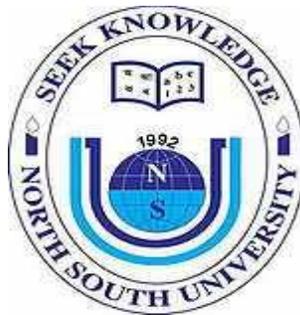


# **CHALLENGES OF PERFORMANCE AUDIT IN THE IMPLEMENTATION PHASE: BANGLADESH PERSPECTIVE**

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## **ABSTRACT**

The challenges of audit are a prominent issue in both private and public sectors. However, in the public sector, the challenge of performance audit is an emerging issue that has received little attention by researchers. To date, only a limited number of studies on the challenges of audit in the public sector are available, either in the context of a financial audit or a performance audit. This study focused on the challenges in the context of the latter. The importance of the performance audit function in Bangladeshi public sector, combined with recent developments related to this type of audit in the country (such as increasing expectations among the users and associated problems in practice) were the reasons for conducting the study in this area. Thus, the study aims to identify the existence of the challenges of performance audit in the public sector of Bangladesh. In achieving this objective, it explores the perceptions of auditors and auditees.

The conceptual framework in this study was developed based on Supply and Demand theory. Two independent variables are selected from demand side initiatives; those are auditee organizations and two from supply side initiatives that is Supreme Audit Institution. From supply side initiatives the independent variables selected are capacity building and recruitment of consultants and independent variables from demand side are awareness and pre-set goals. This study employed two types of research methods: interviews and audit report analysis. Interviews were conducted with 25 participants comprising of auditors, auditees and senior officials of OCAG. The second research method involved the examination of two performance audit reports.

The findings of this study indicated that the challenges in the implementation phase of performance audit exist in the Bangladeshi public sector. The analysis of interviews and audit reports clearly suggest that the challenges exist over a number of auditing issues. These comprise insufficient and incompetent manpower, unable to recruit consultant when needed, lack of awareness and absence of pre-set goals among the auditees.

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## **ABBREVIATION**

ASOSAI	THE ASIAN ORGANIZATION OF SUPREME AUDIT INSTITUTE
C&AG	COMPTROLLER AND AUDITOR GENERAL
CCAF	CANADIAN COMPREHENSIVE AUDITING FOUNDATION
CIDA	CANADIAN INTERNATIONAL DEVELOPMENT AGENCY
FIMA	FINANCIAL MANAGEMENT REFORM PROJECT
INTOSAI	INTERNATIONAL ORGANIZATION OF SUPREME AUDIT INSTITUTES
KPI	KEY PERFORMANCE INDICATORS
MTBF	MIDDLE TERM BUDGETING FRAMEWORK
NAO	NATIONAL AUDIT OFFICE
NPM	NEW PUBLIC MANAGEMENT
OCAG	OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL
OECD	ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT
PA	PERFORMANCE AUDIT
PAC	PUBLIC ACCOUNTS COMMITTEE
PDB	POWER DEVELOPMENT BOARD
PSC	PUBLIC SERVICE COMMISSION
STAG	STRENGTHENING THE OFFICE OF ACCOUNT GENERAL
SAI	SUPREME AUDIT INSTITUTE
UK	UNITED KINGDOM

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*Date: 6/30/12*

*Nusrat Ferdousi*

## **CHAPTER ONE**

### **INTRODUCTION**

The purpose of government audit is to ensure transparency and accountability in the use of resources in all types of government management. The objective of audit work includes verification of statements of accounts and statement of income and expenditure to determine whether these are prepared truly and correctly. With the emergence of NPM and Good Government ideas, there has been a radical change in the approach to public sector auditing. The focus has been shifted to traditional compliance and financial auditing to issues of performance and results. NPM forces the public sector reform through transferring private sector management principles to the public sector. Kjaer (2004, p. 24) claims that the reform will simplify bureaucracy, force innovation and improve public service efficiency and effectiveness. This also means that organization performance measurement is needed both in the NPM and public sector reform.

Overall, performance audit is not just a tool like financial audit that can be easily standardized. Performance audit is a management tool that provides information and feedback for organization improvement. The reviews in performance audit are not limited to the financial accounting, but also include evaluation of the organizational structure, standard of procedures, operating methods, and any aspects in the organization that individually or together, have an impact to the organization's performance. From a mere accounting exercise, auditing is nowadays looked upon as a social planning tool with an unmatched ability to measure the usefulness of investment of public resources for social change. (Dutta, 2000).

The practice of performance audit formally began in 1977 in Canada. At that time this type of audit was called 'Value-for Money' audit. In June 2004, the practice was renamed as performance audit by the Office of Auditor General of Canada. In Bangladesh it has been started in 1999. Though we have a separate directorate for performance audit, all the 10 directorates of OCAg now conducting performance audit as all the ministries are requesting for this type of auditing more and more.

## **1. 2. BACKGROUND**

The major concerns in the context of public financial management in Bangladesh have always been to see how well the scarce public resources are utilized. The stakeholders expect that the audit office provide them with more information in the line of 3Es (Economy, Efficiency, Effectiveness) of government's programmers and services. The parliamentarians now a day's not only expect to have meaningful information on inefficiency, wastage, losses, or drainage of resources of government departments, non-performance of many programmers and failures in achieving targets in most projects etc. but also demand recommendations suggesting remedial measures. The system loss in the public utility sector such as Water and Sewerage Authority (WASA), Power Development Board (PDB), Dhaka Electric Supply Authority (DESA); the poor service of the services sectors e.g. Telegraph and Telephone (T&T), Railway, Government Hospitals, Biman Bangladesh Airlines etc; the huge losses incurred by the nationalized industries and mismanagement of resources; the gap between the end results and the policy goals of the different programs and projects, the time and cost overruns of the capital projects etc. are causes of concerns. The traditional approach of audit created 'audit expectation gap' and has necessitated adoption of modern approach of auditing. Performance/VFM audit facilitates effective assessment of government's performance and it provides great deal of information to make the executive accountable.

In the 1980s, the public sector in most parts of the world experienced significant reform in its administration. This reform has been referred to as 'New Public Management' (NPM) (Hood, 1995 & 1996; Pollitt et al., 1999). The reform saw the public sector move from an administration to a management style. It has become much more like the private sector in terms of organizational structures, methods of operations and management style (White and Hollingsworth, 1999). As a result, practices usually associated with the private sector such as privatization, competitive tendering, outsourcing and so on have been widely adopted in the public sector. Nevertheless, the reforms in the public sector mainly 'centered on the theme of decentralization and performance management' (Pollitt et al., 1999).

Thiel and Leeuw (2002) pointed out that the objective of NPM was twofold: first, to reduce government expenditures and; second to improve efficiency and effectiveness of government programs. For the former, the reform was related to the public sector need to cut government expenditure. This 'led to the budget and financial management reforms' (Pollitt et al., 1999) such as the accrual accounting and program based budgeting system. For the latter, the emphasis was on the outcomes of the government programs. Pollitt et al. (1999) described this change as 'managing for result'.

From the accounting aspect, the above mentioned changes have resulted in the 'promotion of 'new' accounting technologies, including performance auditing' (Guthrie & Parker, 1999). The application of performance auditing in the context of NPM can be seen in several ways such as by relating back to the twofold objectives as pointed out by Thiel and Leeuw (2002). For example, in achieving the objective of reducing the government expenditures, government agencies delegated spending authority to lower subordinates thorough decentralization. This however, comes with tight spending limits and requires staff to take new responsibility with delivered budgeting. The need for auditing of such developments would appear unarguable (Pollitt et al., 1999). In this case, the performance audit is the most suitable approach as it can provide an assessment on the performance of agencies programs in utilizing the limited resources.

With regard to the second objective of improving efficiency and effectiveness of government programs, the government agencies are usually given a greater degree of control over the resources. For example, James (2001) in his study found that the use of corporate units in the UK public sector is common and is given 'freedoms from input rules, for example, controls on staffing and budgets, but more targets relating to outputs'. This practice is in part to ensure the efficiency and effectiveness of the government programs. According to Mulgan (2001) this 'emphasizes on the results and on accountability in terms of stated objectives provided, a new role for auditors as assessors of results'.

Therefore, it is clear that the performance audit arises as a part of NPM. Based on the above discussion, the NPM has provided a good reason for the establishment of performance auditing. The adoption of the performance audit was 'fed by a strong belief in the measurability of performance in the public sector' (Thiel and Leeuw, 2002).

Against this backdrop, Bangladesh in the mid 1990s witnessed growing concerns about assessment of economic, efficient and effective use of public resources. The government, academics, professionals, and researchers advocated for good governance, which calls for promoting accountability and transparency in public expenditure. Besides, various study groups, members of the national assembly, the secretaries to the government recommended for introducing performance audit alongside traditional audits by the OCAG, Bangladesh. Above all, the Committee on Public Accounts of the 5th, 7th & 8th parliament underscored the need for conducting performance/VFM audit along with the conventional audits to keep abreast of the emerging trends and techniques of modern audit the world over. The donors and development partners whose main reform agenda reflect overriding concerns for good governance with stress on accountability and transparency also echoed the same urge.

### **1.3. AUDITS IN BANGLADESH**

In Bangladesh, the Office of the Comptroller and Auditor General (C&AG) is the supreme audit institution and it is the only body entrusted to carry out the performance audit. The legal authority of the C&AG to carry out the performance audit derives from two main sources: Article 128 of the Constitution of the People's Republic of Bangladesh and the Comptroller and Auditor General's (Additional Functions) Act 1974. Article 128(1) state:

‘The public accounts of the Republic and all courts of law and all authorities and offices of the government shall be audited and reported by the auditor general and for that purpose he or any person authorized by him in that behalf [shall] have access to all records, books, vouchers, documents, cash, stamps, securities, stores of other government properties in the possession of any person in service of the Republic.’

Additionally, the Comptroller and Auditor General's (Additional Functions) Act 1974, provides the C&AG with additional authorities such as introducing new rules and directions pertaining to audits including keeping and auditing accounts of government, commercial companies owned by the government, statutory bodies and local authorities. Compared to the UK, Finland and Malaysia, the constitution and audit act in Bangladesh does not specifically mention the authority to carry out a performance audit. Though there is no mention of value-for-money audit, there is no limitation imposed on the authority of the C&AG to conduct VFM audits (Jashim-Uddin, 2002).

The main purpose of performance audit is to provide Parliament with an independent opinion of the economy, efficiency and effectiveness on the public resources used. Performance Audit Manual states that the audit normally applies to three broad areas: ‘those activities involving considerable level of resources, projects that are at risk of failing in their objectives and issues which are of concern to Parliament of the PAC’ (C&AG, 2000). The audit mandate covers the ministries, divisions, and offices of the government, statutory public authorities, public enterprise and local authorities.

The constitution also spells out several measures to guarantee the CAG’s office independence. Article 128 Section 4(1) states that ‘the Comptroller and Auditor-General, in the exercise of his functions, shall not be subject to the direction or control of any other person or authority’. Although C&AG is appointed by the President, the responsibility is to report to Parliament. Additionally, the C&AG auditors have unrestricted access to all records and documents to all government departments or its owned entities. Other than that, the CAG only can serve until the age of 65 or maximum of five years whichever is earlier. Lastly, only the President, based on the recommendation of a Supreme Judiciary Council can remove the CAG.

In terms of reporting, the C&AG is required to submit reports to the President who shall cause them to be laid before Parliament in accordance with Article 132 of the Constitution. However, criticism has been directed towards the audit reporting practice because it lacked frequency and focused more on compliance and financial audits (Chowdhury and Innes, 1998; Shamsuzzaman and Rahman, 2003).

Other researchers also view that performance audit in Bangladesh is exposed to several weaknesses. Jassim-Uddin (2002), for example, states that the practice of performance auditing in Bangladesh is suffering from lack of professional auditing standards, auditor’s incompetence and vague performance indicators. He argues that these problems have significantly affected the quality of audit reporting. In a similar tone, Hossain (2002) also claims that auditor incompetence as the reason for performance auditing failing to achieve the objective in improving the performance of government agencies’ programs. This is due to an inability of

auditors to identify strengths and weaknesses of the systems or procedures, problems and also offering inappropriate corrective measures.

Nevertheless, the C&AG in improving the performance audit implementation used specialized consultants in carrying out the audit, in addition to the use of private audit firms. For the first time there has been outsourcing from the private sector to compliment the skill and efforts of the department (Hossain, 2002).

The three types of audit carried out by the OCAG Bangladesh as prescribed by the Audit Act are:

**(a) Financial Audit**

The purpose of conducting a financial audit is to give an opinion on whether the financial statement prepared by the public sector agencies shows a true and fair view of the financial position. For this type of audit, the Auditor General attests to the accuracy and fairness of financial information in terms of whether they have been prepared in accordance to financial reporting framework requirements. It is mandatory for the Auditor General to conduct the financial audit to certify the financial statements of the federation, states and other public authorities and public bodies as provided by the law.

**(b) Compliance Audit**

Compared to a financial audit, it is not compulsory for the compliance audit to be conducted to all government agencies yearly. This type of audit is performed on cyclical basis. In compliance auditing, the Auditor General will examine and review the transactions and activities of ministries/departments or agencies to determine whether they have conformed to all laws and regulations. For example, the Auditor General verifies whether the income and expenditures of government departments have been authorized and spent for the designated purposes.

### **(c) Performance Audit**

The performance audit involves studies and evaluation of specified programs or activities of ministries/department and other government agencies. This is to determine whether the objectives of the programs or activities are achieved and whether the implementation of the programs and activities were carried out in an economical, efficient and effective manner.

For the purpose of this research, performance audit was selected as the subject due to its importance of its functions to the public sector community.

#### **1.4.ILLUSTRATION OF THE PROBLEM**

Usually in Bangladesh, audit party goes to an institution, does its regular work, that is , performs compliance or financial audit of government expenditure and receipt of a particular year or years together , submits their reports to respective audit directorate and the work is done . From those reports less important financial irregularities and non recurring mistakes are discussed, brought to the notice of higher authority and measures are taken to mitigate it from the respective audit directorate. Only serious financial irregularities are compiled together ministry wise and then sent to OCAG and from there it is sent to PAC to be discussed and punitive measures are taken from there. But performance audit is different in many aspects. It not only examines whether rules and regulations are followed while expenditures are being incurred but whether the goals of an institution are fulfilled and how economically, effectively and efficiently money is being spent from government exchequer.

