

SUPREME AUDIT INSTITUTION PAKISTAN: A HISTORICAL PERSPECTIVE

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Background

Office of the Auditor General of Pakistan (AGP) is the Supreme Audit Institution (SAI) of the country. This office is at the heart of the public sector accountability and transparency regime. The Pakistan Audit Department is headed by the Auditor General of Pakistan, with a fixed term of four years, which is non-extendable. There are 30 Field Audit Offices (FAOs) with well-defined audit jurisdictions working under the Auditor General. During the last audit year Office of the AGP produced Certification Audit Reports of 276 entities, developed 135 Compliance Audit Reports, 48 Performance Audit Reports, 53 Special Audit Reports and 183 other Audit Reports (including Reports on Foreign Aided Projects and Environmental Issues). The department also recovered Pakistan Rs. 127.27 Billion, in addition to presenting key Audit findings to the Public Accounts Committee of the Federal and Provincial Legislatures.

In case of SAI Pakistan, the audit cycle begins with field audit teams visiting various auditee formations, drafting observations, discussing with management, re-examination by the main field office and then finalization by AGP office after a thorough analysis and examination. An audit report which is tabled before the Public Accounts Committee (PAC) of the Parliament passes through many quality control and assurance stages.

The British Experience

Office of SAI Pakistan emerged out of the colonial administrative structures raised during the British rule in the South Asia. British governance practices in India in turn flew from the experiences in the home country and European Continent. The French King Louis XIV in the age of absolute monarchies in Europe claimed to be state himself (as he famously once said, 'I am the State'). This concept of Kingship was based on what was known as the Divine Right of Kings. The kings based their authority on a divine right to rule and were thus as a consequence not answerable for their actions.

The European experience in early modern period, however, was that greater degree of fiscal transparency resulted after every period of absolutism. In England there were objections to taxation without representation. John Locke (1632–1704), a leading political thinker, argued that kings could govern and tax only with the consent of the majority. In 1600s, when kings sought to raise taxes for increasingly expensive wars, the English parliament gradually established its right to control taxes and review public spending.

In 1610, it claimed the right to discuss revenue from certain taxes the king could levy without parliamentary approval. In 1624, English Parliament made the spending from taxes

¹ Annual Report 2017-18, (Islamabad: Department of the Auditor General 2019), p. iv.



collected to be approved by a commission whose members were accountable to the parliament. In 1628, it asserted that the king could levy no taxes or forced loans without its consent. And in 1667 (after the restoration of the monarchy following a civil war caused in part by disputes over the power to tax) it established a commission to investigate the new king's accounts.

In 1665, parliament passed an act that required the king to keep his accounts in a prescribed format and gave lenders the right to view the accounts. After the Glorious Revolution of 1688, in which James II was overthrown and replaced by a new king, parliament strengthened its right to audit spending. The Bill of Rights of 1689 provided "that levying money for or to the use of the Crown by pretence of prerogative, without grant of Parliament, for longer time, or in other manner than the same is or shall be granted, is illegal." In early 1700s, the Public Accounts Committee of the parliament undertook a detailed investigation of the government's accounts and disagreed with the proposal of levying of additional taxes to meet the government's expenses.

Once the principle of openness was established there arose issues regarding the form and manner of accounting information. For instance, Bentham, a leading thinker, had objected to the adoption of commercial accounting in the UK in the 1820s due to its difficult terminology. Thomas Jefferson, America's founding father and the third president, however, wanted the government

finances 'as clear and intelligible as a merchant's books'. But that was not the case everywhere. In India, for instance, Dutch East India Company was very reluctant to share accounting and financial information even with its shareholders.

The origins of the public sector auditing

The British East India was the oldest amongst several East India Companies from Europe operating in South Asia. The British East India Company traded with India and Qing China by the late eighteenth century. To protect its trading interests in India, armed units consisting of English and native troops were raised. In January 1750, the First Pay Master was appointed by the British East India Company for paying the Garrison at Fort Williams, Calcutta.

