The Role of Civil Society Organizations in Auditing and Public Finance Management

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1. Introduction

The etymology dictionary\(^1\) explains that the term audit originates from the Latin word *audire*, which means “to hear.” *Audire* in ancient Rome referred to the “hearing of accounts,” a process in which one official compared his records with those of another official.\(^2\) As many of the parties interested in the audit findings were illiterate, audits were presented orally. In modern times, auditing has evolved into a technical discipline practiced by professional auditors who provide opinions on whether or not the annual financial statements of an entity comply with set accounting standards.

Over the years, auditing has retained its significance in public finance and, as such, Supreme Audit Institutions\(^3\) (SAI) receive constitutional recognition in many countries around the world. As watchdogs of public finances, the public auditors act as critical links in enforcing the accountability of executive agencies to national and state legislatures and through them to the general public. The public sector auditor reviews financial management of public sector entities to ensure that transactions have been undertaken with due regard to propriety and regularity. Recently, several public auditors have also assumed responsibility for assessing value for money considerations in public projects and programs in recent years.

However, the role of SAIs as public finance watchdogs is still limited in many developing countries around the world. This state of affairs is the result of several factors, including financial and skill constraints, SAIs’ lack of independence from the executive, and poor communication between the SAI and the legislature and civil society organizations.

Although, public budgeting processes have traditionally excluded civil society organizations, in the last 10 years or so, civil society organizations in many developing countries have built effective capacities to analyze and influence public budgets. Generally, however, civil society engagement in public budgeting has focused on examining the executive budget presented to the legislature and monitoring the subsequent implementation of the budget. There has been much less civil society engagement with the auditing of expenditures after a budget has been implemented and there has thus been limited interaction between civil society organizations and SAIs.

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\(^3\) Supreme Audit Institutions (SAI) fall under three basic categories in most countries. In the Commonwealth countries that follow the Westminster system, the SAI is known as the office of the Comptroller and Auditor General. In France and in countries formerly under French influence, the SAI follows the *Cours des Comptes* (Court of Accounts) model. Finally, the Board or Collegiate system is prevalent in some Asian and European countries like Japan, Korea, Germany, the Netherlands and the countries of the former Soviet Union. Association of Chartered Certified Accountants. “Different Models of Supreme Audit Institutions.” Updated 2005. Retrieved 21 April 2005. <http://www.accaglobal.com/transparency/publicsector/audit/models>.
In this paper, we argue that greater collaboration between SAIs and civil society organizations can assist SAIs in overcoming some of the challenges that they face. An enhanced partnership between SAIs and civil society organizations will also help to insert the practice of audire – the public ‘hearing’ (meaning examination) of government accounts – into public auditing. We do not intend to suggest that civil society organizations can replace formal audit institutions. Instead, we propose that greater interaction between SAIs and civil society organizations is likely to lead to stronger budgetary oversight by both sets of institutions – and that this interaction will strengthen a country’s governance framework and the effectiveness and efficiency of its anti-poverty programs. Our argument is supported by a set of case studies which highlight the innovative work of civil society organizations around the world in complementing the work of SAIs.

The examples presented in this paper cover pioneering civil society work in India, South Africa, and the Philippines. In India, the Mazdoor Kisan Shakti Sangathan (MKSS) — a peasant and worker union — uses innovative public hearing forums to conduct social audits of local government expenditures in village communities. In South Africa, the Public Service Accountability Monitor (PSAM) — a research and advocacy organization — works closely with the legislature to track government agency responses to financial control weaknesses and instances of financial misconduct and corruption contained in the Auditor General’s reports. In the Philippines, a participatory audit was successfully conducted as a joint undertaking of the national Commission on Audit (COA) and a non-governmental organization called the Concerned Citizens of Abra for Good Government (CCAGG). Also in the Philippines, Procurement Watch, Inc. (another non-governmental organization), specializes in building systems of transparency and accountability into government contracting and procurement practices. Each of these examples holds great potential for replication in public auditing practices and thereby in improving governance and poverty-reduction.

This paper will consist of three subsequent sections. In section two, we outline the role of auditing in public finance management and examine the challenges facing SAIs in developing countries. In section three, we present the four case studies that show how civil society engagement has worked effectively to inform and complement the public auditing process. In the final section, we provide recommendations for strengthening the relationship between SAIs and civil society organizations and thereby improving governance and reducing poverty.

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4 In this paper we focus on the potential for civil society organizations to contribute to the work of the SAI. We believe that similar opportunities exist for civil society organizations to contribute to the work of Government agency internal auditors. However, such collaboration will need to be discussed in another paper.
2. Institutional Setting

In this section, we outline the current institutional framework of auditing in public finance management in developing countries. First, we highlight the significance of auditing and the manner in which it builds good governance. Second, we identify the challenges and institutional weaknesses facing SAIs in developing countries. Our analysis draws on the results of two research surveys, including one conducted by the International Organization of Supreme Audit Institutions (INTOSAI) and one conducted by the International Budget Project (IBP).

2.1 Role of auditing in public finance management

Auditing is an integral part of an institutional framework supporting good governance and the realization of a country’s welfare measures and poverty eradication goals. Social welfare programs and other targeted poverty eradication programs in developing countries are characterized by their access to limited resources. To achieve their goals, therefore, these programs depend greatly on the efficient and effective utilization of these limited resources. Within this framework, the role of the public auditor in monitoring the utilization of program resources is critical. A vigilant auditor can contribute greatly to the achievement of social development programs by limiting corruption and strengthening the accountability of responsible agencies.