This whole endeavor requires well –equipped manpower, longer time frame, more resources and greater involvement of both auditor and auditee. Performance audit, unlike other types of audit, recommends measures to be taken to achieve its goal at the end of each report. To meet the demand of efficient manpower as many as 30 officers have received overseas training on performance auditing either by attending workshops and seminars or by participating in both the short term and long term training program. Other than this, about 200 officers and staff have been trained in performance auditing at home by strengthening the Office of the Auditor General (STAG) and Financial Management Reform Program (FMRP) projects. Though till date OCAG Bangladesh has produced 36 performance audit reports the journey is yet to be a smooth one.

Both the auditor and the auditee had to face many challenges from planning to implementation of performance audit. Now the time has arrived to look back and find out the causes for this.

Performance auditing, however, creates a general concern among the public, especially developing countries. According to Khan and Stern (2005), the audit practice in developing countries still concentrates on traditional audits as opposed to performance audits. Reasons for traditional audit versus performance audit include but are not limited to lack of auditor independence from the executive, limited access to information, financial and legal constraints, capacity and skills constraints and lack of timeliness and relevancy. They concluded that ‘these problems stem from the fact that Supreme Audit Institutions (SAIs) are made to abide by stringent legislative mandates, international and national standards and remained confined within traditional-bound bureaucracies’. In Bangladesh, there is also evidence to suggest that the conduct of performance auditing is also faced with these problems with increasing expectations on auditors. As stated by Abdullah (1988):

‘It must be directed towards ascertaining the effectiveness of the resources utilized by the government. Towards this end, compliance and financial audit is necessary but not sufficient to ensure that resources are effectively used. The subjective nature of performance audit should not deter its implementation. It only means that such audit must be meticulously carried out and the people involved should be fully trained.’

To date, studies of the challenges in the context of performance audit have only been conducted in developed countries (see Chapter 4). Thus, these studies might not be applicable to developing countries considering the differences in the development of the public sector auditing, the composition of public sector administration and the information needs of users. Furthermore, developed countries are usually characterized by a high-level of accountability, a clean and efficient bureaucracy and judiciary and a transparency in administration (Dye and Stapenhurst, 1998; Berglof and Thadden, 1999; Chang, 2001; Sandholtz and Koetzle, 2000). These characteristics significantly contrast to developing countries. There appears always to be a lack of attention to developing countries’ political and socio-economic factors which impact upon accounting, resulting in suggestions that the transfer of western accounting technologies automatically beneficial to these countries – though experience and time again appears to prove otherwise (Ali, 1999).

From a political-economic perspective, the progression of public sector auditing in developing countries has been generally different from 'so called' Western countries. In many cases, developing countries have been adopting auditing systems that have been introduced in developed countries (Baydoun and Willet, 1995; Chand, 2005). This may be due to several factors such as the effects of colonialism (Heatly, 1979), the influence of professional associations (Baydoun and Willet, 1995) and the conditions required by the international funding agencies (Heatly, 1979) such as the International Monetary Fund and World Bank. The local professional associations or affiliated institutions, which are usually funded by western countries, for instance, may put pressure on the audit institutions to adopt the international accounting and auditing standards for harmonizing the auditing practices among the countries.

This is still a disputable issue because such standards may not suit to the needs of developing countries. Furthermore, the possibility of fraud, corruption and economic mismanagement are high in the public sector in developing countries (Kaufmann, 1997; Gray and Kaufmann, 1998; Sandholtz and Koetzle, 2000). In this respect, it is possible to argue that there could be more demand from the interested parties, such as international funding agencies and politicians, on auditors to perform the roles which may be outside the scope of the audit mandate.

Additionally, researchers also claim cultural factors of one country could have implications on the attitudes and perceptions towards accounting and auditing systems. Agacer and Douppnik (1991); and Patel *et al.* (2002), among others, argued that the adoption of accounting and auditing systems of developed countries in developing countries might face many cultural obstacles such as in the interpretation of standards, audit procedures and codes of conduct. Among the possible cultural factors are the level of transparency (Gray, 1988), conservatism and collectivism (Gray, 1988; Schwartz, 1994) and power distance (Hofstede, 2001; Ding *et al.*, 2005).

These factors are also relevant to the Bangladesh context. Needless to say, one may expect that Bangladesh has at the very least, the culture of collectivism and a high power distance, while it is the opposite for many western countries, (Ali, 1999). In a high power distance society, for

example, researchers such as Patel *et al.* (2002), Hosted, (2001) and Ding *et al.* (2005) suggest that individuals would respect and value the views or orders of elders, superiors and authority. Consequently, they would 'accept a hierarchical order in which everybody has a place which needs no further justification' (Salter and Frederick, 1995). Thus, it is possible this factor will significantly influence the perceptions of the users and auditors on the functions of performance audit and auditors work.

## **1.5. SCOPE**

As already mentioned, since its inception the 10 audit directorates of OCAAG Bangladesh have produced 36 performance audit reports. Among these only 13 have been discussed in the parliament and the rest 23 are waiting to be discussed. To find out the problems of performance audit two audit parties will be selected. These two parties have recently finished their audit and now preparing their reports. So the challenges in the implementation process will be better known to them. Moreover issues of national interest are taken care of while selecting these two audit party. They are:

1. Performance Audit of Project on Reduction of Technical System Loss of electricity.
2. Performance Audit on Ministry of Environment and Forest (MTBF Ministry System Audit)

As all we know our country is undergoing serious electricity crises last few years. The obvious reason behind this is increased rate of consumption and decreased rate of production. But there are other reasons also. One of them is technical system loss. The first performance audit selected for this research is on such a project. This audit is conducted by Performance Audit Directorate. The project is under Power Division, Ministry of Energy and Mineral Resources. On the other hand, the second one, as stated, is on Ministry of Environment and Forest. By selecting these two reports it will be possible to look into the works of two different audit directorates which are also working with two different ministries.

## **1.6.GENERAL OBJECTIVES**

As already mentioned the concept of performance audit is new in Bangladesh. Line ministries and government organizations are not aware of this type of auditing as they are accustomed with traditional financial and compliance auditing. This is why while conducting performance audit both auditor and the auditee institutions face immense problems. These are also reflected in the reporting. So the general objective of this research is to find out the challenges of performance audit faced by both the party.

## **1.7. SPECIFIC OBJECTIVES**

1. To find out the challenges of performance audit in the implementation process.
2. To find out the limitations of both the auditor and the auditee in the implementation of performance audit.

## **1.8. RESEARCH QUESTIONS**

1. What hindrances audit directorates face while conducting performance audit?
2. What challenges government institutions face during performance audit?

## **1.9 OPERATIONAL DEFINITION**

According to Parker (1986), performance auditing is an independent review of the economy and efficiency of auditee operations and of the effectiveness of its programs. Meanwhile, the International Organization of Supreme Audit Institutions (INTOSAI) in their report states that performance auditing consists of;

- I) audit of the economy of administration activities in accordance with sound administrative principles and practices and management policies;
- ii) audit of the efficiency of utilization of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements and procedures followed by audited entities for remedying identified deficiencies; and

iii) Audit of the effectiveness of performance in relation to achievement of the objectives of the audited entity and audit of the actual impact of activities compared with the intended impact (INTOSAI (1992), cited in Pollitt et al. (1999))

Now for further clarification the main three components of performance audit are discussed elaborately.

**(a) Economy**

The concept of economy is associated with the inputs used in the projects or activities. It is about obtaining the resources at a minimum cost but at the same time maintaining the quality of items. Economy is taken to mean the achievement of a given result with the least expenditure of money, manpower or other resources (Henly *et al.*, 1989). White and Hollingsworth (1999) used the term 'spending less' to refer to this process. In the context of Bangladesh, the economy is concerned with 'minimizing the cost of resources used for such activities without affecting the quality' (JAN, 2002). For example, the economy can be assessed by comparing the cost of a vehicle purchased with another model of similar quality. According to Glynn (1985), a lack of economy could occur when there is overstaffing or overpriced items are involved. Although the concept of economy is well defined, the audit of economy is not a straightforward process. It is often a challenging task for an auditor to assess whether the inputs chosen represent the most economical use of public funds, whether the resources available have been used economically, and if the quality and the quantity of the 'inputs' are optimal and suitably co-ordinate (INTOSAI, 2004).

**(b) Efficiency**

The concept of efficiency is related to the relationship between the inputs and outputs. Efficiency is about ensuring that a maximum output is obtained from the resources devoted or conversely that a minimum level of resources are devoted to a given level of output (Glynn, 1985). An example for the former is the increasing number of patients served in a hospital with existing resources while the reduction in the cost of repairs and maintenance of vehicles is an example of measuring the efficiency for the latter. Inefficiency would occur when there is an oversupply or

excess of resources. White and Hollingsworth (1999) used the term ‘spending well’ to refer to this process.

### © Effectiveness

The concept of effectiveness is the last element in performance auditing. Effectiveness is concerned with the outputs. It is about ‘ensuring that the output from any given activity is achieving the desired results’ (Glynn, 1985), regardless of the cost involved. In the context of Bangladesh, effectiveness is concerned with ‘achieving predetermined objectives with the actual impact compared with the intended impact’ (JAN, 2004).

Assessing whether there is improvement in school examination results after the introduction of a tuition program is an example of an audit on effectiveness. The programmed is effective if the examination results are improved. In other words, effectiveness looks at whether the programmed or activities succeed or not in achieving the objective. Arguably, the programmed is ineffective when ‘the outputs are not really the one desired or they do not have appropriate impacts on the community’ (Ball, 1998).

McCrae and Vada (1997) classified the effectiveness audit into three categories called ‘Effectiveness I’, ‘Effectiveness II’ and ‘Effectiveness III’. According to researchers, Effectiveness I is concerned with the examination of results of the programmed. In this category, auditors evaluate the degree of success or failure of the programmed compared to the intended policy objectives. Effectiveness II does not only cover Effectiveness I but also includes the examination of alternative strategies in achieving the policy objectives. In an Effectiveness III examination, auditors extend the mandate in the previous two categories to include the examination of the merits of policy. The focus changes from administrative effectiveness towards wider issues of evaluating the content, objectives and process of the policy itself (*ibid.*).

Based on the above discussion, it is clear that economy, efficiency and effectiveness are related to each other. However, some researchers argue that this is not a straightforward relationship. For example, Power (1997) states that the conflicts exist within the very concept of VFM.

Specifically, Power argues that the conflicts occur ‘between the theme of fiscal crisis, questions of economy, efficiency and cost control, and the theme of service quality enhancement or effectiveness’. According to Cutt (1988), ‘economy alone deals with price of inputs and is not a measure of value for money’. He argues that the same case applies to efficiency and effectiveness. In other words, the objective of performance auditing is achievable only after all these elements are addressed. As a result, this relationship may cause the auditors to face difficulty in assessing these three elements especially efficiency and effectiveness. As Pendlebury and Shreim (1990) states:

‘The effectiveness in many public services is, of course, difficult to determine. Objectives are often imprecise and ambiguous, and even if they were not, their achievement will frequently be impossible to measure. Under such circumstances, the evaluation of effectiveness is an inherently subjective process and the appropriateness of involving auditors has always been a matter for concern’

The difficulty mentioned above is basically due to the lack of well defined measurement criteria. Commenting on what is economic, efficient and effective is obviously not as clear-cut as commenting on dollar and cent valuations and results (O’Leary, 1996). Without the clear guidelines, auditors will continue to face this problem.

Therefore, it is important for auditors to have a clear understanding of these concepts. The economy is about getting a ‘thing’ at the right price, ‘effectiveness is ‘doing the right thing’, whilst efficiency is ‘doing the thing right’ (Ball, 1998). More importantly, their recognition and awareness of the difficulties and issues surrounding these three elements would help them make correct assessments and informed judgments.

#### **1.10. DIFFERENCES BETWEEN PERFORMANCE AND FINANCIAL AUDIT**

In most significant respects, performance auditing is quite different from financial auditing. Financial auditing is concerned with the examination of the financial statements prepared by

public sector agencies. It is designed to provide independent and objective opinions whether the financial information prepared by management has been relevant, and accurate, fairly presented and also to assure that money has been spent appropriately. As part of the process, the auditor may examine the transactions in relation to expenditures receipts, and also the accounts in whether they are compliant with accounting standards, statutory provisions and other regulations. Performance auditing differs from financial auditing in that the former focus on the implementation of the programs, activities or projects of government agencies. It examines whether programs implemented have achieved their goals economically, efficiently and effectively. This audit in other words, addresses matters that extend beyond the traditional concerns of financial auditing by examining whether the agencies have 'done the right thing', followed procedures and used minimum costs.

Another feature that distinguishes performance auditing from financial auditing is its level of standardization. Financial auditing use guidelines with good standardized procedures and established criterion in conducting the audit such as generally accepted auditing standards and the International Financial Reporting Standards. Contrary to financial auditing, performance auditing is more difficult to standardize because it involves subjective assessment and lack of auditing standards. There is no predictable form of reporting, and there are no 'generally accepted' standards for decision making or systems to guide the auditors (Glynn, 1985). As a result, the auditors use different methods and procedures that are suited to a particular program examined. Performance auditing is much more difficult to standardize as each performance tends to be a project on its own which has to be designed individually (Pollitt *et al.*, 1999).

The difference also can be distinguished in terms of audit reporting. In financial auditing, the auditor is expected to issue a standard opinion on the financial statement prepared by the public sector agencies. In this case, the auditor may issue an unqualified opinion or adverse opinion on those financial statements depending on whether or not he or she is satisfied that the accounts fairly present the financial position. On the other hand, performance audit reports are more concerned about future performance and long term benefits of particular program. The basic purpose of the reports is not simply to criticize past mistakes but to encourage better value for money and to help identify worthwhile improvements in systems and controls (Dewar, 1997). As

a result, performance audit reports usually vary in scope, length and focus compared to financial audit reports.