After war of independence in 1857 the British Crown assumed the direct control of India. The British introduced a series of administrative reforms in the nineteenth and twentieth centuries. British created the post of 'Accountant General of India' which later became Accountant and Auditor General, Comptroller and Auditor General of Accounts and finally the Auditor General. The Office of Auditor General under the British raj was independent of the government in audit jurisdiction even before the major constitutional reforms of 1919. The position of the Auditor General was secured vis-à-vis the Governor General by the Secretary of State. However, with the introduction of the 1919 constitutional reforms office of the

² Timothy C. Irwin, 'Shining a Light on the Mysteries of State: The Origins of Fiscal Transparency in Western Europe,' IMF Working Paper WP/13/219, (Washington: Fiscal Affairs Department, October 2013), pp 14-31.

Auditor General was for the first time statutorily recognized as an independent entity. This independence was further strengthened under the 1935 constitutional reforms including appointment by the Governor General and removal on the like grounds of a judge³.

This office by the 1920s had in addition accounting and auditing functions, additional responsibilities like administration of the currency department, administration of coinage, the control of ways and means, the custody of securities, and disposal of public debt questions.

A few examples of the kind of audit rulings that were given by the Auditor General of India under the British will help us understand the traditions this department inherited. For instance, a 1928 Ruling regarding the adjustment of the cost, both civil and Military, of what was known as the Mangal Expedition (of 1908), and incidentally of the necessity for obtaining the sanction of the Secretary of State for the expenditure. It was decided that:

- i.** The Government of India is competent to remit a fine imposed by itself on an Indian State, even though the remission may have the effect of throwing some military expenditure on Indian revenues.
- ii.** The sanction of the Secretary of State is necessary, not only to the

commencement of hostilities, but to the use of troops which might lead to hostilities.

After independence in 1947 Office of Auditor General in Pakistan continued to operate within the statutory provisions of 1935 and later 1952 Audit and Accounts Order. The independence of Auditor General was recognized in the constitutional reforms of 1956 and 1962.

Institutional arrangements in SAI Pakistan under 1973 Constitution

Article 170 of Constitution of Islamic Republic of Pakistan (1973) delineates the authority of the Auditor General of Pakistan for prescribing the form, principles, and methods of accounts of the Federation and of the Provinces with the approval of the President. The office of Auditor General of Pakistan directs, monitors and controls all activities connected with Audit & Accounts and lays down the long term vision, mission and goals of the Audit and Accounts Departments. It also sets the policies, audit standards and systems and approval of all Audit Reports.

The mandate of Auditor General of Pakistan (AGP) is laid down in Articles 168 to 171 of the Constitution of Islamic Republic Pakistan and Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001.

³An Introduction to Government of Pakistan Accounts and Audit, (Karachi: Government of Pakistan Press. 1954), p. 12.

⁴An Introduction to Indian Accounts and Audit, (Calcutta: Central Publication Branch, 1930), pp. 14-15.

⁵Compilation of Audit Rulings, (Calcutta: Government of India Press, 1928) pp. 2-4.



The office of the Controller General of Accounts (CGA) has been entrusted with the preparation and maintenance of the Accounts of the Federal, Provincial and District Governments through CGA ordinance of 2001. It also empowers CGA to authorize payments from the Federal Consolidated Fund and Public Account against the approved budgetary provisions, after applying pre-audit checks as prescribed by the Auditor General of Pakistan. Section 5 of Controller General of Accounts (Appointment, Functions and Powers) Ordinance, 2001 delineates the Functions of the Controller General to authorize payments and withdrawals from the Consolidated Fund and Public Accounts of the Federal and Provincial Governments against approved budgetary provisions after pre-audited checks as the Auditor-General may, from time to time, prescribe; and to lay down the principles governing the internal financial control for Government departments in consultation with the Ministry of Finance and the Provincial Finance departments as the case may be. The pre-auditing functions assigned to CGA are performed by the Accountant General officers in provinces, AGPR in case of Federal Government and Military Accountant General in case of Defence Services.