Enforcing the Executive’s Accountability Toward the Legislature and Citizens

In most democratic countries, legislative oversight of public financial management takes one of two forms — *ex ante* scrutiny and *ex post* scrutiny. Under *ex ante* scrutiny, the legislature examines the budget prior to enacting it into law. Strong legislatures, such as those in the United States and Germany, have the power to alter the budget at this stage to ensure that budgetary allocations reflect national priorities. Weak legislatures, such as those in many of the Commonwealth countries, generally do not have the power to substantially alter the budget submitted to them by the executive prior to enacting it.

Under *ex post* scrutiny, the legislature utilizes the audit findings presented to it by the nation’s SAI to examine whether the executive has implemented the budget according to the provisions of the law. Most parliamentary democracies, such as the United Kingdom, India, and South Africa, provide *ex post* scrutiny functions to the legislature or parliament. Under such a system, the SAI (which may also be called the Office of the Comptroller and Auditor General) reports its audit findings to the Parliamentary Public Accounts Committee, which is then responsible for considering and acting upon these findings. In many countries, audit reports are made available to the public and the media, which can then utilize the findings to demand accountability from the government.

Combating Corruption

Corruption is a plague that is present in all countries in varying degrees. However, it is in low-income countries that corruption is most wide spread and where it can become a major obstacle

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to socio-economic development. While the causes and impact of corruption are beyond the
purview of this paper, it is sufficient to say that corruption can be controlled — and its
debilitating impact on an economy minimized — by the development of strong institutions of
governance. An SAI that retains a clear mandate, possesses independence from the other
agencies of government, employs a skilled staff, and has access to adequate resources is uniquely
placed within any governance framework to combat corruption. In fact, it is interesting to note
that SAIs in some countries have explicit mandates to report on corruption and criminal activity
to law enforcement agencies.  

Facilitating Good Governance
According to the United Nations Development Program (UNDP), good governance is classified
as being participatory, transparent, accountable, effective, compliant with the rule of law, and
responsive to the needs of the people. An effective SAI can play an important role in ensuring
that some of these key attributes of good governance are maintained by the government. By
auditing public finances, SAIs not only demand accountability of the government but in turn add
credibility to the government’s public financial policies and practices. By making their audit
findings available to the public, SAIs provide a critical window on transparency in public finance
management and assess whether government agencies have complied with national and/or local
laws, regulations, and their annual budgets.

Aiding Financial Management
Modern day public auditors perform a variety of audits aimed at satisfying different financial
management goals. Financial audits assess the accuracy and fairness of both the accounting
procedures utilized by a government agency and the financial statements reported by the agency.
Compliance audits assess whether funds were used for the purposes for which they were
appropriated and in compliance with relevant laws and regulations. Performance audits analyze
cost-effectiveness (economy), operational efficiency, and the general effectiveness of
government programs in achieving their objectives. There has been a trend in recent years
among SAIs toward increasing the number of performance audits as these audits are seen as
revealing more about the effectiveness of government operations. However, a comprehensive
audit framework requires that all three types of audits (financial, compliance, and performance)
be combined to provide a complete overview of public financial management.

2.2 Institutional Weaknesses in SAIs
Despite its critical role in enforcing accountability, SAIs are beset by severe institutional and
operational limitations. In some countries, SAIs are not created by legislation that provides
adequate independence and freedom from executive interference. Even in cases in which SAIs

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6 SAIs in the following countries are required to report on corruption and criminal activity in the following
countries: the United States, the Philippines, Bhutan, Indonesia, Malaysia, Spain, Romania, Moldova, China,
Estonia, Lithuania, the United Kingdom, South Africa, the Czech Republic, and the Slovak Republic. Dye, Kenneth
7 United Nations Development Programme. “Governance for Sustainable Human Development.” Updated January
[http://www.transparency.org/ach/oversight_bodies/supreme_audit/discussion.html].
have sufficient auditing mandates\textsuperscript{10}, they may lack additional investigative powers to enable them to follow-up on apparent violations and ensure the prosecution of relevant agencies or individuals. Similarly, SAIs in many countries do not have adequate powers to decide what should be audited or how the audit findings should be presented. In many developing countries, SAIs lack skilled staff to perform the tasks expected of a modern auditor, such as detecting fraud using information technology. Similarly, financial constraints on SAIs often mean that they lack adequate infrastructure (office space, computers, and vehicles for transport), which further hampers the effective conduct of their work.

In many countries, SAIs report their findings to legislatures and particularly the public accounts committee (PAC) within legislatures. Due to time constraints, the PAC is able to consider only some of the audit reports\textsuperscript{11} and audit findings — and poor coordination with the SAI may prevent the PAC from taking up the most critical findings. The audit reports in these cases are then shelved and no action is taken against agencies or individuals that have broken the law or committed fraud.

While substantial anecdotal evidence of these problems is widely known and cited, two recent surveys provide concrete evidence of the challenges SAIs face.

2.2.1 International Organization of Supreme Audit Institution Survey

The Lima Declaration of Guidelines on Auditing Precepts was adopted at the Ninth International Conference of SAIs in Peru in 1977. This declaration sets out the internationally accepted basic tenets of public sector auditing, including emphasizing the need for SAIs to have independence from the executive, defining the audit powers that should be granted to SAIs, detailing the relationship that SAIs should have with the executive and with the legislature, and explaining the nature of the reporting that should be carried out.\textsuperscript{12}

In 2001, more than two decades after the adoption of the Lima Declaration, the International Organization of Supreme Audit Institutions\textsuperscript{13} (INTOSAI) published the results of a survey conducted in 113 member countries (excluding the European Organization of SAIs, which had previously been surveyed). Using the parameters set out in the Lima Declaration, the survey examined the independence (or lack thereof) of SAIs in each country.\textsuperscript{14} The INTOSAI Task Force report summarizes its findings by stating, “…it can be concluded that a considerable