The performance auditor should be clear that the objectives, scope, nature of evidence and reporting in performance audit are different from those in the regularity audit. Some of the major distinguishing features of regularity audits and performance audits are as under:

**(Table 1: Difference between Financial and Performance Audit)**

<b>FEATURES</b>		<b>REGULARITY AUDITS</b>	<b>FINANCIAL AUDITS</b>
<b>Scope</b>	Generally covers a financial period (annual, biennium, etc. Coverage is for the whole of entity for the period ;and Time bound audit to be completed by a stipulated time.	Covers the subject/ program over a period of time ; Focused only on a part of the entity's activities/ program, and Coverage is selective. Audit of economy, efficiency and effectiveness.	
<b>Objective</b>	<ul style="list-style-type: none"> <li>▪ Attestation (opinion)of financial accountability</li> <li>▪ Audit of financial system</li> <li>▪ Existence of control for safeguarding of assets.</li> <li>▪ Evaluation of financial records.</li> <li>▪ Audit of propriety of administrative decisions.</li> <li>▪ Audit of internal control for safeguarding assets and completeness and accuracy of accounts.</li> <li>▪ Limited to financial matters.</li> <li>▪ Test for assuring</li> </ul>	<ul style="list-style-type: none"> <li>▪ Audit of economy, efficiency and effectiveness.</li> <li>▪ Audit of internal controls that ensures economy, efficiency and effectiveness, ensuring adherence to management policies, timely and reliable financial</li> </ul>	

	<p>compliance to laws, regulations and rules, and</p> <ul style="list-style-type: none"> <li>▪ Conclusion/ opinions generally with reference to standardized requirements.</li> </ul>	<p>and management information</p> <ul style="list-style-type: none"> <li>▪ Extends to non-financial governance subjects also;</li> <li>▪ Assessment of compliance to applicable laws and regulations required in the context of audit objectives; and</li> <li>▪ Conclusion related to audit objectives set by auditors.</li> </ul>
<p><b>Evidence</b></p>	<ul style="list-style-type: none"> <li>▪ Financial statements per se, accounting documents, etc.</li> <li>▪ Budgetary assumptions and appropriation authorization; etc.</li> <li>▪ Transaction documents</li> <li>▪ Conclusive nature of evidence.</li> <li>▪ Materiality by amount.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Variety of forms of evidence;</li> <li>▪ Quite often qualitative in nature;</li> <li>▪ Persuasive rather than conclusive.</li> <li>▪ Evidence related to pre-determined audit objectives.</li> <li>▪ Materiality guided more by the nature or by context rather than amount</li> </ul>

		alone.
<b>Academic base</b>	<ul style="list-style-type: none"> <li>▪ Generally accounting knowledge</li> </ul>	<ul style="list-style-type: none"> <li>▪ Always knowledge based of laws, social sciences, economics, development studies, public affairs, science and technology etc.</li> </ul>
<b>Approach and methodology</b>	<ul style="list-style-type: none"> <li>▪ More or less standardized; manual generally forms the entire basis.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Varies widely from subject to subject;</li> <li>▪ Manual generally serves as basic framework.</li> </ul>
<b>Assessment criteria</b>	<ul style="list-style-type: none"> <li>• Standardized (suitable to all audits) with little scope for subjectivity</li> </ul>	<ul style="list-style-type: none"> <li>• Widely varying and subjective with ample scope for interpretations and assessment criteria support the audit objectives, which are unique to the subject of performance audit?</li> </ul>
<b>Report</b>	<ul style="list-style-type: none"> <li>• Opinion on the financial statements</li> <li>• Opinion on compliance to laws, regulations and rules.</li> <li>• Generally opinion</li> </ul>	<ul style="list-style-type: none"> <li>• Report/conclusions on economy and efficiency with which the</li> </ul>

	<p>on financial statements in standardized format.</p> <ul style="list-style-type: none"> <li>• Specific requirement and expectations; and</li> <li>• Related to specific financial periods- there is a periodicity of reporting.</li> </ul>	<p>resources are acquired and used and the effectiveness with which the objectives are met;</p> <ul style="list-style-type: none"> <li>• Report containing assessment of economy, efficiency and effectiveness may be presented in variety of forms</li> <li>• Wide ranging in nature, open to interpretations and subjective judgment, and</li> <li>• Generally separate publication on each subject of performance audits as and when conducted.</li> </ul>
<p><b>Overlap</b></p>	<ul style="list-style-type: none"> <li>• Financial audits do not generally include the elements of performance audits.</li> </ul>	<ul style="list-style-type: none"> <li>• There can be overlap in the sense that the performance audit may encompass techniques /methodologies</li> </ul>

		applied to financial audit,
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### **1.11 SIGNIFICANCE OF THE STUDY**

To the researcher's knowledge, this is the first study that attempts to collect information on the existence of challenges in the context of performance auditing, specifically in the Bangladesh public sector. Thus, from the researcher's point of view, this study potentially contributes to the auditing literature in three ways. Firstly, it extends the existing knowledge on the audit challenges by providing evidence of the nature of challenges and their composition in Bangladesh. Secondly, by examining the nature of performance audit and audit process, using Bangladesh as a case study, this study contributes to the literature of performance audit in developing countries. This study demonstrates that the audit institutions of such countries cannot afford to overlook the importance of compatibility with needs of users in the conduct of auditing. Thirdly, this study contributes to the knowledge of the audit challenges in the public sector by enhancing the understanding of the effect of different contexts on the audit. The findings of this study could therefore provide a useful framework for studying the audit challenges in the public sector and be useful to academics and other researchers.

### **1.12. LIMITATION OF THE STUDY**

This study aims to explore the presence (or absence) of the audit challenges in the public sector of Bangladesh. It investigates the perceptions of auditors and users on the performance audit functions and auditors' work. The first limitation of this study is that it did not cover the public sector financial audit or compliance audit. Also, the findings of this study are limited to Bangladesh or to other developing countries with similar auditing and public sector environment. The final limitation is the inherent research methodology involving the use of interviews and audit report analysis.

### 1.13 ORGANIZATION OF THE STUDY

This study has five chapters. After this introductory chapter, Second chapter discusses prevailing literature about performance audit. The third chapter discusses about the conceptual and analytical framework of this study. The fourth chapter analyses the data collected regarding performance audit in Bangladesh and the final and fifth chapter concludes the whole discussion and gives some suggestions in the light of findings.

## **CHAPTER TWO**

### **LIERATURE REVIEW**

#### **2.1. INTRODUCTION**

In this chapter several publications related to this research topic will be discussed. As performance audit is to some extent a new concept and not most of the countries of the world are pursuing this type of audit, publications on this topic are few in number. But before that the history of performance audit and how it is conducted in some countries and its similarities and dissimilarities with Bangladesh context is presented in this chapter.

#### **2.2. EMERGENCE OF PERFORMANCE AUDIT**

Performance auditing is an area new enough in the history of auditing. Its growth parallels the evolution of politics and public administration from one-dimensional focus on control of inputs (resource) towards broader attention to accountability for outputs and outcomes. The causal relation between management's reforms and the developments in performance auditing may theoretically go in two directions: reform causes new audit practices or new audit practices cause the reform. Empirically, the relationship is mainly one directional: management reforms trigger an adoption of audit practices. On the audit side, new public management has influenced development of the audit. This evolution of auditing represents both: a means by which audit can continue to be relevant and a move towards fulfilling accountability role in governance.

The first point to rise is one of terminology differences. Different terms are used in various parts of the world. Reference is frequently made to "value for money audit (VFM)" and "performance audit" in relation to examinations of the use of resources by public sector organizations. Although performance audit can sometimes be interpreted as extending beyond clear VFM issues (to include, for example, quality and technical matters), and the terms are used

interchangeably by many auditors. In this article we shall use the formal term “performance audit”, which has been adopted by the International Organization of Supreme Audit Institutions (INTOSAI) Auditing Standards.

In scientific literature performance audit is variously defined too, for example, Waring and Morgan defines the performance audit as follows: "Performance auditing is a systematic, objective assessment of the accomplishments or processes of a government program or activity for the purpose of determining its effectiveness, economy, or efficiency” This determination, along with recommendations for improvement, is reported to managers, ministers, and legislators, who are responsible for enacting the recommendations or ensuring accountability for corrective action. Hence, performance auditing is an important tool that makes conditions to improve accountable and help to create responsive governance of public resources.

While defining government accountability Michel argues that every system of public accountability should embrace the following basic elements: every act or action is done openly according to law and prudent judgment; every actor is responsible for his or her action; every act is documented and reported publicly; every act or action is subject to independent, professional, non-partisan audit review and public report of results; where the review shows that purposeful error has been made, prompt corrective action, including punishment where appropriate, is taken .Thus, the aim of the performance audit is to evaluate audited entity's performance and management in terms of economy, efficiency and effectiveness and to provide recommendations on how to improve the performance of the said entity.

Scope of performance audit functions and roles has changed and developed year by year. More or less plausible claims can be made for the performance audit - like activities back to the 1960s or ever considerably earlier. Performance audit, as a large scale of self-consciously distinct practice, dates mainly since the late 1970s. Especially, it was widely spread in the 1980s due to number of factors:

(1) The scope of government activities has expanded multiple. From simple function of law and order as well as administration of justice, most of the governments are now committed to play active role in socioeconomic development. This has greatly increased the size of public expenditure;

(2) There are competing claims for resource allocation. The scarcity of resources demands a more rational and informed decision- making on public expenditure. There is an urge for receiving full value from the money being spent;

(3) The development of democratic institutions, the consciousness of the public and its representatives has also increased. There is a growing demand for the accountability of those who manage public resources;

(4) The need to manage civil liability risk;

(5) The opportunities to increase efficiency gains through improved internal management systems, etc. Thus, as governments' programs continue to grow in stature, public sector auditing has evolved and extended its scope beyond mere financial or compliance audits to the auditing of performance to support policy makers in their oversight role.

### **2.3. NEED OF PERORMANCE AUDIT**

The auditing literature suggested three reasons for the need of performance auditing in the public sector. It is needed to overcome the limitations of financial audit (Cutt, 1988), to ensure the accountability of government agencies (Glynn, 1985; Henley, 1989; JAN, 2002) and to improve performance of government agencies (Henley, 1989; Innes, 1990; JAN, 2002).

#### **(a) The Needs to Overcome the Limitations of Financial Auditing**

As described earlier, the main purpose of financial auditing is to certify that the accounts of government agencies have been prepared fairly, accurately and that the money was spent

appropriately according to its purposes. This audit is basically concerned with the financial statements of government agencies, which usually lacks information on the managerial aspects. However, there are often situations where the user groups have an interest in the performance of government agencies, in addition to financial information. According to Cutt (1988), with the expansion of accountability to emphasize on the utilization of scarce resources, the need arose for auditors to provide 'some additional information on the value of outputs' (p.54). He argues that the value of output is not in dollar terms, but rather in terms of the degree of attainment of a set of measures of the level and quality of service provided. This is particularly the case in the public sector where only a few financial measures of performance exist. The roots of performance audit lie in broadening social values which ascribe importance to information on economic performance (Cutt, 1988). Thus, performance auditing can be seen as an attempt to provide an alternative solution to the limitations in financial auditing.

#### **(b) The Needs to Ensure the Accountability of Executive**

One of the primary objectives of performance auditing is to enhance the accountability of government agencies by providing wider information to the Parliament and through them to the public. As previously mentioned the financial audit mainly focuses on financial aspects and of accountability though, this type of audit is still important and needs to be pursued. It 'must not be seen or become the end in the examination of government expenditure' (Abdullah, 1988, p.25). Dewar (1997) argues that whilst a key objective of auditing is to express an opinion on the accuracy of annual accounts and financial statements, the use of public funds and resources imposes further special demands. Therefore, information on financial results alone does not adequately address the full range of stakeholder's interests and information requirements. Accountability in the public sector occurs when both politicians and the public at large are assured that public funds are being spent efficiently, economically and on programs that are effective (Glynn, 1985).

For example, in Bangladesh, the parliament allocates the resources to the government for the implementation of proposed programs. As part of the monitoring mechanism, the parliament obviously needs reports on the financial affairs (based on financial transactions) of government

agencies. However, since the resources allocated earlier were for specific purposes, the parliament may also need information on how well the government has implemented its policies and programs. In relation to this, the performance audit was introduced to meet this purpose. One of the main objectives of performance auditing is to assist the legislature in exercising effective legislative control and oversight (JAN, 2002).

### © The Needs to Improve Performance of Government Agencies

The need for a performance audit becomes obvious with increased government spending. Henley (1989) states that public sector auditors are responsible for two separate tasks, first, the auditors need to ensure accountability of the executive to the Parliament. This task has been explained in the section above. The second task is to ensure the efficiency and effectiveness of the agencies' operations. Morin (2001) shares the same view with Henley (1989). She argues that performance auditing not only ensures and promotes accountability by providing advice and recommendations. In relation to this point, Innes (1990) argues that performance audit would work as a 'deterrent effect' (p.20) in which the audit results and auditors recommendations may provide proper perspectives that encourage government agencies to re-examine their overall management performance. Thus, it can be concluded that a performance audit is a useful tool to improve the performance of government agencies by treating the auditee as a 'client' and by emphasizing economic motivation not only for the benefit of the auditee but also for the interest of the public. In the context of Malaysia, other than ensuring the accountability of the executive, the performance audit also aims to improve the performance of government agencies. For instance, under Section A-3 [3] (b) of *Garis Panduan Audit Prestasi* (JAN, 2002), it was stated that an objective of performance auditing is 'to assist public sector managers by identifying and promoting better management practices'.

## 2.4. PERFORMANCE AUDIT IN BANGLADESH

In Bangladesh the Committee on Public Accounts of the 5th, 7th & 8th parliament underscored the need for conducting performance/VFM audit along with the conventional audits to keep

abreast of the emerging trends and techniques of modern audit the world over. The donors and development partners whose main reform agenda reflect overriding concerns for good governance with stress on accountability and transparency also echoed the same urge.

Historically, the system of maintenance of public accounts in Bangladesh, dates back to the mid-1800s, the days of British-occupied India. Since its independence in 1971, Bangladesh has started a series of reforms in the accounting and auditing fields in association with donor agencies. The Accounts Code was revised and updated in September 1996 with the assistance of the United Kingdom Department for International Development (DFID). During 2000 and 2001, the Audit Code, Audit Standard, Code of Ethics, and manuals for the various audit directorates were developed and updated with the assistance of United Nations Development Program (UNDP), DFID, and The Netherlands Government.

