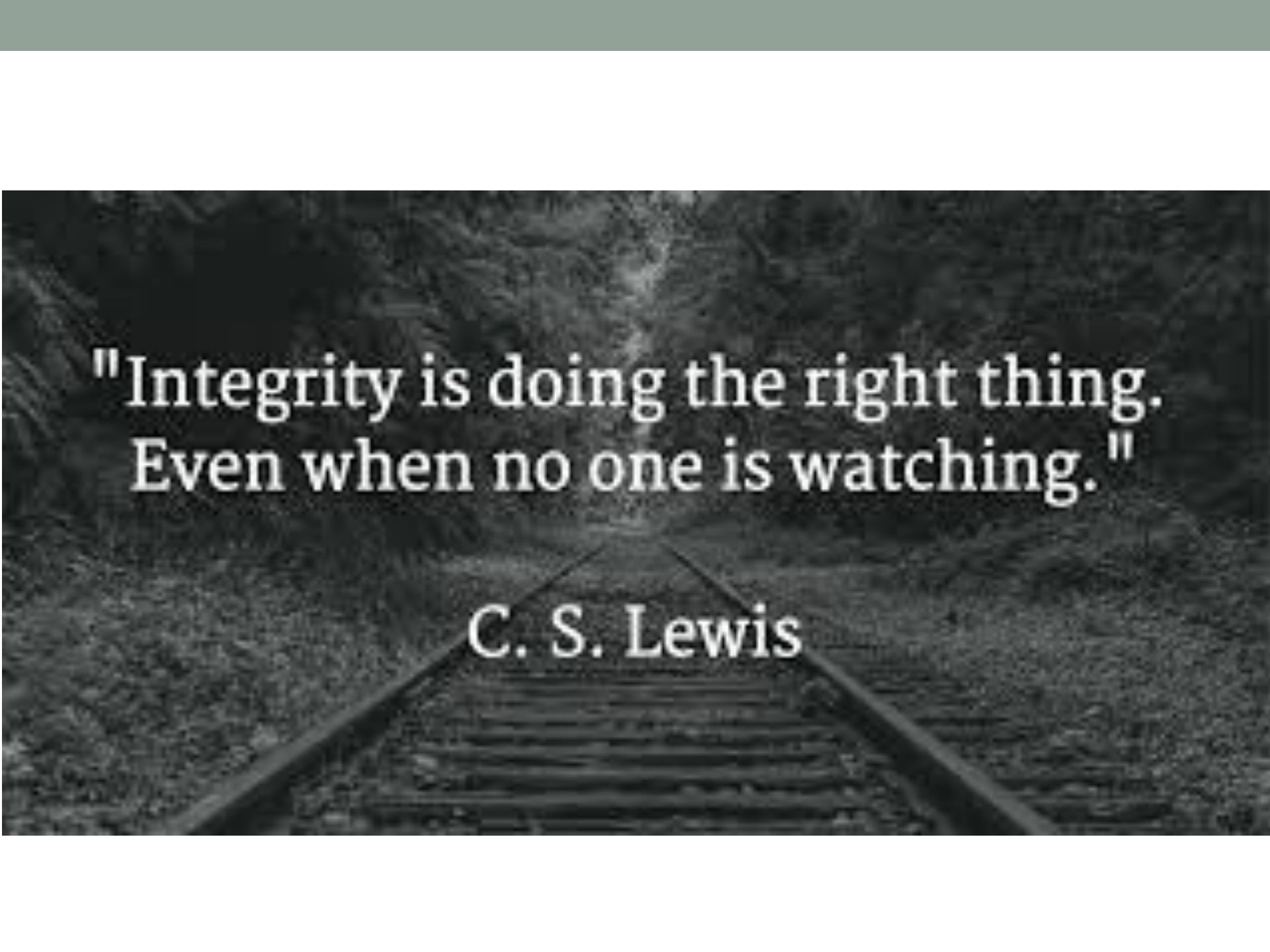

Overview of Government accounting and audit



"Integrity is doing the right thing.
Even when no one is watching."

C. S. Lewis

National Integrity System

- Legislative branch of government
- Executive branch of government
- Judiciary
- Public sector
- Law enforcement
- Audit institution
- Electoral management body
- Ombudsman
- Anti-corruption agencies
- Political parties
- Media
- Civil society
- Business

Ac·count·a·bil·i·ty

[uh-koun-tuh-bil-i-tee]

-noun

1. the state of being accountable, liable, or answerable.