\textsuperscript{13} International Organization of Supreme Audit Institutions (INTOSAI) is the professional organization of supreme audit institutions (SAI) in countries that belong to the United Nations or its specialized agencies. INTOSAI was founded in 1953 and has grown from a membership of 34 SAIs to a membership of more than 170 SAIs. For more information refer to: http://www.intosai.org/

The number of the SAIs surveyed are not really in a position to fulfill their mandates in a manner consistent with the requirements of the Lima Declaration of Guidelines on Auditing Precepts [italics added].” Some of the major limitations in the independence of SAIs cited in the report include:

- In 41 countries, SAIs felt that there was significant room for improvement in their constitutional autonomy.
- In 73 countries, SAIs felt that there was significant room for improvement in their financial autonomy.
- In 63 countries, SAIs felt that there was significant room for improvement in their managerial and administrative autonomy.
- In 33 countries, SAIs felt that there was significant room for improvement in their freedom to report findings.

2.2.2 The International Budget Project Survey

In 2004, the IBP\(^{15}\) conducted a survey\(^{16}\) in 36 developing countries (drawn largely from Africa, Eastern Europe, Asia, and Latin America) to assess transparency in national budgetary processes. The survey focused in part on key issues concerning public disclosures of audit findings. Respondents in each of the countries covered in the survey were experts drawn from civil society organizations.

The results of the IBP survey reinforce the concerns that the earlier INTOSAI survey highlighted regarding the institutional and other weaknesses of SAIs in many countries. As the responses to the survey cited below show, public audit systems can often exclude civil society organizations – and, in some cases, even national legislatures – from effectively discussing major audit findings.

- Accessibility: The results of the IBP survey show that not all the annual audit reports are made public. In 12 of the countries surveyed, citizens did not have access to the auditor’s reports even though the reports were produced in 11 of these countries.\(^{17}\) In 19 of the countries surveyed, the year-end audit reports of departmental expenditures that are released to the public do not include an executive summary.

- Timing: Only 6 of the 36 countries included in the IBP survey reported that the SAI produced its attestation report within six months of the end of the fiscal year.

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\(^{15}\) The IBP is a non-profit organization that works with organizations around the world to assess the impacts of budgets on poor and low-income people in developing countries or new democracies. The overarching aim of the project is to assist in developing budget systems that are more responsive to the needs of society and, accordingly, to make these systems more transparent and accountable to the public. For further information refer to: [http://www.internationalbudget.org/](http://www.internationalbudget.org/).


\(^{17}\) Only in Nicaragua did the country’s SAI, the Controleria, not produce a report at all.
In 15 countries, final audited accounts of national departments are either not completed within two years after the end of the fiscal year or are not released to the public; in 8 countries, final audit accounts are released more than a year after the end of the fiscal year.

- Comprehensiveness: In 19 of the countries surveyed by IBP, the SAI either does not release to the public reports of audits of extra-budgetary funds or it does not audit such funds. No audit report is viewed or scrutinized by a committee of the legislature in 4 countries, while in 11 countries only some of the reports are viewed and scrutinized.

- Follow-up: In 7 of the countries surveyed by IBP, the executive does not report (either to the legislature or publicly) on the steps it has taken to address audit recommendations nor does it release findings that indicate a need for remedial action. In 23 of the countries surveyed by IBP, neither the SAI nor the legislature release to the public a report that tracks actions taken by the executive to address audit recommendations.

2.3 Summary

In the first part of this section, we demonstrated that SAIs play a critical role in strengthening a country’s governance and the administration of anti-poverty and other social-development programs. For example, SAIs assist legislatures in enforcing accountability from executive agencies by producing audit reports; they conduct audit tests to detect fraud and misappropriation of public funds; and they make recommendations to public agencies on how to strengthen their financial management systems.

In the second part of this section, we reviewed two surveys that identified weaknesses in many national SAIs that prevent them from meeting the requirements of the Lima Declaration and therefore from enforcing their primary mandate of holding the executive accountable for its use of public funds. The INTOSAI survey suggested that the SAIs’ weaknesses arise from lack of autonomy (legal, administrative, and financial). The IBP survey suggested that the SAIs’ weaknesses include ineffective dissemination and late reporting of audit reports, lack of comprehensiveness in audit reports, and weak follow-up on audit reports.

In the next section, we will explore the skills and experiences that civil society organizations bring to the conduct of public audits that can help SAIs to overcome some of their weaknesses.

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3. Role of Civil Society Organizations in Audits

Over the last 10 years, the capacity of civil society organizations to understand, analyze, and influence public budgeting has grown dramatically. In more than 60 developing countries in Africa, Asia, and Latin America, non-governmental organizations (NGO), think tanks (research organizations), community and grassroots organizations have been involved in the growing movement to make public budgeting more transparent and accountable.

Civil society organizations engaged in budget-focused work contribute to public expenditure management and oversight in several ways. First, they provide one of the few sources of critical and independent information on the impact of the budget on poor and low-income citizens. Second, they can help build budget literacy among citizens and facilitate discussions and debates on budgetary issues within civil society. Third, by collating, synthesizing, and disseminating information on public finances, budget groups add new data into the budget process. Finally, civil society budget groups provide training on public finances to citizen groups, the media, and legislatures, thereby strengthening the capacity of all of these groups to exercise oversight over budget process and to demand accountability from government agencies.