The Financial Management Reform Program started in April 2003 with the following aims:

- To strengthen auditing practice and information for improved parliamentary scrutiny of public

Financial management;

- To enhance aggregate fiscal management and to develop the regulatory framework for financial and performance management;

- To enhance resource allocation, utilization and financial management, resource management, and performance management capacity in line ministries;

- To enhance financial management reporting systems;

- To build the capacity of the Financial Management Academy (FIMA) as a sustainable center of excellence for financial management training in governance.

In the year 1994 the OCAG explored training possibilities in order to initiate performance auditing by the trained personnel. The OCAG succeeded to manage sending mid-level officers for getting both theoretical and practical long-term training on the subject. Despite constraints, performance audit as an essential feature of statutory audit started in Bangladesh in the year 1998 with the issue of 'National Book Centre'. It complemented the existing efforts in compliance and financial audits. One mid level officer having completed training for long 9 months in 'The

office of the Auditor General (OAG), Canada under sponsorship of Canadian International Development Agency (CIDA), and administered by Canadian Comprehensive Auditing Foundation (CCAF) conducted the first pilot audit on the aforementioned issue and the report was discussed by the Public Accounts Committee (PAC) in April 2001 . The OCAG carried out a special audit on the ‘Central Locomotive Workshop of Parbatipur’ in 1997 with focus on performance dimensions and the PAC of the 8th parliament has discussed it.

By this time as many as 30 officers have received overseas training on performance auditing either by attending workshops and seminars or by participating in both the short term and long term training program. Other than this, about 200 officers and staff have been trained in performance auditing at home by strengthening the Office of the Auditor General (STAG) and Financial Management Reform Program (FMRP) projects.

In 2003, SAI Bangladesh launched a major initiative to upgrade the skills of staff of all categories. As part of knowledge dissemination, among other things, the performance/VFM audit reports received from different SAIs are reviewed and discussed in the presentation sessions where officers of all levels participated. The presentation on operational issues helped explore many important new areas of audits. Carrying out audit of privatization and audit of government assets are two such examples.

## **2.5. INSTITUTIONAL ARRANGEMENTS**

The OCAG Bangladesh, in the year 2000 (August, 2000) in an effort to institutionalize performance auditing created a Performance Audit Cell with a group of 5 officers of the managerial (Audit and Accounts) cadre and selected 3 topics for performance auditing. Some lower level staff was also engaged in the performance audit teams. The SAI’s expectation was that a small group (core group) would be created to lead the transition, proficiency would be earned from learning on the job and the support of the auditees and users of the report would be gained by producing some quality audit reports. STAG had prepared a Performance Audit Manual. Two performance audits were conducted from the performance audit cell and the two other topics were selected as part of pilot performance audits that were conducted by STAG. The four issues/topics were audited and the reports submitted to the parliament in the year 2002.

SAI, Bangladesh launched a strategic plan, the first ever in the history of OCAG, covering a period from 2003 through 2006. The four phased strategic plans include short-term, mid-term, long-term and tenure- term work plans for enhancing capabilities of SAI, Bangladesh. The main objectives of the strategic plan are to gradually shift the approach of auditing from traditional transaction-based vouching auditing to issue-based and performance auditing and to achieve the goals to enhance the quality of audit management methods and techniques of the office. Since then steps have been taken to conduct performance audit by different audit directorates.

Because of the changing pattern of audits, having focus on the improvements of the systems, controls and planning, the government functionary as well as parliamentarians now view audit as proactive. The resultant effect is that in the month of October, 2005 the government approved a Performance Audit Directorate with a total staff strength of 32. The newly created Performance Audit Directorate is engaged in preparatory work for developing performance audit methodologies and scrutinizing the proposals of performance audits of different audit directorates.

## **2.6. PERFORMANCE AUDIT IN OTHER COUNTRIES**

This section aims to provide a brief background on the practice of performance auditing in other countries, specifically in the UK and Finland. The purpose is to highlight some of the main features in these countries that were seen to be potentially influential to the user's perceptions of the audit functions and auditor's work. Furthermore, in terms of practice, the way the OCAG Bangladesh conducts performance auditing in Bangladesh is not much different from the UK and Malaysia. Thus, this could provide an early indication of the areas of concern for this study. In Finland, the practice is slightly different from Bangladesh, which could thus offer a different perspective of an analysis. However, it must be noted that it is not the intention of this section to compare the practice of performance auditing in detail.

(a) INDIA

SAI India has been carrying out performance audits over the past 40 years relating to the receipts and expenditure of the Union and State governments, government supported autonomous bodies and other public sector undertakings on a variety of subjects.

SAI India performs its audit functions in harmony with the Auditing Standards promulgated by it, which are consistent with the INTOSAI Auditing Standards. SAI Auditing Standards 4.9 in chapter 1 (corresponding INTOSAI Auditing Standards 1.0.38) defines the scope of audit as under:

“The term ‘audit’ includes financial audit, regularity audit and performance audit.”

It further adds that in pursuance of the constitutional responsibility, the SAI is empowered to decide the nature, scope, extent and quantum of audit to be conducted by it or on its behalf.

The mandate of SAI India for audit is derived from the Constitution of India, as established under the Comptroller and Auditor General’s (Duties, Powers and Conditions of Service), Act 1971. The mandate of CAG of India for performance audit is governed under sections 13, 14, 15, 16, 17, 19 and 20, as the case may be, read with section 23 of this Act. The mandate is further established by practice and convention.

The Comptroller and Auditor General of India play a key role in the functioning of the financial committees of Parliament and the State Legislatures. He has come to be recognized as a ‘friend, philosopher and guide’ of the committee. His reports generally form the basis of the committee’s working although they are not precluded from examining issues nor brought out in his Reports. He scrutinizes the notes which the Ministers submit to the committees to check the correctness of facts and figures in their draft report.

## **(b) UNITED KINGDOM**

In the UK, performance auditing is known as value for money audit (VFM). The National Audit Office (NAO) is the highest SAI and is responsible for conducting the VFM audit of the central government agencies. The NAO is headed by the Comptroller & Auditor General (C&AG) and is accountable to the House of Commons. One of the important developments with regards to the VFM was with the passing of the *National Audit Act* in 1983 by the Parliament. Under this Act, the NAO, specifically the C&AG has been given statutory responsibility to examine and report on the economy, efficiency and effectiveness of public spending. The NAO defines the VFM as follows.

Economy: minimizing the cost of resources used or required (spending less);

Efficiency: the relationship between output from goods or services and the resources to produce them (spending well); and

Effectiveness: the relationship between the intended and actual results of public spending (spending wisely).

Additionally, this Act clearly prohibits auditors to question the merits of policy objectives. In relation to this, the Act only allows the C&AG to assess the means government agencies have employed to achieve the policy objectives set by the government and approved by the parliament. The NAO's audit mandate covers the department and executive agencies, other public bodies specified by statute or agreement and bodies receiving public grants to provide public services.

In terms of independence, the *National Audit Act* 1983 guarantees the independence of C&AG from government influence. Besides that, NAO staff is treated as employees of the C&AG, not as the civil servants. This change of status was deliberately intended to emphasize their independence from the executive (Pollitt *et al.*, 1999). However, there is criticism on issue of auditor independence. For example, in his study Funnell (1994) concluded that 'the state auditor was never truly independent from the executive'. He found out that the executive has been able to control the auditors through financial and procedural mechanisms.

Additionally, to encourage professionalism among the staff, the NAO gives them the freedom to choose their specialization either in VFM or financial auditing. It is also a common practice at the NAO to hire staff on a contract basis, use specialist consultants or experts from the private sector and also academics in terms of helping them with their work such as in the fields of health, defense and information technology. In some cases, the NAO also contracts out the audit work to the private sector (Pollitt *et al.*, 1999).

In terms of reporting, the C&AG is responsible for presenting the audit reports to Parliament, which are examined by the Public Account Commission. The audit reports by NAO can be considered as timely because the C&AG can present reports on individual subjects to Parliament at any time. According to Pollitt *et al.*, (1999),

‘in producing its reports the NAO needs to take account of the fiercely majoritarian and adversarial nature of the wider British political process, to maintain the tradition of independence and non partisan assistance to the legislature, and to avoid being seen as champion of particular policies’.

## © FINLAND

In Finland, the National Audit Office of Finland (NAOF) on behalf of Parliament conducts the performance audit. In Section 90 of the Finland Constitution, the status of the NAOF is treated as ‘an independent body affiliated with the Parliament’. The performance audit mandate is stipulated by the Constitution and the *1947 State Audit Act*. Compared to Malaysia and the UK, the Act does not explicitly establish the mandate for conducting the performance audit. As stated in Section 1 of the *1947 State Audit Act*:

‘The task of the State Audit Office shall be to ensure the legality and effectiveness of the state's financial management and compliance with the budget... The State Audit Office's right to audit the transfer of funds between Finland and the European Union shall be covered by separate legislation.’

Nevertheless, according to Pollitt *et al.* (1999), the statutory right to audit the ‘effectiveness of financial management’ would extend to include other types of auditing, ‘which in English terminology, would be labeled as performance auditing’. This mandate covers the federal

government, provincial and local governments, government linked companies, states joint ventures entities and other entities that receive grants from the government.

Another distinct feature is related to the scope of auditing and its limitations. The Act does not clearly state the objective and limitations of performance auditing. Pollitt *et al.* (1997) see the objectives ‘as aiming to ensure that public bodies and public activities are effective and appropriate; in practice this has led to audits (for example in the field of state grants and subsidies) which can be interpreted as questioning the merits of policy’.

Independence of the Auditor General is guaranteed under the Constitution. The NAOF is headed by the Auditor General who is appointed by the Parliament for a term of six years which is renewable. The independence is preserved by making the Auditor General responsible to Parliament and he or she can only be removed by the Parliament on grounds of serious misconduct. Additionally, the NAOF has powers to take punitive action or impose a surcharge in order to secure access to needed documents and records.

In term of audit reporting, the NAOF produces separate reports on financial and performance audits. Decisions on the final content of the audit report are made by the NAOF but in cases of dispute, auditee’s comments are incorporated into the final report. It is a normal practice for NAOF to produce the audit reports around 50-150 pages long. In ensuring the competency of auditors and a high quality of audit, all audit staff at the NAOF have university degrees with different backgrounds such as accounting, public administration, political sciences, economics and sociology.

## **2.7. SIMILARITIES AND DISSIMILARITIES**

A scrutiny of the practices in these countries reveals a few significant similarities and differences in some areas. It is obvious that when comparing to the conduct of performance auditing in Bangladesh, similarities exist in the practice with the UK such as in terms of audit mandate, authority and the status of the independence of the Auditor General. This is due to the influence of British colonialism in this country. . Other than that, in Bangladesh and the UK especially,

contracting out the performance audit to the private firms is a normal practice in ensuring the timeliness and quality of audit reports.

In Malaysia, although the King appoints the Auditor General, the appointment is based on the recommendation by the Prime Minister. This is not much different from Bangladesh in which the president appoints the C&AG and the appointment is based on the recommendation by the Prime Minister. Based on this analysis, it could be expected that the audit challenges in Bangladesh public sector would exist.

## **2.8. LITERATURE REVIEW**

As performance auditing is a recent phenomenon in auditing sector no specific and comprehensive research has been found on this topic. Only a very limited and discreet study has been done in this respect and those are in the developed country context.

Tharany Rajasingham in his article '**Performance auditing in public sector**', says that the scope of auditing has diversified and is no longer restricted only within the financial genre (Power, 1996). According to him auditing of efficiency and effectiveness, performance auditing, value for money auditing, etc is on a rise especially when accountability of a sector is vital. According to Samaratunge (2002) in order for any reform to be successful, the motivation to implement the reform needs to be a long term mission and both the politicians and the bureaucrats need to onboard with the plans and the reforms. He argues that unless all of a reform is fully supported and complied by the users, there is no room for achieving the full benefits of any reforms as it was initially intended.

Mohammad Hurmat Shah in his paper '**Audit in Bangladesh**' briefly discusses the challenges of performance audit. He says that the existing status of Performance audit in Bangladesh clearly indicates that progress in the field is slow. So there should be adequate strategies in place to give pace in the currently taken initiatives. He recommends some measures to be taken and those are: Establishment of a Planning and Monitoring Unit, Human resource management and planning,

Working environment in Performance Audit Cell, Building awareness among the key stakeholders, Establishing a knowledge center, Separate advisory committee for each audit assignment, Entity clearance on conclusions and recommendations of the audit report, Restructuring of power and authority of the Auditor General, Independent advisory committee for the Auditor General, Peer review, Separate enactment for VFM audit, and so on. But the challenges or problems of performance audit are not discussed.

The Role of the Supreme Audit Institutions in New Public Management NPM: the Trend of Continental Countries by Nobuo AZUMA, Director, Study Division, The Board of Audit discusses the differences between public and private sector that make performance audit effective for one but not for the other The main aspect that significantly distinguishes private and public sector, according to him, is accountability. In private entities, the management has to be responsible or accountable to the shareholders, while in public sector, the government has to be responsible to the stakeholders. The shareholders in a private entity include those who have shares in the organization, while the stakeholders in a public organization have a wider definition as voters, tax-payers, society, parliament, and other interest groups. This shows that performance audit has more challenges in public organization than in private entities.

A private organization generally has particular objectives that are relatively easy to define, for example profit. The organization usually depends on the financial audit, because the value of money in the private entity is clear and well defined. Its performance indicators are also relatively easy to define. On the other, there are many players involved in public sector which make public organizations have broader and less clearly defined objectives. This makes the achievement in public sector is more difficult to interpret or measure (Arens, et.al (2005)

ZAIDI MAT DAUD in his THE STUDY OF THE AUDIT EXPECTATIONS GAP IN THE PUBLIC SECTOR OF MALAYSIA: 2006, says that from a political-economic perspective, the progression of public sector auditing in developing countries has been generally different from 'so called' Western countries. In many cases, developing countries have been adopting auditing systems that have been introduced in developed countries. This may be due to several factors

such as the effects of colonialism, the influence of professional associations and the conditions required by the international funding agencies such as the International Monetary Fund and World Bank. The local professional associations or affiliated institutions, which are usually founded by western countries, for instance, may put pressure on the audit institutions to adopt the international accounting and auditing standards for harmonizing the auditing practices among the countries. This is still a disputable issue because such standards may not suit to the needs of developing countries. Furthermore, the possibility of fraud, corruption and economic mismanagement are high in the public sector in developing countries. In this respect, it is possible to argue that there could be more demand from the interested parties, such as international funding agencies and politicians, on auditors to perform the roles which may be outside the scope of the audit mandate.