Accountability framework

- Processes, norms and structures that hold the population of public officials legally responsible for their actions and even impose sanctions if they violate the norms.
- Essential to ensure a systemic oversighting of those entrusted with acting on behalf of the people.
- Fundamental tenet of a modern, democratic society.

Institutions for accountability

- At the core of a successful and performing democracy
- They ensure that the government performs its duties in the interest of its citizens.
- These institutions detect and prevent poor administration, waste and leakages in the system.
- They provide a restraint on abuse of power and arbitrary behaviour. They prevent illegal and unconstitutional conduct and enforce standards of responsible and accountable leadership.
- The oversight institutions provide an independent mechanism to ensure that things move in the manner they are supposed to move and that the deviations to acceptable practices are identified and mid course corrections taken.

Modern concept?

“Just as it is impossible not to taste honey or poison that one may find at the tip of one’s tongue, so it is impossible for one dealing with government funds not to taste, at least a little bit, of the king’s wealth.”

“In all cases (where) an official has caused loss of revenue to the state....his property shall be confiscated.”

The officials were required to report on their actions ten times a year to the Assembly of the Citizens. If the explanations were found inadequate, the officials were subjected to trial by jury of their fellow citizens.

- In medieval England -As early as the 13 Parliament had sought to scrutinize accounts.
- After the Glorious Revolution of 1688, the Commons felt that they 'might claim a more extensive function, that of investigating the wisdom, faithfulness and economy with which grants had been expended'.
- Setting up of 'commissioners of accounts'.
- In 1780, statutory commissions were set up as independent agencies as distinct from earlier political instruments.

Financial accountability framework

- Executive preparation and submission of Budget
- Legislative authorisation
- Execution
- Accounts
- Audit and report submission to Legislature

Budget

- The AFS is the basic Budget document. It shows the estimates of receipts and expenditure under the three parts in which Government Accounts are kept:
 - **Consolidated Fund**
 - **Contingency Fund**
 - **Public Account**

Accounts

- Accounting is at the core of all financial management, planning, and execution and is the basis for forecasting future trends and formulating budget estimates
- Prompt and accurate accounting of financial transactions is critical for effective financial and expenditure control.
- It enables Parliament to receive a full and reliable account of the Executive's management of funds provided to it and facilitates Parliamentary control over public receipts and expenditure – accountability of the Executive
- Finance and Appropriation Accounts

Consolidated Fund

- Article 266
- Revenues received, loans raised, receipts through Treasury Bills, ways and means advances, receipts of repayments of loans
- All expenditure of Government is incurred from the Consolidated Fund and no amount can be withdrawn from the Fund without authorisation from Parliament
- Expenditure authorized by legislature by way of Appropriation Act

Contingency Fund

- Article 267
- Nature of Imprest created by non-recurring contribution from the Consolidated Fund
- Intended to provide advances to meet unforeseen expenditure not provided in the Budget, pending authorization
- Recouped after each withdrawal as soon as expenditure gets regularised by means of Supplementary Budget

Public Account

- All other public moneys credited
- Records transactions relating to Provident Funds, Deposits and Advances for which Govt acts as banker. Public Account funds do not belong to Government and have to be paid back some time or the other to the persons and authorities who deposited them
- Parliamentary authorisation for payments from the Public Account is, therefore, not required
- Disbursements in accordance with prescribed rules

Functional and Programme Classification

- A uniform six tier functional and programme classification has been adopted with the coding pattern standardized by the Controller General of Accounts and documented in the List of Major and Minor Heads.
- Presentation of public expenditure in terms of functions, programmes, projects, schemes
- Highlights purpose of expenditure
- Enables establishment of input-output relationships

Audit Mandate

- ▶ In the Constitution
- ▶ While the DPC Act sets out duties and powers, detailed instructions on audit are contained in Audit Regulations which are statutory and binding on stakeholders.
- ▶ Regulations have clearly provided that within the audit mandate, C&AG is the sole authority to decide the scope and extent of audit to be conducted by him or on his behalf - 'such authority is not limited by any consideration other than ensuring that the objectives of audit are achieved'.

Audit Mandate

- ▶ All Expenditures
- ▶ All Receipts
(Tax & Non Tax)
- ▶ Government Owned Commercial Enterprises
- ▶ Bodies Substantially Financed by
Government

Audit Objectives

- Securing executive accountability to Parliament
- Providing assurance to Parliament that funds voted by it have been applied for the purpose they were given and, they have been spent wisely as any prudent man would his own money, and
- Provide useful data and information on spending to Administration; more importantly, giving independent assessment of the quality of that spending.