Although civil society is a relatively new actor in public budgeting, evidence that they are having a positive impact on budget decision-making and implementation is beginning to emerge. For example, in Mexico, a local NGO, Fundar, has worked with a coalition of civil society organizations to monitor and increase the government’s commitment to reducing maternal mortality. In South Africa, the Institute for Democracy in South Africa played a substantial role in strengthening the new financial management act by insisting on the inclusion of stronger virement\(^\text{19}\) rules and of a provision requiring direct departmental responsibility for overspending. Similarly, the expenditure tracking work of the Uganda Debt Network has helped to curb corruption in the intergovernmental fiscal relations system in that country and to generate new information on the quality of expenditures in health and education.\(^\text{20}\)

To date, most civil society budget-focused activity has concentrated on examining the passage of the budget through the legislature and the subsequent implementation of the budget by the executive. There has been much less civil society engagement with the auditing process and the office of the SAI. Nevertheless, as the case studies presented in this section demonstrate, there are important opportunities for civil society engagement in the auditing stage of the budget process that can strengthen the oversight function of both civil society organizations and the SAI.

Audit reports tabled in the legislature often contain vital information on public financial practices of executive agencies. Unfortunately, these findings do not always lead to sanctions and appropriate corrections. We have detailed the shortcomings that are often found in public audit

\(^{19}\) Virement refers to the extent to which a government department can spend in a way that is not congruent with budget plans without reverting back to the legislature for approval.

processes in Section 2 of our paper. We provide evidence for these assertions in this section through four case studies of pioneering work undertaken by civil society organizations. While illustrating the role that civil society organizations can play in strengthening auditing in each of our case studies, we wish to acknowledge that we have not done justice to the extensive non-audit related initiatives undertaken by these organizations.

3.1. Social Audits — Tracking Expenditures with Communities: The Mazdoor Kisan Shakti Sangathan (MKSS) in India

Against the backdrop of rural Rajasthan, the largest state in India, an organization called the Mazdoor Kisan Shakti Sangathan (MKSS) has, in a little over a decade, developed into one of India’s most potent social justice movements. The organization is a union of peasants and workers and has successfully demonstrated the power of information as an effective tool to enable citizens to participate in governance. The MKSS uses innovative forums called public hearings — also called social audits — to facilitate structured and focused discussions among residents on government expenditures of public development funds in their communities.

MKSS-sponsored public hearings have had a significant impact in limiting corruption in public works projects in rural Rajasthan. The success of MKSS social audits has even influenced the state government of Rajasthan to introduce aspects of social auditing within local governance processes. The state government now requires that a social audit be held annually within each village; as part of this process, all village residents must be given an opportunity to vote on a resolution verifying that the projects in their village have been successfully completed. While this process has its limitations, it represents a radical change in the institutional space provided to citizens to audit public funds.

Typically, a social audit conducted by the MKSS includes five stages:

**Gathering Information:** MKSS members start by gathering all documents that are maintained by the public agencies on development projects. These include some relatively easy-to-understand documents, such as cash books, muster (pay) rolls, and expenditure voucher files with bills showing materials purchased for project work. MKSS also gathers records that a layperson seldom encounters, such as project engineer measurement books and utilization certificates providing complete details of the project’s expenditure. In the initial public hearings, the MKSS depended upon sympathetic officials who provided them with the information they sought. Later, after a right to information law was enacted in the state of Rajasthan, the MKSS uses the provisions of the law to request documents.

**Collating Information:** Initially, MKSS members faced a major challenge in deciphering and categorizing the details contained in the records that they had obtained. Over a period of time, they became familiar with the management systems in public agencies and the project documents maintained by them. MKSS members developed a simple methodology for collating the

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information into matrices that summarized the different kinds of information obtained from the project records. Thus, one matrix was prepared from pay rolls that detailed for each worker the days in a year that he/she had received employment in a particular project site. This matrix was very useful as it identified cases of fraud in which a single worker was shown to have been working on two different project sites on the same day. Similarly, a matrix summarizing and re-classifying materials used in a project was developed. Volume measurements presented in official records as ‘metric tons’ were translated into camel or bullock cartloads.  

**Distributing Information**: MKSS members and other volunteers involved in the social audit make several copies of the project documents and the matrices developed. Teams of volunteers then go from house to house in the villages in which public hearings are to be held and distribute and explain this information to the residents. Residents who have worked on project sites become valuable resources for verifying the accuracy of project documents. The copies of the pay rolls, for example, become sources of enormous excitement as residents identify names of dead or fictitious people in the rolls. This verification process also helps to identify workers who have received smaller sums than those shown to have been given to them in the pay rolls. Bills drawn in the name of camel cart owners are shown to be false when the person in question verifies that he has never owned a camel all his life.

This information distribution process can take from one week to a couple of months and provides an opportunity for MKSS members to build momentum within communities prior to the day on which the actual public hearing is held. Using creative media like songs, street plays, banners and posters, MKSS members and community volunteers encourage residents to scrutinize project information and to attend the forthcoming public hearing.

**The public hearing**: Public hearings sponsored by MKSS have a very festive atmosphere around them. There is a lot of anticipation among residents of the village in which the public hearing is being held about the possible outcomes of the day’s events. The hearing is normally held on an open field in the village. Special efforts are made to ensure that the location of the public hearing is in a place that is conveniently accessible by all residents, such as an open field in the village. The hearings are attended by public agency officials, local elected representatives, the media, and residents of the area. A panel comprised of eminent citizens of the area is set up to administer proceedings.

MKSS members control the flow of discussions so as to enable residents and public officials to systematically provide their opinions on the project/program under discussion. Often, discussions in the public hearings bring out explosive findings in the conduct of public projects. Instances of corruption and inefficiency in the utilization of public funds, and poor planning within public agencies may be uncovered in the testimonies provided by speaker after speaker. Workers and residents may identify false information contained in public records. Discussions become especially animated when the public officials try to defend the projects that they

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22 As the villagers are more familiar with measurements expressed in terms of bullock cartloads they are able to comment on whether the material had been delivered to the project site or not. Many instances of corruption in billing by over-charging materials supplied to project sites are disclosed by villagers and workers during the public hearing.
supervised and village residents point out lies in their statements. The process is so effective that in some public hearings, family members of corrupt officials have testified against them. In some instances, public officials have even confessed their wrongdoings. In front of an audience of 200-300 village residents, officials have handed over cash – the proceeds obtained through the corrupt use of project funds – to the panel adjudicating the public hearing.