Additionally, researcher also claims cultural factors of one country could have implications on the attitudes and perceptions towards accounting and auditing systems. Agacer and Doupnik (1991); and Patel *et al.* (2002), among others, argued that the adoption of accounting and auditing systems of developed countries in developing countries might face many cultural obstacles such as in the interpretation of standards, audit procedures and codes of conduct. Among the possible cultural factors are the level of transparency, conservatism and collectivism and power distance. These factors are also relevant to the Bangladesh context. Needless to say, one may expect that Bangladesh has at the very least, the culture of collectivism and a high power distance, while it is the opposite for many western countries, (Ali, 1999). In a high power distance society, for example, researchers such as Patel *et al.* (2002), Hofstede, (2001) and Ding *et al.* (2005) suggest that individuals would respect and value the views or orders of elders, superiors and authority. Consequently, they would 'accept a hierarchical order in which everybody has a place which needs no further justification' (Salter and Frederick, 1995). Thus, it is possible this factor will significantly influence the perceptions of the users and auditors on the functions of performance audit and auditors work.

## **2.9. INFERENCES DRAWN FROM ABOVE**

Though some of the articles mentioned above discuss few problems or limitations of performance audit none of them deals with developing country context. Hurmot Shah works on Bangladesh but his paper only gives recommendations without delving deep in to the problem. So there is ample scope to work on the topic ‘Challenges of Performance Audit’ in Bangladesh context as no research till now has been found on it.

## CHAPTER THREE

### THEORETICAL AND ANALYTICAL FRAMEWORK

#### 3.1. INTRODUCTION

The objective of this chapter is to present the theoretical background of the topic performance audit, analytical framework, the research methodology and methods used to investigate the limitations with regards to the performance audit in the Bangladesh public sector. Performance audit comes as a result of administrative reforms that took place in the western countries, also known as, New Public Management. The theory and for the convenience of discussion an analytical framework has been drawn in this chapter. In deciding on the appropriate research methodology and methods for this study, the following underlying principles were used by the researcher. First, the researcher selects the appropriate methods that can address the issues raised in the research questions. As stated by researchers such as Patton (2002) and Denzin and Lincoln (2005), selecting the appropriate research method depends on the research topic and research questions. Clarke and Dawson (1999) also state that the choice depends on the purpose of the research and research problem.

The second principle was based on the suitability of applying the research method in a real life context. McDonnell *et al.* (2000) suggest that other than addressing the research questions, the issue of practicality (for example consent of participants/organizations) in applying research methods in real life settings also needs to be considered. Thus, this chapter outlines the theoretical and analytical framework of this research paper, the choice of research tools and methods, the appropriate methodology and data gathering techniques used within this methodology.

### **3.2. THEORITICAL FRAMEWORK**

There has been a significant shift in the administration of the public sectors across the globe due to globalization and internationalization and also as the demand for monitoring performance efficiency and effectiveness. Many countries especially the OECD countries started to implement private sector management style within the public sector as their current methods were proving to be inadequate. This shift was called as the new public management (NPM) by Hood (1995), although some countries such as Australia, New Zealand, United Kingdom, etc are successful pioneers of the NPM reform, this new reform has received its share of criticism regardless of the positive reinforcement it had on those countries which have successfully applied it.

The reason for the adoption NPM was argued to be a way by which administrative corruption and resource wastage could be prevented and restricted within the public sectors. According to Hood (1995, p. 103) countries with small sized public bureaucracy might have proportionately less to gain from putting greater stress on NPM. As Dunsire (1990, cited in Hood, 1995) stated “much of NPM is built on the idea (or ideology) of homeostatic control; that is, the clarification of goals and missions in advance and then building the accountability systems in relation to those preset goals”.

In the 1980s a handful of OECD countries shifted towards and adopted NPM (Hood, 1995). The frequent outcry regarding the NPM reform is that in order for it to work, each country has to modify it in accordance to its Country’s governmental infrastructure and that all the politicians and bureaucrats (Samaratunge 2002) should be onboard with the compliance and application of the NPM reforms. Hood (1995) argued that there was two reasons for the shift towards NPM (I) to reduce cost (ii) prevent corruption. Governments started to carry out performance auditing to measure the corresponding outcome to its input within the public sector. Although NPM was initially created as a tool to cut cost and reduce political interference and bureaucratic corruption, many countries have started to implement NPM more as a means of measuring the efficiency with public sector administration.

As the scope of auditing has diversified and is no longer restricted only within the financial genre (Power, 1996), auditing of efficiency and effectiveness, performance auditing, value for money auditing, etc is on a rise especially when accountability of a sector is vital. According to Samararatunge (2002) in order for any reform to be successful, the motivation to implement the reform needs to be a long term mission and both the politicians and the bureaucrats need to onboard with the plans and the reforms. He argues that unless all a reform is fully supported and complied by the users, there is no room for achieving the full benefits of any reforms as it was initially intended.

Since public sectors' and private sectors' objectives vary it is very hard to measure efficiency and effectiveness in the public sector. As a tool of measurement performance auditing is very essential for the monitoring whether the public sectors have accomplished its objectives. The challenge within the public sector is to measure the performance of the success that these reforms bring to the public sector. Since performance is not quantifiable and the success of the public sector is not monitored through the monetary gains as it is done in the private sector the governments of each country has to come up innovative and positive reinforcement to measure their success. The initial countries like UK, Australia, New Zealand which adapted NPM reforms and applied performance auditing to ensure efficiency and effectiveness in their public sector has become very successful. .

There is a tension in NPM between the need for greater managerial discretion and the need for a greater degree of accountability (Thomas 1998). Here a distinction can be drawn between political accountability and managerial accountability (Day and Klein 1998). The former is about those with delegated authority being answerable for their actions to the people and involves dialogue and debate about what should be done. The latter is a more neutral, technical exercise involving book keeping and argument about whether what is being done being done efficiently and effectively. It is about making those with delegated authority answerable for carrying out agreed tasks according to agreed criteria of performance.

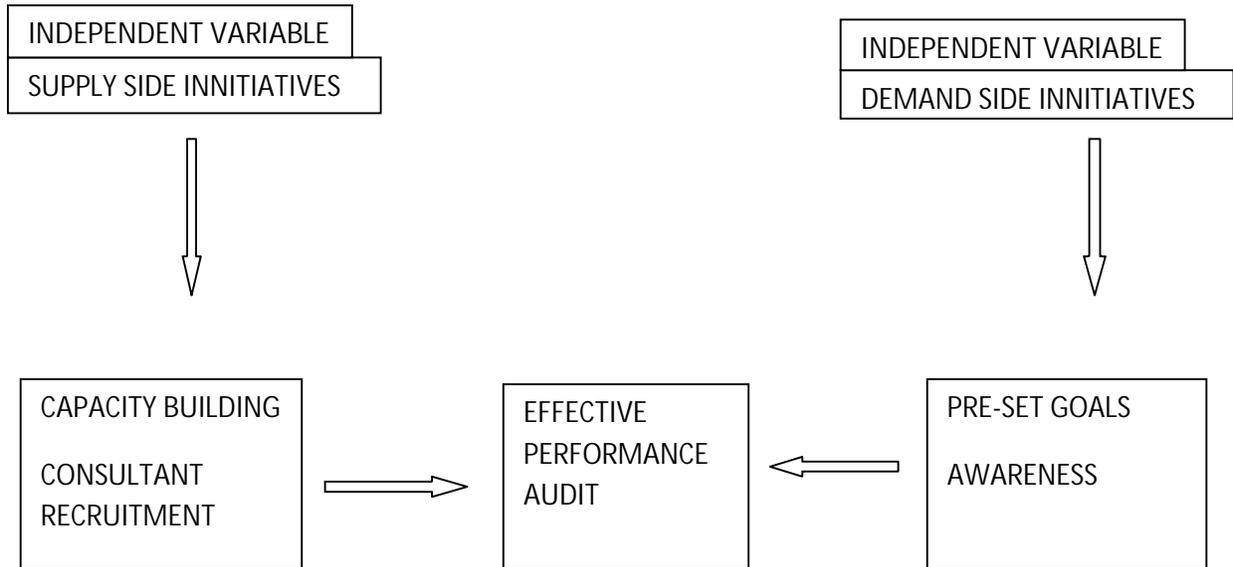
NPM focuses mainly on strengthening managerial accountability. Though all types of audit ensures managerial accountability to some extent, it is only the performance audit which ensures it with special emphasis on 3Es, namely, economy, efficiency and effectiveness. In Bangladesh,

specifically, managerial accountability is very much needed as we have scarcity of resources, we have to use it economically, effectively and environment friendly, so that we can achieve the goal more effectively. That is why OCAG, Bangladesh has started this type of audit with high enthusiasm. If we can measure performance of government activities, managerial accountability will be ensured. It will help reducing the wastage and mismanagement of scarce resources to a great extent. But here we have to conceptualize our context with the theories of NPM and act thereby, otherwise this reform will also turn into ‘much ado about nothing’.

### **3.3. ANALYTICAL FRAMEWORK**

The relationship between SAIs and government organizations can be explained by the supply-demand theory. Different ministries and government organizations create demand and SAI with the help of the ten audit directorates fulfills that demand. If the demand for good performance audit is created then the SAI will take initiatives to create the environment for effective performance audit. As NPM emphasizes the managerial role of bureaucracy and measures performance, it gives greater emphasis on performance audit. So the demand is already by the NPM. Now SAI will have to create favorable environment for to fulfill that demand. In the analytical framework two variables are taken from each side which will help making that environment. Obviously there are other variables which are equally important but for the convenience of analysis only four have been taken.

FIGURE 01: ANALYTICAL FRAMEWORK



### 3.4. INDICATORS OF INDEPENDENT VARIABLES

As this research has four independent variables against one dependent variable, this does not mean these four variables only can fulfill all the demands of fruitful performance audit. These four are selected as the indicators of these independent variables are measurable. More indicators would be taken but to limit the scope of the research only few indicators are taken. To measure each independent variable there are lots of indicators. But for the time constraints and convenience of the research only few indicators are taken. Again these indicators are also used in a very limited sense. For example, professional training only means performance audit related training that is conducted only by the directorate of performance audit. The indicators taken for measuring the independent variables are shown in the table below:

**Table 2: Indicators of Independent Variables**

DEPENDENT VARIABLE	INDEPENDENT VARIABLE	INDICATOR
Effective performance audit	Capacity building	Professional training, sufficient staff , electronic equipments
	Consultant recruitment	Skilled and experienced manpower, ‘right man in the right place’
	Awareness	Updated database, orientation/training program, supportive executive
	Pre-set goals	Key performance indicators, achievable goals

#### (a) CAPACITY BUILDING

Necessary space, office staff, modern electronic equipments and other support services are prime requirements that create a strong material base for the directorate to perform their designated assignments. Side by side regular training programs, research facilities and assistance of a panel of experts go a long way in increasing the faculty knowledge of the committee members for properly coping with the complex legislative business as well as dealing with a rigid bureaucracy.

Jessup (quoted in Hassal *et al.*, 1996, p.30) defines competence as ‘The ability to perform to recognized standards...A person described as competent in an occupation or profession is considered to have a repertoire of skills, knowledge and understanding which he or she can apply in a range of contexts and organizations’. In the context of auditing, auditor competence also encompasses the above attributes. Flint (1988, cited in Frantz, 1999, p.59) stated that ‘Audit competence requires both knowledge and skill, which is the product of education, training and experiences’. In a recent standard issued by IFAC, *International Education Standard (IES) 8 Competence Requirements for Audit Professional*, outlines that auditors must have the formal

education (knowledge) relevant to audit (IES 2), professional skills (IES 3) and be able to apply the professional values, ethics and attitudes (IES 4) to different contexts and organizations. Based on these definitions, it is clear that auditor competence is determined by considering a set of relevant attributes such as knowledge, skill and attitudes.

## **(b) CONSULTANT RECRUITMENT**

The quality of performance audit is directly related to the people assigned to the audit. An audit procedure that requires the exercise of judgment beyond the ability of the person expected to make the judgment will likely end in failure. So the audit team should possess, or collectively possess, the knowledge, discipline, skills and experience to carry out the audit effectively. This may include any specialists that are contracted to assist the team in any way. According to Performance Audit Manual of Canada, the audit team leader should identify at an early stage in the planning process if specialized or technical skills, not available on the audit team, are required to complete the audit. The early identification will allow the necessary lead time to acquire suitable staff from within the Office or to obtain persons under contract.

The Office has an obligation to Parliament, the audited organizations, and the other stakeholders to ensure that competent personnel conduct audits. This requires the audit team to possess, or collectively possess, the knowledge, disciplines, skills and experience to carry out the audit effectively. This includes any specialists that are contracted to assist the team in any way.

The audit team should have:

- knowledge of performance audit concepts and techniques and the ability to apply the knowledge;
- experience and technical skills to effectively deal with the subject matter of the audit;
- knowledge of the audit entity; and
- A general knowledge of the government environment.

The audit team should consult Functional Responsibility Leaders (FRLs) and other support groups such as Product Leaders (PLs) and Subject Matter Experts (SMEs) where necessary to obtain expert advice particularly when the audit team lacks the necessary specialized knowledge.

Audit advisors should have the appropriate background and knowledge to effectively review and challenge the key decisions of the audit.

Where appropriate competence is not available, the audit should be redefined or deferred until appropriate personnel are available.

### © AWARENESS

Unlike compliance or financial audit performance audit is to some extent new approach not only in Bangladesh but in the whole world. The scope and focus of attention are very much different from the age old financial or compliance audit. Though audit personnel are listening to it for last one decade most of them are still not well-conversant with this. So it is well assumed that the awareness level among the auditee personnel would be much less. The stakeholders of performance audit are also not aware of all the aspects of it. As it measures performance of institutions the lack of standards, updated database, protocols or guidelines that can function as benchmark for performance audit hinders the work.