Under the 1973 administrative reforms Accounts Group (renamed as Pakistan Audit & Accounts Service in 2002) was established as an Occupational group, a civil service cadre under the Auditor General to assist him in

discharge of his constitutional duties as provided in Articles 169 and 170 of constitution with respect to Accounts of Federation and the Provinces and the Audit of the organizations under the Governments. Later the two functional streams of Accounts and Audit were crystallized under Controller General of Accounts (Appointment, Functions and Powers) Ordinance, 2001 and the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001. The CGA and the Auditor General both are assisted by the officers of Pakistan Audit and Accounts Service (PA&AS) to perform Accounting and Auditing functions.

The PAC of Parliament is at the centre of the legislative accountability process. Rules of Procedures and Conduct of Business in the National Assembly define the basic working of this Committee. These rules specify that the 'PAC should look into the legality and regularity of income and expenditure of government departments along with the reports of the Auditor-General'. The Auditor-General of Pakistan submits audit reports on the accounts of the Federation and Provinces to the President and Governors respectively in line with the relevant constitutional provisions. The 'President/ Governor cause them to be laid before the National/ Provincial Assemblies, which in turn refer these reports to the respective Public Accounts Committees'. The Principal Accounting Officers are to appear before this Committee to 'satisfy the public representatives with reference to the

⁶Annual Report 2016-17, (Islamabad: Department of the Auditor General 2017), P. 2.

observations of the Auditor General made in his reports with regard to the public spending incurred through them⁷.

Way Forward

Supreme Court of Pakistan in a historic judgment in constitutional petition CP No 102 of 2012 has further expanded the mandate of the office of the AGP stating that 'The Constitution does not recognize any exception to the provisions of Article 170(2). In this view of the matter, the Consolidated Fund and Public Accounts cannot remain unaudited'. Even before the introduction of Article 170(2) in 2010, the Auditor General's (Functions, Powers and Terms & Conditions of Service) Ordinance, 2001, made it 'abundantly clear that where the amount is charged on the Consolidated Fund or relates to the Public Accounts of the Federation or the Provinces, the same must be audited by the Auditor General without exception⁸'.

People around the world now expect governments to manage their scarce financial resources in a prudent, transparent and cost-effective way. Governments raise revenues, largely through taxation, and in return are expected to deliver in social sectors like education, health, infrastructure and social transfers for the benefit of current

and future generations. In this regard role of SAI, in giving the assurance to the people that public money is well spent, is critical.

An SAI which is independent in performance of its functions, supported by professional staff is critical. SAI Pakistan has to be at the heart of the reform and accountability process in the country. Keeping Office of the AGP relevant in today's world is a challenging task. Development literature is now talking about 'techniques of successful failure' that make reform extremely difficult to implement. It is argued that more often development schemes in the developing countries are examples of what is described as 'isomorphic mimicry'. The concept of mimicry in natural sciences is widely known as many animals use camouflage techniques to survive. For instance, the 'scarlet kingsnake has the same yellow, red, and black banded coloration of the deadly poisonous eastern coral snake, but without the bother of actually having venom'. Office of the AGP needs to work with strategies 'that begin with generating locally nominated and prioritized problems, and that work iteratively to identify customized "best fit" responses' and create as a result 'expanding community of practice to share and learn at scale⁹'.

⁷Supreme Court of Pakistan judgment in constitutional petition CP No 102 of 2012' as quoted in Annual Report 2016-17, (Islamabad: Department of the Auditor General 2017), P. 3.

⁸Andrews, Matt, Lant Pritchett, and Michael Woolcock, *Building State Capacity: Evidence, Analysis, Action*, (Oxford: Oxford University Press, 2017), p. 31.

⁹Ibid, p. 5.