**Follow-up to the public hearing:** A formal report is prepared by the MKSS following each public hearing. Copies of this report are sent to senior state government officials, the media, and other groups engaged in anti-corruption campaigns. The report contains details of the proceedings and the findings resulting from the public hearing. These findings include recommendations to the state government regarding action that should be taken against errant officials, as well as changes that should be implemented in official programs and policies to make them more effective and more responsive to public demands.

Realizing that its dependence on the intervention of sympathetic officials to obtain records remained a significant barrier to broader engagement in public discussions of official programs, the MKSS launched a massive state-wide campaign in 1995 demanding a law on right to information for all citizens. The campaign achieved success when in 2000 the state government of Rajasthan passed a right to information law. Spurred by its success, the campaign was replicated in other Indian states too and led to the formation of the National Campaign for People’s Right to Information (NCPRI). The NCPRI demand for a national law on right to information is currently being considered by the Indian Parliament.

### 3.2. Monitoring Follow-up to the Auditor General’s Report: The Public Service Accountability Monitor (PSAM) in South Africa

“**Accountability Lacking in Eastern Cape**” proclaimed a June 18, 2004, headline in Grocott’s Mail, South Africa’s oldest surviving independent newspaper.23 This provocative finding headed an article quoting researchers from the Public Service Accountability Monitor (PSAM) on the poor monitoring of public service delivery agencies in the Eastern Cape province. The article noted that PSAM had long argued for the need for effective oversight of public agencies, which was “‘woefully lacking’” and cited a statement made in 2002 by the Auditor-General (the SAI in South Africa) noting that “not a single one of the Standing Committee on Public Accounts recommendations had ever been implemented by any provincial department.”

PSAM was established as an independent research project at Rhodes University in 1999. It initially took on the task of tracking actions taken by the provincial administration in response to reported cases of corruption. A number of these cases had originally been identified in Auditor-General’s reports. PSAM collected this information in a database that was made available to the public on its website.24 The database shows that effective corrective action had been taken in

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24 For more information on the case monitoring website, visit http://case.psam.ru.ac.za/cmwsindex.asp.
response to less than 10 percent of reported cases.\textsuperscript{25} The database became a source of information that citizens and civil society organizations could use to gauge the commitment of government agencies to take combat corruption involving agency members.

Over time, PSAM began to shift its focus to the structural context of weak financial management that was responsible for many of these acts of corruption and maladministration. It began to systematically monitor the compliance of provincial administrative agencies with public finance regulations and administrative directives. This included creating a database of information on the coherence of strategic planning within agencies and their annual and audit reports. In particular, PSAM monitored whether recommendations to improve financial controls made to agencies by the Auditor-General and the legislature’s oversight committees were being implemented.

PSAM utilizes a wide variety of means to obtain documents pertaining to financial management, maladministration and corruption including, when necessary, using freedom of information provisions. It publicizes its findings on a regular basis, including by producing a weekly column (the “Accountability Monitor”) in a provincial newspaper. PSAM produces analyses that are geared to public understanding and specifically designed to engender and support public involvement in governance processes. It endeavors to produce and distribute its analyses of public expenditure management in a manner timed to coincide with the budgeting and oversight cycle in order to influence budget and spending priorities and improve service delivery.

PSAM has achieved encouraging results in the Eastern Cape Province in spite of working in a hostile political environment.\textsuperscript{26} Its research and advocacy efforts have contributed to the improvement of financial reporting standards in provincial government agencies, which in turn has led to a dramatic decrease in the number of audit disclaimers\textsuperscript{27} issued by the Auditor-General to these agencies since 1996.

PSAM documented that audit disclaimers were issued to 10 of the 13 major public agencies in the province from 1996 to 2000. However, while the auditor’s office was reporting the issuance of large scale audit disclaimers to the provincial legislature, little action had been taken by the oversight authority to rectify the situation. In response, PSAM began actively publicizing the gravity of this state of affairs. PSAM staff members gave numerous radio and newspaper interviews in which they explained the meaning of audit disclaimers in non-technical language.

\textsuperscript{25} Current figures appearing on the PSAM’s website indicate that of 691 reported cases of misconduct only 62 of these cases (or 8 percent) are deemed to have met with a satisfactory resolution. These cases involve 338 instances of corruption of which only 28 cases (or 8 percent) are deemed to have been resolved, and 170 cases of maladministration of which only 3 cases (or 1.7 percent) are deemed to have been resolved. [Figures correct as at 11 April 2005]. See http://case.psam.ru.ac.za/cmwsstats.asp
\textsuperscript{26} Due to the very nature of its work – holding government accountable – PSAM is often seen as a threat by many government agency personnel. While this has been a challenge for the organization, over the years they have managed to earn the respect – begrudging as it might be – of government officials, who now acknowledge the value of PSAM’s interventions and extend regular invitations to the organization’s researchers to participate in the strategic planning and budgeting processes (Source: Interview with Colm Allan, PSAM, March 2005).
\textsuperscript{27} Audit disclaimers are issued when the public auditor’s office is unable to form an opinion on the accuracy of the financial statements reported by an agency due to omissions or insufficient documentation.
They explained that the issuance of audit disclaimers meant that the provincial administration could not account for more than 90 percent of its total budget over a period of several years.