### (d)PRE-SET GOALS

Performance audit measures the performance of an institution or program or project. All measurement needs a yardstick and targets to get the result .The institutions have their duties and responsibilities expressed in the mandates or citizen charter. Performance is measured against those targets and pre-set goals using those yardsticks. Performance audit tells how economically resources are used, how efficiently the management is getting the works done by using those yardsticks and how effectively the institution or project has reached to its target or fails to reach there.

## 3.5 RESARCH METHOD

The two distinguishable research methods are quantitative and qualitative approaches. The quantitative research method relies on the collection of data based on numbers. The data is usually obtained by the means of survey questionnaires and then analyzed statistically. The quantitative research quantifies the results of people's words, actions and records – the meaning given to the words, behaviors and documents as interpreted through quantitative analysis or statistical analysis (Maykut and Morehouse, 1994). In this approach, numerical results are important because they are normally used to test hypotheses and draw conclusions from the phenomena.

The qualitative approach is another commonly recognized form of research method. Researchers especially in social sciences observed that quantitative methods were subjected to several limitations and were inadequate to explain and clarify the complexities of social phenomenon (Allen-Meares and Lane, 1990; Pabjan, 2004; Kittel, 2006. Hammersley (1993) argued that quantitative research 'neglects the uniqueness and particularity of human experience' (p.16). The qualitative approach also offers other advantages. Miles (1983) suggests that qualitative data is holistic, robust and real. It expresses a commitment to viewing events, action, norms, values, etc. from the perspective of the people who are being studied (Bryman, 1988) and thus, can produce valuable and more meaningful information (Denzin & Lincoln, 2000; 2005)

A qualitative approach was considered appropriate for this research from a technical aspect; this study aims to explore the challenges of the performance audit, the factors contributing to those challenges and the perceptions of participants on the audit functions and audit reports. This approach can assist the researcher in meeting the objectives of the study because it enables the researcher to question and probe participants in order to gain an insight into their perspective. As noted by Casswell and Symon (1994), qualitative research is used when we want to understand a circumstance in terms of *how* and *why* it occurs. Additionally, as argued by Inu (1996), this method is 'desirable when asking questions about meaning, human value or the understanding of social processes not previously explored or when searching for new theory grounded in the perceptions and traditions of social groups'. This approach therefore, provides an opportunity to uncover the issues that have not previously emerged in the research.

According to Maykut and Morehouse (1994), the ‘human instrument is the only data collection instrument which is multifaceted enough and complex enough to capture the important elements of human person or activity’. The limitations of the quantitative approach are also contributing factors for selecting a qualitative approach. Berg (1995), for example, suggests that a quantitative study based on a survey questionnaire technique does not allow the intercommunication of ideas. In addition, researchers argue that Bangladeshi culture is usually non-responsive to the questionnaires due to lack of interest, an agency’s policy and the absence of tangible mutual benefits to the participants (Abdul-Rahman and Alidrisyi, 1994; Ahmad *et al.*, 2003). These researchers note that people might dispose of the questionnaire without the presence of the researcher.

Thus, based on the above arguments, particularly the importance of discovery and answering the research questions, qualitative research is best suited to the subject of this research.

#### **(a) Qualitative Research Methods – Interview and Documents Analysis**

After a review of the possible qualitative approaches, the researcher selected the interview and document analysis for collecting data. In qualitative research, the methods available includes ‘case study, personal experience, introspective, life story, interview, observational, historical, interactional, visual and text that describe routine and problematic moments and meaning in individual’s lives (Denzin and Lincoln, 1994). Guba and Lincoln (1989) argued that people are the instruments for conducting the enquiry and therefore they should use methods compatible with people. The researcher being the instrument leads to the choice of a qualitative methodology wherein the researcher uses feelings, observations, and conversations as a means of collecting data (*ibid.*). The interview and historical text (document analysis) methods were used in order to collect data from participants. The methods were chosen because of their superiority compared to the other methods in terms of answering research questions. Other methods such as life story, observation techniques and visual texts were not appropriate because this study sought opinions and perceptions rather than studying behavior.

#### **(b) Interview**

Interviewing is one of the most widely used qualitative methods by qualitative researchers as it provides many advantages over the other methods. One is that the interview sees the research topic from the perspective of the interviewee and provides an understanding on how and why he or she comes to have this particular perspective (King, 1994). According to Patton (2002), interviews can capture certain elements such as thoughts, feelings, and intentions that are impossible to be observed or measured using other methods. Another advantage relates to the position of participants in the interview. Interviewing provides researchers with an insight into the participant's thoughts, ideas and memories in their own words rather than those of the researchers' (Reinharz and Davidman, 1992). With regards to this study, the aim of the interviews was to examine the perceptions of auditors and users of performance audit reports. The findings of this method would enable the researcher to identify the existence of hindrances for effective performance audit and their causes.

There are three ways in which data collection using interviews can be obtained; mainly face-to-face interviews, telephone interviews and focus group interviews. Denzin (2001) suggests that the type of interview chosen must motivate the participants to transfer the relevant knowledge. Creswell (2003) shared the same view with Denzin (2001) and stated that the choice of data collection should be dictated by the aims of study and the data required attaining the aims. Based on these two criteria, face-to-face interviews were found to be the most suitable technique because of the potential to provide vast amounts of data. Face-to-face interaction is the fullest condition for participating in the mind of another human being and the researcher must participate in the mind of human beings to acquire social knowledge (Lofland and Lofland, 1995). Guba and Lincoln (1998) contend that face-to-face interviews are more flexible, giving the opportunity to repeat the questions if not understood and do not require literacy on the part of participants. This latter aspect is important as some users such as politicians (other than PAC members) and auditees were not familiar with the literature and terms in auditing. Moreover, this technique provided the researcher the flexibility of choosing other participants when there was no response from certain participants.

### **3.6 SAMPLE SIZE**

For collecting data and other information the researcher has chosen members mostly from the Audit and Accounts Department of the country as the research topic is a specialized subject and people who are not related to the department have little knowledge on it. Because of time constraint, the respondents are kept small in number and for content analysis only two performance audit reports are selected. This number of respondents and reports obviously do not represent the whole. It can only give the essence of the whole thing that is the present condition of performance audit in Bangladesh and the challenge the audit team and the government organizations are facing while performance audit is being conducted.

**(TABLE-3, SAMPLE SIZE)**

<b>Method</b>	<b>Types of respondent</b>	<b>Sample size</b>
Structured Interview	Members of audit team, employees of the auditee organization.	10
In-depth interview (15)	4 <sup>th</sup> , 5 <sup>th</sup> and 6 <sup>th</sup> grade officers of audit department Officers from auditee organization 2 <sup>nd</sup> and 3 <sup>rd</sup> grade officer of OCAG	6 6 3

### **3.7 DATA COLLECTION**

Power (2003) argued that conducting fieldwork in auditing and analyzing data is a difficult process. With this view in mind, for this study, as recommended by King (1994), a list of prospective participants was drawn up and an introductory letter was sent to each of them

explaining the purpose of the study. After approval was given, the researcher subsequently phoned each of the participants to arrange an interview appointment and clarify any doubts regarding the interview. In carrying out this research and in communication with the participants, the researcher discussed the study openly and did not disguise the research topic or link it to research on any other topic. The participants accepted the need for research in this area, even though it could be perceived as threatening for the auditors.

Prior to starting each interview, the participants were informed about the reason they were selected and about the research objectives. They also had the opportunity to ask any question before the recording began. The researcher also made clear to the participants that at any time during the interview they could ask questions in order to clarify a particular word or idea. They were also assured of the confidentiality of the study.

## **CHAPTER FOUR**

### **DATA ANALYSIS**

#### **4.1. INTRODUCTION**

Performance audit measures the performance of a project or institution and sees whether it has reached its target and while doing this it also measures how efficiently, economically and effectively it has reached the goal. Till now this is said several times because theoretically this is the only definition we have. But practically, especially in Bangladesh, what is produced in the name of performance audit does not always go with this definition. Two audit reports of OCAG are taken for analysis. One report is on Power Division and the other on Ministry of Environment and Forest. The first report is produced by Performance Audit Directorate and the second one by Local and Revenue Audit Directorate. The analysis of these two reports will show whether the performance audit in Bangladesh is in the right track and moving forward or we are away from the right track. In this analysis all the aspects of performance audit report are not taken into consideration. As the objective of this research topic is challenges of performance topic in the implementation phase, only four variables that affect implementation are discussed here.

Before going to the details of audit reports let us first see how audit report is produced by the auditors. In the OCAGs, Performance Audit Guidelines, audit implementation and audit reporting are the fourth stage of the audit process. The OCAG regards the performance audit process as a cycle comprising five stages. Briefly, it describes the first stage as involving a strategic planning in which all information related to the auditee is collected and studied. The aim of this stage is to identify possible topics for investigation. Once a topic has been selected, the process proceeds to the second stage, a detailed plan for the implementation of audit. In the third stage, a preliminary investigation is undertaken for the purpose of obtaining relevant information and identifying significant key issues. Stage four in the cycle is the implementation

of fieldwork and the publication of the report. In this stage, auditors carry out audit fieldwork involving the collection of evidence and development of findings. At the end of the audit process, auditors prepare the report for publication. Follow-up audit is the final stage in the performance audit cycle. This procedure is performed a year after the publication of the audit report.

#### **4.2. CASE -1**

The first case is Performance Audit on Projects of Technical System Loss Reduction in Electricity System

In accordance with the general decision no.2 of 20<sup>th</sup> meeting of Public Accounts Committee this performance audit was conducted. The audit unit is Power Division which is under the Ministry of Power, Energy and Mineral Resources. There are 36 projects in the Power Division. Though there is no single project on reduction of system loss, all the projects have a common item that is reduction of system loss. The whole electricity system from generation of electricity to utilization is divided into three stages.

1. Generation
2. Transmission
3. Distribution

Bangladesh Power Development Board (BPDB), Electricity Generation Company of Bangladesh and Ashuganj Power Generation Company generates electricity. PGCB (Power Grid Company) is responsible for transmission. For electricity distribution BPDB, DESA, REB and West Zone Power Distribution Company work.

In the audit plan system loss is divided into two groups. They are

1. Technical system loss
2. Non technical system loss.

The **objective** of the performance audit is to find out

1. Whether appropriate activities were taken to reach the targets delineated in the PP.<sup>1</sup>
2. Whether those targets were achieved
3. Whether those projects reduced system loss to desired level
4. To verify the information given in MOD.<sup>2</sup>
5. To verify the Stability, Capacity and Reliability of National Grid System.

The performance audit team virtually did the following works:

1. They verified the records of expenditure against the budget allocation
2. They audited the records of work order
3. They examined the site planning and design of the works done
4. They examine the quality of the works done.
5. They physically inspect the project
6. Audited other records.

## **AUDIT REPORT**

The report the audit team produced finally and submitted does not comply with the definition given by INTOSAI, ASSOSAI or different academics. The report does not itself say whether it is a performance audit report or financial audit report. As stated before, scope of performance audit should be limited. Here also the scope was limited to the measurement of technical system loss. As the audit team could not find necessary database to monitor or measure technical system

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<sup>1</sup> Project proposals are documents designed to present a plan of action, outline the reasons why the action is necessary, and convince the reader to agree with and approve the implementation of the actions recommended in the body of the document.

<sup>2</sup> Monthly Operational Data. It describe how much the project has done its work in one month.

loss, they started examining papers related to financial involvement, inspect zonal offices of the five districts and gathered pictorial document of misuse and wastage of expensive electrical equipments and produce the report. The observations are as follows;

1. There is no evidence that system loss is reduced because of the project implementation.
2. Wastage of time during implementation.
3. Unnecessarily equipments are procured and after completion of the project those equipments are left unprotected.
4. Due to lack of comprehensive initiative for completion of the project within the timeframe of original PP approved by ECNEC' expenditure is increased taka 392, 43, and 30,000.
5. Huge amount of foreign debt is created as additional equipments were bought much before it is needed.
6. Necessity is not verified before equipments were purchased.
7. Quality is not ensured while purchasing.
8. Economy is not ensured while procuring.
9. Huge amount of money is paid from the project's account without bill/voucher
10. Government loses taka 25, 94,000 as premium.
11. Difference of contract amount and approved amount is 82, 24, and 90,000.00 as high priced tender is approved and conductor is selected.

The **limitations** of this performance audit were:

1. As there was no separate record for technical and non-technical system loss, it was not possible for the audit team to find out whether the technical system loss was reduced or not.
2. Audit team itself lacks technical knowledge on electrical engineering.

3. Project authority does not keep any record on up/down of system loss. So the audit could not measure the amount of system loss reduction after the completion of the project.

## **OBSERVATIONS**

According to Performance Audit Guidelines – Key Principles, made by INTOSAI, the audit report should include information about the audit objective, audit questions, audit scope; audit criteria, methodology, sources of data, any limitations to the data used, and audit findings. The findings should clearly conclude against the audit questions, or explain why this was not possible. The audit findings should be put into perspective and congruence should be ensured between the audit objective, audit questions, findings and conclusions. The report should, where appropriate, include recommendations.

The only observation related to performance of the projects says that, ‘there is no evidence that the system loss is reduced because of the implementation of the projects,’ the aim of the Project on, ‘Five City Power Distribution System Development’ was to develop the reliability and reduce system loss of power distribution in Khulna, Faridpur, Jessore, Kushtia and Barishal. The average system loss of WZPODICO<sup>3</sup> was 22.50% while the project started in 2003-2004 FY. In the year 2010-11 (January) the system loss has been reduced to 11.35%. The primary objective of the project was to reduce system loss. Though the project was implemented in the five aforesaid cities, system loss has been reduced in other areas outside the project. Though the rate of reduction is a little bit more in the project area it is reduced everywhere. The reason behind this is mainly less theft and illegal connection, that is, non-technical system loss. There is no division in the record of technical and non-technical system loss. because of this, how far technical system loss is reduced for the implementation of the projects, and how much it was before the project implementation could not be found out as no statistics was there.

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<sup>3</sup> West Zone Power Distribution Company. This company is meant for distributing power in the west side of the countr

### **4.3 CASE-2**

The mission of the Ministry of Environment and Forest is to ensure a habitable environment for the population of the country by increasing forestlands, conserving ecology, reducing poverty and developing a sustainable environment through science and appropriate technologies.

This is an MTBF ministry audit on Ministry of Environment and Forest. The introduction of Medium Term Budget Framework (MTBF) means that government is shifting from traditional, centrally driven planning and budgeting system focusing on projects and dual budgets, to one that makes line ministries more accountable for performance within a more integrated budget structure.

