 122.90 lakh is misstated.

3) Operating account (RPA) balance of Tk. 3598.51 lakh is overstated.

4) The closing balance of committed fund is misstated.

Details are shown in the attached statement.

IV. In our opinion, except as stated in the preceding paragraphs, the financial statement gives a fair view in all material aspects of the financial position of “**Second Primary Education Development Program (PEDP-II)**” as on 30 June, 2010 and the results of its operations and cash flows for the year then ended in accordance with the cash basis of accounting followed by the Government of Bangladesh.

V. **Opinion Status: Qualified**

Deputy Director  
For Director General  
Foreign Aided Projects Audit Directorate