Faced with increasing pressure as a result of the media scrutiny, several major agencies improved their financial reporting processes. As a result, in 2002-2003, audit disclaimers were issued by the Auditor-General to expenditures that comprised only 41 percent of the total provincial budget — a reduction of more than half.²⁸

PSAM’s advocacy efforts highlighting the lack of corrective action on corruption contributed to a decision taken by the South African national cabinet to institute a specialized Joint Anti-Corruption Task Team (JACTT) in January 2003. The JACTT consisted of members from various anti-corruption and oversight agencies²⁹ including the Auditor-General and was given a mandate to investigate and prosecute the huge backlog of corruption cases in the Eastern Cape Province. PSAM shared with the JACTT its extensive database, documenting cases of corruption in various provincial agencies. Preliminary reports seem to indicate that the JACTT has achieved significant success in its task.³⁰

The PSAM has also continued to highlight the failure of government agencies to improve their financial control systems in response to the Auditor-General’s audit findings. In April 2005, the provincial Premier established a judicial commission of inquiry to investigate the finances and expenditures of the Eastern Cape administration from 1994. The terms of reference of this commission included establishing “the reasons why the Auditor-General’s recommendations and forensic audit report to Provincial departments were not acted on.”³¹ The PSAM believes that the establishment of the judicial commission illustrates the potential for civil society organizations to conduct research and advocacy and thereby strengthen the oversight of public agencies. The potential for such civil society action is particularly relevant in cases where executive agencies ignore the findings of their oversight agencies.

3.3 Participatory Audits: The Concerned Citizens of Abra for Good Governance (CCAGG) in the Philippines

The Concerned Citizens of Abra for Good Governance (CCAGG) is a non-governmental organization that monitors government projects in the Abra region of the northern Philippines. CCAGG was formed in 1986 when new opportunities were created for civil society organizations to participate in development programs by President Corazon Aquino. Under the new community participation policy, CCAGG members signed a memorandum of understanding with the National Economic Development Authority and received training from the agency in

²⁸ www.psam.org.za click ‘what’s new’, ‘how much of the Eastern Cape budget can be accounted for since 1996?’.
²⁹ Members were drawn from the national prosecuting authority, police services, and the auditor general’s office.
³⁰ In September 2003 the South African national Minister for Public Service and Administration reported that JACTT had, at that point, investigated 374 cases, made 144 arrests, and obtained 18 successful convictions with an additional 113 cases before the courts. See Minister For Public Service And Administration, Ms Geraldine Fraser-Moleketi’s, Parliamentary Media Briefing, 11 September 2003, http://www.info.gov.za/speeches/2003/03091209461002.htm
project monitoring. CCAGG members used the local media (radio, newspapers) and organized community meetings to inform residents about public infrastructure projects.

While monitoring community employment and development projects, CCAGG members were shocked to see a newspaper advertisement by the Ministry of Public Works and Highways (MPWH) declaring that it had successfully completed 27 projects in Abra province. Knowing that this declaration was untrue, CCAGG members decided to take action against the agency’s misinformation. To make a strong case against the agency, the members of CCAGG developed detailed documentation of the actual state of projects that had been declared as completed — but in fact were only just beginning or were mid-way through the construction stage — including affidavits composed by residents of project areas and photographs of the project sites. CCAGG submitted these findings to the national government and demanded that the Department of Public Works be investigated.

An official government audit concurred with CCAGG’s findings and several officials were charged with corruption. While several officials were convicted, the prosecuting lawyers argued for leniency on behalf of the government officials and asked that they receive only official reprimands as punishment. Outraged by this development, CCAGG members mobilized public opinion and the Office of the Secretary of MPWH was bombarded with telegrams from concerned citizens demanding that the convicted officials receive more severe punishment.

The Secretary finally relented and 11 government officials found guilty of dishonesty and misconduct were suspended. In addition, the Chief and the Deputy Chief Engineer of MPWH in Abra were not only suspended without pay but were also debarred from serving in the province in the future. This was probably the first case in the history of the Philippines in which a civil society organization’s vigilance had resulted in the conviction and punishment of government officials on charges of corruption. Further, as a result of this case, the Regional Director of the MPWH issued a directive requiring that projects in Abra province be funded only after they had obtained clearances from CCAGG.

Subsequently, CCAGG consolidated its activities and its members developed a unique technique for monitoring government projects. Members of CCAGG — primarily housewives, students, and other youth members — observe road construction projects and report their findings to staff members in turn conduct detailed investigations on project sites.

CCAGG investigations monitor a variety of corruption in government projects, especially road construction projects, including the use of sub-standard materials (cement mixtures) and/or poor construction techniques, and fraud in contracting procedures (such as rigged contracts). In one road construction project, for example, CCAGG members found that contractors had embezzled project funds. In response to these findings, the government forced the contractor to pay from its own resources to expand a road.

Recognizing the critical role the organization plays in preventing corruption, as well as the expertise it has developed in monitoring public works projects, the national Commission on Audit (COA) – the SAI of the Philippines – entered into a partnership with CCAGG to conduct participatory audit exercises in the Abra region. The exercises focused on assessing the impact of the audited government program/project to determine whether the program/project achieved its desired results. This exercise was sponsored by the UNDP and was described as successful by all the concerned parties. The chairman of the COA described the results of the exercise as “very focused and efficient.” The lessons from the audit process were later incorporated into a manual on the Conduct of Participatory Audit published by the COA.

While successful, the experience of the COA-CCAGG participatory audit highlights several challenges that need to be addressed for future cooperation between civil society organizations and public auditors.

**Audit Methodology:** The COA staff objected to demands made by the CCAGG staff to discuss preliminary audit findings with community members. In turn, CCAGG staff were concerned that restricting official audits to the post-project period increased the likelihoods of losing potentially valuable findings.