Under the MTBF, ministries are beginning to link plans, policies, objectives and resource inputs. Line ministries are currently embracing this process resulting in improved planning and budgeting capacity in the ministries.

Accordingly , the Comptroller and Auditor General of Bangladesh has started MTBF Ministry System Audit from the financial year 2007-08 to examine the system of medium term budgeting from the SAI's point of view and how its implantation is changing the face of public financial management in Bangladesh.

#### **OBJECTIVES**

The overall objective of the audit is to determine if the Ministry has been able to achieve the MTBF objectives with the budget it has received and if the resources have been well managed to achieve targets set and meet the strategic objectives of the Ministry.

More specifically the audit activities are as follows:

- Examining the conformity of actual expenditures to the budget approved by the government
- Ensuring compliance to budget policies, rules and standards which targets resources at government expenditure programs.
- Ensure that the resources utilized by the Ministry have been consumed for the purpose intended by Parliament

- Examine the relevance of the programs versus the strategic objectives of the Ministry
- Determine if the financial resources committed to the program have been achieved the desired outputs/outcomes.
- Determine the extent that the Ministry has implemented the gender and poverty issues as per their MTBF.

## **AUDIT REPORT**

The report audit team produced contains as many as 21 observations. They are;

1. There was no necessary database for monitoring how far the ministry has achieved its technical goals.
2. No tangible progress is seen in waste management related rules and guide line enactment.
2. A receipt of Taka 17.43 lacs from the selling of woods of social forestry is not distributed among the shareholders.
3. The beneficiaries are getting discouraged as it took long time to distribute taka 88.83 crore.
4. Wastage of money for weak planning of forestry.
5. No visible result is seen from the steps taken by ‘Air Quality Project’.
6. Department of environment did not take any effective measure to reduce pollution of rivers adjacent to Dhaka city.
7. Lack of coordination among the projects of Environment and Forest Department.
8. Money is given back as the projects could not use it properly
9. Weakness in resource management
10. Mismanagement in General Provident Fund.
11. Additional GPF balance is shown as accounts slip is issued without deducting the advance.
12. Limited resources of projects are not used.
13. Bills for security is paid without evaluating their work
14. Unnecessary Travel Allowance is taken by a BFRI officer.

15. For effective implementation of MTBF management more structured coordination /reform needed.
16. Pro-active role will bring good result in managing MTBF.
17. In Forest Department MTBF Budget Management Committee is not acting
18. Revenue collection system should be stronger to increase government receipt.
19. Poverty alleviation and gender related issues
20. Ministries should be more pro-active & innovative in implementing poverty alleviation & gender issues.
21. Differences are being observed between audit findings and gender issue related information.

#### **Limitation** of the Audit Report

- The scope was too big. It encompasses the whole MTBF system of the ministry
- Because of the vastness of the topic the report resembles like financial audit
- As MTBF ministry audit the report should reflect whether the ministry has fulfilled the key performance indicators and if not why. There is no evidence of that kind of comment in the report.
- It has very little difference with financial audit report.

#### **OBSERVATIONS**

The report encompasses almost everything ranging from performance of the ministry to mismanagement of general provident fund, revenue collection, and unnecessary travel allowance and so on. Among these 21 objections only two were related to the performance of the ministry. The very first objection says that there is no necessary database to monitor how far the goals of the ministry are achieved. The second one says that there is no visible progress in the enactment of waste management related rules and guidelines. The rest 19 objections are related to financial mismanagement

and violation of rules and regulations. Every ministry as well as project of the government has two common issues to address: poverty alleviation and woman empowerment. The last two objections of this report are related to this. No measurable indicator was found by the audit party and they suggested maintaining database so that the performance of the ministry in these two important issues can be measured.

#### **4.4 CHALLENGES**

To find out the reasons behind the backlog of performance audit in Bangladesh, a survey has been done among the audit personnel, auditee organizations, stakeholders and common people who have few ideas on performance audit. The respondents answer few questions relating to the topic and the answers are accumulated to get a picture of present situation in this field. For the convenience of the research, four independent variables were selected. Those are capacity building, consultant recruitment, pre-set goals and awareness. The first two variables are from supply side initiatives that are from audit institutions and the last two from demand side that is for Ministry and other auditee organizations. There are many other variables which could contribute to the development of performance audit. But according to the researcher these four variables plays most important role in the context of Bangladesh and they are interlinked as well. While interviewing some audit personnel the same opinion is found regarding the variables. Indicators are set for measuring those variables. Questionnaires are made in accordance with those indicators. The findings are as follows:

##### **(a) CAPACITY BUILDING**

ASSOSAI prescribes few qualifications for the auditors of performance audit. According to them, the Qualifications for staff members who conduct performance audits include;

- knowledge of the methods applicable to performance auditing and the education, skills, and experience needed to apply such knowledge;
- Knowledge of government organizations, programs, and functions;
- Skills to communicate clearly and effectively, orally and in writing; and

- special skills depending on the nature of the specific audit (e.g. statistics, information technology (IT), engineering etc, or expert knowledge of the subject matter concerned.

Performance auditing should be a team effort, since the issues involved are complex. Consequently, not all members need to possess every skill mentioned above. Furthermore, it may not always be possible for a SAI to recruit people who meet all the requirements. The required skills may therefore be developed once a person is in service, as long as candidates for appointment have clearly demonstrated the potential and attitude for the kind of work that performance auditing entails.

Gul *et al.* (1994) suggest that the audit be performed and reported ‘with due care by persons who have adequate training, experience and competence in auditing’. According to Chowdhury (1996), there are two aspects governing the perceptions auditor competence: an ability to form a useful opinion and an ability to assess objectively the quality of information. According to this researcher, these two aspects depend on the auditor’s education, training, experience and technical skills. This shows that only auditors that possess these four elements would be able to fully comprehend circumstances under examination and also to produce a high quality of audit output.

All the respondents of this study say that they have some training on performance audit. In spite of the limitations and constraints, a reform agenda, under the technical assistance of UNDP and DFID, UK, is ongoing to improve the support services and quality of manpower in the Audit Department. A large number of officers and staff members were exposed to performance audit through short term training under the supervision of UNDP funded project. Besides, the three CCAF fellows trained in performance audit from the Office of the Auditor General of Canada, a good number of mid-level officers have been trained over the last couple of years in the UK and Pakistan on the job training program. Moreover, a Memorandum of Understanding was signed between the SAI of Bangladesh and SAI of Pakistan for facilitating performance audit.

The auditors expressed satisfaction at their qualification and competence level. All auditors carrying out audits have at least a bachelor degree in relevant fields, as recognized in the Audit Act. According to this group, the minimum of five years working experience in financial and compliance auditing is required before being permitted to conduct performance audits. As to the question of whether any additional skills are needed to carry out this audit, none of the auditors think so. However, they noted that obtaining a reasonable level of experience on the financial side is essential. This point is demonstrated in the following extracts:

“If you want to conduct a performance audit, you must have good knowledge of the financial side. New auditors will be sent to the financial side to pick up all financial work and then they will be transferred to the performance audit. Normally those experienced in auditing for 5-6 years.”  
(Audit and Accounts Officer)

“We do not allow new auditors to do performance audit as they lack experience. Once they have acquired enough experience and exposure, then we let them do the performance audit.” (A 5<sup>th</sup> Grade Officer)

The auditors explained that training is part of their continuous learning. The selected auditors are required to attend training before being allowed to conduct the performance audit. Training would enable auditors to know the objectives of performance auditing, the criteria for examination and guidelines for conducting audit. In addition to that, there will be additional training throughout their career, which is compulsory to attend.

“All new auditors will be given proper training before they can do the audit. They will be briefed on every aspect of performance...objectives, guidelines, criteria and so on. Then they must go for further training, at least once a year. They will be told about the development of performance audit, for example, in relation to the new method of investigation. At another time, they will be trained on how to write a report or other things like that. It depends on the level or experience of auditors...this is not including the training provided by other agencies. The purpose is to update their knowledge and to ensure they are up to the level required.” (Auditor 8)

All the users considered that it was essential to provide training to auditors in order to maintain their competence and keep up to date on the current requirements or guidelines. They also believe that the auditors are attending frequent training and professional development program. One auditee made an interesting suggestion related to the training program:

“Training should not only focus on learning the technical things...like what and how to search. The auditors also need to improve on their communication and interpersonal skills. People would not respect you when you are going to their agency.” (Auditee 3)

As demonstrated above, there was no discrepancy of view among participants pertaining to the frequency and levels of training provided to auditors. Nevertheless, training has certain impacts on the competency of auditors such as improving knowledge and technical skills.

The training program on performance audit as conducted by Performance Audit Directorate at present encompasses almost every aspect of performance audit. The content of the training program the concerned directorate is following are given below:

- Introduction to Performance Audit
- Selecting Audit Topics/ Issues
- Understanding the Entity & Analysis of Key Areas of Risk
- Setting Audit Objectives & Scopes and Establishing Audit Criteria
- Developing the Audit Approach & Audit Programme
- Gathering Audit Evidences, Documentation & Ensuring field level quality
- Developing findings, conclusions, recommendations & obtaining management response
- Writing Performance Audit Report & Follow-up Report
- Quality Assurance in PA

In spite of the above mentioned training programs, while implementing performance audit, this much training proves insufficient. The staffs and officers need more intensive training on performance audit. As this is a new concept and that is very much different from the traditional, age-old audit, the training program should be as intensive as mind-set changer. From the two cases it is also seen that our auditors need more expertise while conducting performance audit. In the first case the scope was whether technical system loss has been reduced by the ongoing projects of power division. But the final report reflects that they have audited all the financial matters of the projects. In the second case also the scope and the final report present different picture. Lack of expertise and experience among the auditor may be one of the reasons. About

95% of our audit staffs are more than 45 years of age as new recruitment was stopped for decades. Most of them are not willing to adopt new ideas at the end of their career. The only new recruitment the cadre gets is from PSC and these are direct officers who are very few in number.

## **(b) CONSULTANT RECRUITMENT AND SUFFICIENT STAFF**

Consultation is sought from authoritative sources and specialists with appropriate competence, judgment and authority, to ensure due care when dealing with complex, unusual or unfamiliar issues. According to the Performance Audit Manual of Canada, Consultants or Subject Matter Experts (SMEs) are,

‘internal office specialists who maintain current state-of-the-art knowledge/skills concerning specific subjects often essential to the successful completion of our audit work. SMEs assist and advise audit teams and also conduct audits in their areas of expertise. When required, audit practitioners should seek advice, guidance, techniques and resource references to enhance the quality of their audits. Where areas such as Fraud, Surveys and Quantitative Analysis, Access to Information and Mandate Issues arise in the audit, the Audit Principal should consult the SME as early as possible’.

Performance audit is an information-based activity (INTOSAI, 2004) and covers wide areas such as management, legal framework and operational issues. In addition, it also covers various programs in the field of health, engineering, information technology etc. As it is impossible to recruit and to expect auditors with all the knowledge and skills, audit teams from various backgrounds would be ideal solution for reaching optimal decision.

On the issue of hiring consultants from disciplines other than accounting, not all auditors shared the same views. The majority of them support the idea of employing consultants from other disciplines. They argued that the knowledge and views of these consultants would lead to better output.

“In principle, I think it is a good idea. Whether we like it or not, we have to admit that we are unable to master every field especially involving technical areas such as engineering and medical... so we have a good blend of members with different knowledge and skills. The presence of these people definitely would help in our investigation.” (Auditor 1)

Most of the respondents say that they do not have sufficient manpower and they cannot recruit consultant if needed due to administrative constraints. Performance audit is specialized type of audit where the audit scope is kept limited so that the auditor can delve deep into the problem to find out the cause that hampers the performance of a project or an institution. So, for example, if Power Development Board is to be audited the audit team must have an electrical engineer besides sufficient auditors to conduct a performance audit. But in practice what we see is that, while a performance audit is conducted on Power Division, the audit team comprises a team leader, who is a civil engineer, a deputy team leader who is commerce graduate and the other two team members are simple graduate. The main objective of the audit plan could not be fulfilled without specialized verification and comments. And at the end of the day it was just like a financial audit report in the name of performance audit.

To find out the causes behind this the researcher talked to the audit team leader and members. One of the members said that,

‘The Performance Audit is a new thing to both auditor and audited organization. So the audited organization could not understand the concept. When we sent the questionnaire to the top executive, they did not answer even some times they pass this paper to the clerical staffs that have no idea on the whole organization’s goals, objectives, vision and mission. That’s why we did not comment on the whole organization issues. On the other hand there is a lack of standard in the industries by which we could compare the organization perspectives.’

In Audit and Accounts cadre, like other general cadres, the officers are mainly recruited directly through competitive examinations conducted by the Public Service Commission. These officers usually come from multidisciplinary backgrounds such as Social Science, Pure Science, Business Administration, Accounting, Engineering, Agricultural Science, and Medicine. So to conduct a performance audit effectively, specialists from specified discipline may be needed. Due to administrative constraints, and also budgetary limitations recruitment of such people is not possible. And in such cases the reports, the audit team produces fails to reach the expected standards. In Canada, there is a whole group of consultants ranging from Pope to butcher, who serves the performance audit team if needed. The Office of the Auditor General of Bangladesh is constrained in this regard due to the absence of authority to restructure the office by recruiting additional manpower to meet the needs of the Auditor General considers necessary.

## © AWARENESS

It is assumed that audit in most cases is not welcomed by the auditees. Performance audit is even more frightening for them as they have almost no idea about it. There is an unwillingness to provide information and support to the audit team. The work of the audit team is viewed with suspicion, and many feel the audit is encroaching upon their administrative authority. This attitude comes from lack of awareness about the utility, scope, method and nature of performance audit. In most cases maintenance of records in public sector organizations is poor. The lack of available records in the audited organizations creates reluctance among the staff to cooperate with the audit team. Lack of sufficient reliable data is a common phenomenon in our public sector organizations.

In the traditional audit or financial audit ,when the audit party goes to an institution for auditing, the auditee institution supply necessary documents, like papers for allocated budget, bills for expenditure and receipt (if any). Now it is the work of the audit party to find out observations, misappropriations and deviations from rules and regulations. But in PA the audit party as well as the auditee organization should work together. To measure how efficiently, effectively and economically the money is being spent needs more involvement of the audit party in the institution or project. Most of the projects do not have updated database. Without it, it is very difficult for the audit party to measure the performance.