Audit Functions

Primarily assesses the following:

- ▶ whether financial statements are properly prepared, are complete in all respects and are presented with adequate disclosures (**financial audit**);
- ▶ whether provisions of the Constitution, applicable laws, rules and regulations and various orders and instructions issued by competent authority are complied with (**compliance audit**);

- extent to which an activity, programme or organisation operates economically, efficiently and effectively (**performance audit**).
- Overtime, with the expansion of the Government's responsibilities including their complexity, audit by the CAG has evolved from an accountancy and regularity check to evaluation of the end results of the operations of government, including considerations of economy, efficiency and effectiveness and .performance audits

Good governance and accountability

- Good governance : when its authority and institutions are accountable, effective and efficient, transparent, responsive, equitable and inclusive and follow the rule of law.
- An effective audit, strengthens governance, by providing for accountability.
- It helps in enhancing transparency in operations of the government and bringing to light improprieties committed by persons holding high positions.
- If the outcome of good governance is improvement in the quality of life of its citizenry, should the same not be the outcome of effective public audit?

For the times they are a changin.....

- The stakeholders in governance have expanded beyond the executive, legislature and judiciary to civil society, social organisations, media and the public.
- Each new stakeholder has become vociferous and demanding.
- Civil society in India is witnessing a where the citizen has come centre stage and is wanting to hold government accountable for its decisions.
- Citizens today seek a dialogue with government and would like to participate in decision making. They are seeking transparency in policy formulation.

For the times they are a changin.....and so are we

Culture change:

- Our audits are premised on the belief that we are as much engaged in the business of upgrading governance as any other agency in the administration.
- Our audits have undergone a culture change. We now engage in positive reporting. Hence, we also recognise and report good practices that we observe during audit.
- To ensure a mere widespread dissemination of our audit observations – both positive and negative – we convert the salient observations in our reports into small booklets. Many other efforts...audio, video clips.
- Effort is to encourage a well informed citizenry who can put pressure on the departments to deliver better.

- ***Social audits***

- A steady shift in devolution of Central funds and functions relating to socio-economic schemes to the local tiers of Government – Panchayati Raj Institutions, Urban Local Bodies and other special purpose agencies set up for implementation of specific schemes.
- For a deeper insight and a more widespread coverage of social sector issues we support **social audits**.
- We engage with credible citizen's groups which are working in that area to avail of their local knowledge for a better appreciation of the efficiency in the implementation of government schemes.

- ***Shift In Emphasis:***

- Government to governance;
- Transactions to the entirety; and
- Extension of stakeholders interest to public interest

- ***The expanding scope of audit.....***

- The right to audit the accounts of private players relating to agreements for sharing profit/revenue in lieu of public resources allotted to them has been a matter of much debate and legal scrutiny.
- Whether the auditor can comment on policy making, which is the domain of the executive.

What's up elsewhere?

- All countries around the world have a provision to have a SAI to oversee Government's spending on behalf of Parliament.
- In most of these countries the Auditor General is constitutionally mandated to conduct audit of government departments and report their findings to the Parliament.
- Worldwide the trend is to make governments more transparent. Legislatures in other democracies are empowering their Auditors General with a mandate to hold the Government financially accountable through Performance Audits of the programmes and activities of the Government.

What's up elsewhere?

- USA:
- ***General Accounting Office*** to ***Government Accountability Office***
- Financial audits are only about 15 percent of GAO's current workload.
- Most of the agency's work involves program evaluations, policy analyses, and legal opinions and decisions on a broad range of government programs and activities.
- Most GAO reports go beyond the question of whether federal funds are being spent appropriately, to ask whether federal programmes and policies are meeting their objectives and needs of society.

- ***Canada***

The Parliament passed the Federal Accountability Act in 2006 to amend the Auditor General Act to give the Auditor General authority to conduct performance audits.

- ***Australia***

The Australian National Audit Office in its centenary celebration published a book, “From Accounting to Accountability” to record the change over the last century from an emphasis largely on compliance to one based on value for money and accountability for performance.

Democratically elected representatives can only be held accountable if they, in turn, can hold accountable those who implement their decisions.

An important ingredient of this accountability cycle is an independent and credible Supreme Audit Institution capable of scrutinising the stewardship and use of public resources.

To recap

- National Integrity framework
- What is Accountability
- Financial accountability framework
- Evolution of CAG and other SAIs in response to the times