**Sustainability:** Even though the participatory audit exercise was declared a success by all participating organizations, it was discontinued with a change in the COA administration. The new COA commissioner had other priorities and shelved participatory audit exercises. This raises serious questions on the sustainability of participatory audits.

3.4. Advocating for Transparency in Public Procurement: Procurement Watch, Inc., (PWI) in the Philippines

During the late 1990s, there was a growing feeling among concerned government officials in the Philippines that official procurement practices needed to be reformed. The appointment of a sympathetic Secretary as head of the Department of Budget and Management provided an opportunity for this process.

The new Secretary appointed a task force comprised of experts from within government agencies as well as private consultants to examine the problems affecting procurement practices and to suggest revisions to procurement laws. The task force met and eventually recommended a new law, however, the law failed to pass in the legislature. In response, the task force members decided they needed to involve civil society groups to build public opinion in favor of the law and thereby bring pressure for its adoption in the legislature.

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34 Campos, J. Edgardo. Telephone Interview. 16 March 2005. This case study was primarily developed from a telephone interview that the authors conducted with one of the founders of PWI, J. Edgardo Campos.

35 Later, the Secretary was succeeded by his deputy, who in turn was also very committed to instituting reforms in the procurement process.

36 The task force was officially called the Inter-Agency Technical Working Group.
Two private consultants from the task force joined two concerned citizens in 2001 to form a non-governmental organization called Procurement Watch, Inc. (PWI). PWI was formed with the express mandate to advocate for the new procurement law and to monitor enforcement of the law after it was enacted. The government task force invited PWI to become a member of the task force and to help it in redrafting the law and in analyzing regulations promulgated after enactment of the law. PWI staff members used their proximity to the technical experts that comprised the task force to develop their own understanding of the nation’s procurement practices and eventually became regarded as experts in their own right.

Over the next two years, PWI staff took on the task of contacting other civil society organizations — primarily groups working on anti-corruption — and mobilizing public opinion in support of procurement reforms. PWI found a key ally in the Catholic Church, widely perceived to be the most influential non-governmental institution in the country, during its efforts to mobilize public opinion on this issue. The media (newspapers, radio, and television) too became part of a strategic and well-planned awareness campaign.

In January 2003, PWI’s efforts paid off when the legislature passed a new procurement law — the Government Procurement Reform Act (GPRA). This was a unique victory for PWI. For the first time in the history of the Philippines, a civil society organization was successful in advocating for a law to be enacted on a subject that required a high degree of technical expertise normally not associated with civil society initiatives.

Now widely recognized for its expertise on procurement law and practices, PWI conducts a wide variety of activities with different groups including the Ombudsman, government agencies involved in large procurements, and civil society organizations and citizens. PWI has developed very close relationships with the national Ombudsman in particular and even conducts training sessions on the Government Procurement Reform Act for officials in the office of the Ombudsman. As a partner of the Ombudsman, PWI has also established a “Feedback and Complaint-handling Mechanism” to process and respond to reports and other information provided by procurement observers.

In many developing countries, citizens prefer not to contact government officials with complaints (due to the fear of harassment from corrupt officials) and are more comfortable dealing with non-governmental organizations to address such issues. The presence of PWI as an intermediate organization that can serve as citizens’ link to the Ombudsman helps make citizens comfortable in registering complaints on procurement irregularities that they have observed.

PWI has also developed partnerships with government agencies to observe and study the systems in place for soliciting proposals and evaluating bids and awards. As part of this process, PWI conducts diagnostic exercises on procurements managed by the Bids and Awards Committee (BAC) of various agencies, including the health and defense agencies. Similarly, PWI has assisted the Philippine Ports Authority in preparing the terms of reference for the bidding of its

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port security services. PWI also develops research papers and press releases on the subject of best practices in procurement procedures.

A new partnership is now being planned between the Ombudsman and PWI to take advantage of a law in the Philippines that requires all college graduates to participate in 3-4 weeks of mandatory community service. The Ombudsman is advocating with the authorities concerned that they recognize time spent by college graduates as observers in government bids and award decisions as community service. If allowed, this initiative would produce a steady stream of citizens who are familiar with contract bid and award procedures. The Ombudsman has asked PWI to assist in this initiative by training the trainers in the Ombudsman’s office to implement this program.

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4. Recommendations

In section 2 of this paper, we argued that SAIs are essential institutions for ensuring that governments are held accountable for their utilization of public funds. In our case studies, we have seen how civil society organizations utilize innovative methodologies to complement and strengthen the role that external auditors play in enforcing government accountability. In Box 1, we illustrate how SAIs and civil society organizations can partner each other to improve good governance.

When a government is accountable, it means that it is answerable to its citizens and is therefore also responding to their needs. Audits (in their expanded modern versions, which include performance audits) provide citizens with concrete measures of how governments have performed against accepted standards. Civil society organizations can use the information gathered through audits to pressure governments to respond to audit recommendations and improve governance. In turn, civil society organizations, through social audits and other such processes can provide information to the SAI that can complement and augment the work of the SAI. As such, each institution can complement the other’s work in promoting good governance.

Our case studies illustrate how SAIs can cooperate with civil society organizations to strengthen the role of audits in promoting good governance and poverty reduction.

1. Civil society organizations build citizen literacy on public financial management. To facilitate the creation of a cadre of activist citizens, SAIs should develop accessible and understandable reports that are freely available and widely distributed to the public in a timely manner.

- PWI provides training courses for civil society organizations and individuals on procurement law. They have been successful in building a cadre of citizens who have the capacity to monitor public agency procurement practices and to demand changes when corruption occurs.