In case 2, the first two audit findings are raised because the auditee lacks awareness. The findings are; ' There was no necessary database for monitoring how far the ministry has achieved its technical goals.' and 'No tangible progress is seen in waste management related rules and guide line enactment'. For example, the Ministry has the aim to stop deforestation and Mid Term goal is to increase the amount of forest from 10% to 13% by the year 2009-10. Target is being fixed to increase the amount of forest by 1% every year. Now it is not written anywhere how much land will be needed to make this 1%. Again Department of Environment targeted to control air and noise pollution. To ensure this their activities will be (1) ensuring the use of four stroke engine, (2) creation of public awareness, (3) always monitoring air pollution, (4) identifying

polluting industries,(5) using silencer equipments. While performance audit team went there they could not measure the performance of the department and reported that several projects have been taken but no measurable indicator was found.

Gathering sufficient evidence is crucial to support audit findings. In this respect, the ability of auditors to access the information is important. Without sufficient information and evidence, auditors would be unable to express objective opinions on the performance of the program implemented by government agencies.

As to the issue of cooperation from management for access to information, which is important for the successful audit, the auditors were of the opinion that they have reasonable access to information. According to them, auditees give full co-operation to them. As the auditors commented:

“No problem, no restrictions even the classified information. We can call anybody to get the information.”

“We get full cooperation from departments. At the moment, we do not have any problem. We can call other organizations to provide us the information. If we cannot gain access to the information, then we will write it in the audit report.” (Auditor)

A few auditors mentioned that although they received full cooperation from management, the common problem faced is that the information needed was commonly not available due to lost files. They claimed that because of this reason, they are unable to make any judgment of the program. All auditees believed that the auditors are accessible to all the information they needed. They would give full cooperation to the auditors as requested. If the information needed was not available, they would offer other alternative information to auditors to help auditors during the audit. The extracts below highlight the point:

“Yes, definitely. I think most agencies are transparent in providing information needed by the Auditor General. If they do not satisfy the information given, we will give them better images on the project, for example, bringing them to the site project.” (Auditee 1)

“So far, we do not have any problems accessing information even confidential information. The problem is just that the agencies usually lose the files or do not know where they are.” (A 6<sup>TH</sup> grade officer)

If the auditee were aware of their objective and goals, there would have developed a database to record their activities. Database would have helped them to reach their goals as day by day they could see their progress.

To summarize, auditors and users shared a similar perceptions as to the access of information by auditors. The authority of auditors to gain access to the records and documents is viewed as important and has some impact on the audit process. Nevertheless, the undetected records and documents is one of the problems that need to be resolved.

### **(c) PRE-SET GOALS**

Pre-set goals are basically the targets the program and project wants to achieve. All projects have pre-set goals in their proposals. All government offices/ institutions have citizen charters and the contents of those charter can also be taken as pre-set goals as the services mentioned in the charter are the aim of that office to provide in the committed time. If those targets are divided sector wise with man/hour ratio then it can be taken as pre-set goals against which the auditor can measure the performance of those employees. Now if the office fulfills the duties mentioned in the charter, the performance of that office becomes easier for the auditor to measure. If it is not then also it becomes easier for anybody to find out the responsible person whose negligence has caused it.

Most of the respondents of the questionnaire 2 that is meant for employees of auditee organization answered that they are not aware of those pre-set goals. One of them said, ‘the goals are broad and not always clearly defined and sometimes difficult to achieve. As in our administrative culture the top down approach is followed, goals are set by the higher authority. The employees are least aware of it. One of the performance audit leader has said that,

“When we sent the questionnaire to the top executive, they did not answer even some times they pass this paper to the clerical staff that have no idea on the whole organization goals, objectives, vision and mission. That is why we did not comment on the whole organization issues.” (A deputy team leader of a PA)

Another challenge of performance Audit in the context of Bangladesh is the absence of KPI<sup>4</sup>s (Key Performance Indicators). The fundamental precondition for meaningful comment on the performance of an audited organization is having clear and easily quantifiable benchmarks or performance indicators. In cases where objectives are not quantifiable or performance indicators are not available, the task of the auditors becomes difficult. They may have to look for generally accepted norms or industry standards or work out performance criteria in consultation with the management.

The two audit reports taken for analysis in this research have ample examples how performance audit suffers from lack of pre-set goals in the auditee organizations. In almost every case performance could not be measured because of the absence of pre-set goals. In case –1 the amount of system loss reduction could not be measured because of the lack of pre-set goals. At the end of the project system loss was reduced but whether the reason was the implementation of the aforesaid project or some other reasons was not clear because system loss was also reduced in the neighboring districts outside of the project area.

In the case of MTBF Ministry audit also the same problem is faced by the auditors though it should not be. In this type of budgeting system the KPIs are set for every department in the budget book. But there also some indicators are not measurable as shown in the case no 2. The amount of land that should be brought under plantation is not clearly stated and the auditors could not measure the performance of the department.

Now these two indicators, namely awareness and pre-set goals are interdependent. Absence of pre-set goals is resulted from lack of awareness in the auditee organization. If they were aware

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<sup>4</sup> KPIs are commonly used by an organization to evaluate its success or the success of a particular activity in which it is engaged. Sometimes success is defined in terms of making progress toward strategic goals, but often success is simply the repeated achievement of some level of operational goal. Accordingly, choosing the right KPIs is reliant upon having a good understanding of what is important to the organization. . Because of the need to develop a good understanding of what is important, performance indicator selection is often closely associated with the use of various techniques to assess the present state of the business, and its key activities. These assessments often lead to the identification of potential improvements; and as a consequence, performance indicators are routinely associated with 'performance improvement' initiatives.

of achieving their objective they would have selected pre-set goals for measuring that achievement. Then the task of the audit team would be easier. These two indicators again are related to capacity building. Capacity building does not only refer to the capacity of the audit personnel, the employees of the auditee organizations also need to get proper training. If they are properly trained about the financial rules and regulations, government accounting system and how to maintain proper database, then half of the good performance audit is being done. FIMA (Financial Management Academy) is established not only to train the auditors but it gives training to all participants who are interested to learn about this. Training will help creating favorable environment for good audit.

## **CHAPTER FIVE**

### **CONCLUSION**

Managing the public sector in today's environment of constant change has become a demanding challenge for policy makers, service delivery managers, and civil servants – a challenge that is especially daunting for those in developing countries and countries with economies in transition. Therefore, the ability of the traditional accountability mechanisms to effect change on the functioning, performance and transparency of governments are increasingly being openly debated. International efforts are focusing on issues of governance and accountability, and interventions dealing with government reform range from administrative reforms to the redesign of judicial and audit institutions.

With the changes brought on by globalization and liberalization, access to information and indeed, the rising expectations of the citizens brought on by the increased democratization of countries and societies, impetus for change in all aspects of life including the public sector management systems have become imminent, if not already a matter of reality. In this climate of change, audit is not lagging behind. Already, state-of-the-art auditing has started to go beyond the examination of expenditure and beginning to look into the processes and procedures that influence the decisions on expenditure. For quite some time now, auditors have started to look at management processes and systems to determine the cost-effectiveness of public expenditure

The SAIs of India and Pakistan have been conducting performance audits for a good number of years under the same legal provisions as in Bangladesh. These SAIs' mandates have not been changed to insert specific provisions clarifying the function of performance audit. But no question has yet been raised claiming that the Auditor General is encroaching outside his assigned mandate. So the present approach of the Bangladesh SAI to go ahead with performance audit is in the right direction. But for strong support and comprehensive understanding, inserting the provision of audit in the legal mandate seems to be appropriate. We

can take the example of Canada and the U.K. in this regard. The Auditor General's Act 1977 in Canada and The National Audit Act 1983 in the U.K. formally recognized and described the responsibility of the Auditor General to consider the economy, efficiency, and effectiveness in public spending. But these SAIs had started performance audit much before the provision to conduct performance audit was inserted in legislation. In our case, incorporating a legal provision for conducting performance audit could be considered at a suitable time in the future. This would eventually create a more convenient working environment for the Auditor General, along with supportive awareness among the major stakeholders.

Performance audit or Value-for-money (VFM) audit has been introduced in developed countries and many developing countries over the last 30 years. The SAI of Bangladesh is also making progress in implementing the concept and practice of performance audit in our public sector auditing. Across the government, it is felt that auditing should be made more effective and useful and should play an important role in promoting accountability and transparency in public spending. The reform initiatives promulgated by New Public Management has brought the change. We have to carry it forward. The present situation in this arena as viewed by the researcher is mixed. The four variables discussed before give this opinion.

As performance audit is a research oriented analytical work people having proper skill and aptitude can do better. Bangladesh audit department lacks manpower as other departments and organizations of the country, though it is an over-populated country. Because of budget and administrative constraints the department cannot recruit employees as it needs. The capacity of the present office strength for conducting performance audit is 'more than sufficient', says Manindra Chandra Datta, DC&AG(A&R). The problem we have is that we do not have 'the right person in the right place'. The auditors in Bangladesh are very much expert in financial auditing as they are doing it since the independence. The system of financial auditing the country has inherited from the colonial masters. So it is the century old tradition that the department is pursuing. It would be easy for these experienced auditors to adopt the new system of auditing, that is, performance auditing. The training program, according to Datta, can be made more intensive and elaborate to make the auditors more equipped.

The second variable was consultant recruitment. The importance of recruiting consultants or Subject Matter Specialists is felt by everyone in this sector. Because of its very nature these types of people are needed in performance audit for good reporting. All other countries that are conducting this type of audit have the provision to engage this type of people. All the respondents give the same opinion regarding this variable. The problem remains in the authority of SAI in doing this.

The third variable, awareness from the demand side, is also well accepted by all. From 1996, so many workshops and seminars are held throughout the country that the importance of performance audit is known to all stakeholders. The problem remains in implementing that awareness. As in the administrative system of Bangladesh, top-down approach prevails, the awareness level is also high among the top officials regarding performance audit. But the preconditions of performance audit are not fulfilled by them as the awareness level is poor among the lower level employees. Most of the government offices and departments do not maintain proper database. They do not have measurable indicators as stated the auditors while interviewing. The departments have to keep updated database as the absence of this hampers the work of performance audit.

Absence or unaware of pre-set goals among the demand side initiatives is another hindrance of performance audit. Recently the MTBF budgeting system institutionalizes performance audit system as for every division Key Performance Indicators are made. This system will take performance audit a step forward. But here also the awareness level should be same among all the employees from top to bottom. Keeping accounts and facing audits are mainly done by the mid-level officers and obviously not by the policy makers who are at the top of the ladder. Because of this awareness about the goals and objectives of the project should be the same among all.

In consideration of all the significant positive changes, let us take due steps in time to accelerate the implementation process of performance audit. The journey of performance audit in Bangladesh has already started, though the experience and initiatives are still at the embryonic stage. The odyssey toward the full implementation of VFM

audit will not be easy. We have many things to learn from the operational experience, and it will take time to reach the target of a good-quality performance audit report. To expedite the process, we can follow the experience of a pioneer country like Canada. We have the advantage of seeing the Canadian experience through the CCAF Fellowship program and applying our skills and experience to guide the process of audit in our country.

In the prevailing economic, social, cultural, and political atmosphere of our country, it is undoubtedly the right approach to continue developing Performance audit rather than wait for more powers and authority. The ideas of learning from practice and building on experience will pave the path for future support. The way we have started seems to be the right approach to achieving proficiency in the field. The obstacles will need to be overcome by initiating and practicing the short-term and long-term strategies described in this paper to make the journey more comfortable and successful.

## **5.2. Suggestions for Future Research**

As mentioned earlier, this study employs qualitative methods with the aims to explore and identify the existence of challenges in the public sector of Bangladesh. Future studies could employ quantitative techniques such as questionnaires to investigate issues associated with the challenge of performance audit. For example, questionnaires can be used to measure the seriousness of divergence in perceptions among the participants or to validate findings of this study.

Furthermore, research also could be carried out on another type of audit performed by the OCAG. This could include the financial statements auditing which is also mandatory and to be considered important by the government agencies. A longitudinal study may also capture the changes in auditors as user views over a long period considering the changes undergone by the performance audit in terms of its audit scope and auditing guidelines.

Moreover, with the current trend towards the harmonization of auditing standards and guidelines, further research into the usefulness and adequacy of auditing standards and guidelines is

worthwhile. Considering that the objective of performance audit is to provide the information on the status of the activity or program, present auditing standards and guidelines should be examined to ensure that they truly assist in the generation of audit report and audit process. The finding of this study shows that there is a need for more research on the effect of auditing standards and guidelines on the conduct of performance audit.



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## **APPENDIX-1**

### **(QUESTIONNAIRE FOR AUDIT PERSONNEL)**

1. How long are you doing performance audit?
2. Have you gone through any training course on performance audit?
3. How were you selected in this team?
4. Were you a member of planning meeting?
5. Did you give any suggestions?
6. If yes, were those suggestions accepted?
7. What kind of problem you face while conducting performance audit?
8. How did you measure the performance?
9. Did the project have pre-set goals?
10. Were the people aware of the goals?
11. Did you get updated database in the auditee office?
12. Does your office have sufficient electronic equipments?
13. Do you have sufficient manpower/consultant (if needed)?
14. What kind of help do you get from the audited organization?
15. What measures, you think, should be taken to improve performance audit in the implementation phase?

## APPENDIX-2

(Questionnaire -2 (Auditee organization))

1. How frequently your office being audited?
2. What sort of problem do you face during financial audit?
3. What do you know about performance audit?
4. What sort of problem you faced during performance audit?
5. Was the audit party well-equipped for the audit?
6. Do you have any pre-set goal for your project?
7. Do you have updated database in your office?
8. Did you feel that the audit party lacks expertise needed to audit your project?
9. Do you get any help from the audit party?
10. What measures, you think, should be taken to improve performance audit in the implementation phase?

## APPENDIX-3

### CHECK LIST

1. Do you think performance audit is more suitable in Bangladesh context than other types of audit?
2. Are we ready for conducting more performance audit?
3. What challenges we have to face for conducting performance audit?
4. How to overcome those challenges?