- PSAM maintains a scorecard of public agency performance. This database is used to educate the media, other civil society organizations and individuals on specific problems with public finance management in agencies through reports released by the public auditor.
2. Civil society organizations have the networks and expertise to detect potential cases of corruption and to report these to SAIs. To take advantage of these networks and expertise, SAIs should create communication channels that civil society organizations can access to report these cases as potential subjects for formal audits.

- Social audits conducted by the MKSS have yielded a wealth of information and documentation on corruption in public projects. Ironically, many of these projects had been previously cleared by the public auditors.

- CCAGG extensively monitors public projects even as they are being undertaken by government agencies. They have documented numerous instances of corruption in public projects.

3. Civil society organizations can augment limited SAI capacity to undertake performance and procurement audits

- PWI’s specialization in procurement systems and its advocacy on improving procurement law make it a potentially critical ally for auditors in strengthening their own capacity to perform specialized procurement audits.

- MKSS sponsored public hearings provide platforms for citizen-beneficiaries to comment on the effectiveness (or lack thereof) of government programs that can be then fed into the findings of official performance audits.

4. Civil society organizations, (together with legislatures/parliaments) can monitor and build pressure on the executive to implement audit recommendations. While SAIs are traditionally prevented from engaging in policy processes, civil society organizations can use their networks to add political weight to SAIs recommendations.

- PSAM tracks and documents – in its databases – public agency responses to cases of corruption and mis-management, and on corrective action (if any) taken by the agencies in response to the findings of the Auditor-General. As shown in the case study, PSAM research and advocacy on audit disclaimers enable it to advocate for improvements in financial reporting systems and in the presentation of financial statements.

5. Civil society organizations have pioneered innovative audit methodologies to monitor public projects/programs. SAIs should adapt and adopt these methodologies, where appropriate, to augment their own audit procedures.

- Public hearings of the kind sponsored by the MKSS can provide the public auditor with critical evidence on the propriety of funds spent on public projects/programs. In addition,
the auditor can engage beneficiaries and residents of public projects/programs in the course of conducting performance audits.\textsuperscript{39}

- The participatory audit experience of CCAGG in the Philippines establishes that civil society organizations can develop the skills needed to perform auditing tasks traditionally undertaken by the public auditors but that they also bring skills and information that can improve the practice of performance audits.\textsuperscript{40}

**The future of public auditing: the need for audit activism**

Democratic governments derive their legitimacy from the constitutions that create them. Furthermore, constitutions provide framework of checks and balances among the government institutions that derive their mandates from the constitutions (e.g., the legislature, executive, and judiciary).

In modern times, we use the term ‘judicial activism’ to describe instances in which jurists may seemingly exceed their constitutional mandates in ruling on the cases before them. Controversial as it may be, there are many proponents who defend the need for judicial activism – especially in the face of corrupt and negligent executives on the one hand and poor and ineffective legislatures on the other.

Perhaps, SAIs also need to incorporate elements of activism while conducting their duties. In many constitutional democracies, the SAI derives its legitimacy from the constitution. As watchdogs of the public purse, the SAI is given constitutional authority to report on the use (and misuse) of public funds. Experiences in many developing countries have shown that while SAIs have been successful, in many instances, in carrying out the technical requirements of their office – i.e. in conducting competent audits – they have been less successful in ensuring that action is taken on their findings.

Perhaps, to be effective, SAIs need to reach out not only to legislative oversight committees but also to civil society. In doing so, they might be accused of violating a strict interpretation of their constitutional audit mandates, which frequently restrict SAIs to reporting to the legislature. The examples cited by us in the case studies amply illustrate the point that civil society organizations have the capacity to monitor public agencies and the expenditure of public funds. Strategic partnerships between civil society groups and SAIs can assist both entities in creating the political capital needed to push legislatures and the executive to take corrective action to protect public funds.

\textsuperscript{39} Audit practices could incorporate tools such as the matrices prepared by the MKSS to facilitate the sharing of accounting information with citizens, from whom, in turn, SAIs can obtain input regarding the utilization of project funds.

\textsuperscript{40} While making this suggestion, we are aware of the fact that the CCAGG-COA participatory audit experience has raised important issues that need to be resolved for future participatory exercises. These issues include client confidentiality, the timing of the release of audit findings to the public, and the type of audits to be conducted i.e. post-project audit or on-site audits etc.
In their current form, audits do not always provide a direct measure of government performance in those specific areas in which citizens have the greatest interest. For example, the citizen might be interested in measuring the performance of the government on health policy. The usual methodology employed by the government auditor when auditing the health department will comment on the veracity of the funds expended for health programs but will rarely comment on the appropriateness of the government’s health policy. How then can a citizen measure whether health programs reflect health policy – and whether the underlying health policy responds adequately to the nation’s health needs?

There are two ways to increase the ability of audits to provide information on government performance that is directly relevant to citizens. First, the scope of audit mandates can be increased and audit methodologies developed that will enable auditors to offer some comments on the government policies that underpin agency performance. SAIs in Germany, Vietnam, and the U.S., for example, now comment on the appropriateness of government budgets in addition to examining government expenditures. But these SAIs are the exception to a norm which holds that audits should be limited to examining the performance of government agencies in implementing policies. The expansion of the scope of audits requires that the mandate of SAIs be expanded and that sufficient funds be allocated to these audits.

A second way to improve the ability of audits to provide information directly relevant to citizens is by allowing citizens to participate in the conduct of audits. As citizens will look for specific measures of performance, they will use their access to (and participation in) audit institutions to obtain information on those measures that they are interested in reviewing. Allowing citizen participation in audits will require that audit institutions create spaces in which citizens can meaningfully participate in audit programs and thereby obtain specific measures of government performance.

The audit sector faces substantial challenges in the future. Returning to the spirit and practice of ‘audire’ — the public hearings of accounts — will assist the sector in meeting several of these challenges.

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