

SAI PAKISTAN'S EXPERIENCE IN AUDITING COVID-19 EXPENDITURE

Co-authors: (Khurram Reza Qureshi, Dy. Controller General Accounts), (Tafakhar Ali Asdi, Director General Audit Federal Governments) and (Muhammad Afnan Alam, Director of International Relations & Coordination)

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COVID-19 has brought about a global health and economic crisis which affects every country in almost every sector. Experience from previous pandemics and disasters also tells us rapid responses are required in these cases which can bring increased levels of waste, mismanagement and corruption at a time when government resources are under critical pressure. Another factor that may exacerbate and prolong the adverse outcomes of COVID-19 in developing countries are the limitations in governance and accountability systems, which play a crucial role in determining whether and how a country will manage a severe shock to the

economy, the health and well-being of its citizens¹.

Cross-country evidence from previous pandemic and disasters suggests that these emergencies can lead to basic control systems being suspended or bypassed, combined with a weakening of accountability systems and oversight. This can cause increased levels of waste, mismanagement, and corruption when government resources are under pressure. For instance, USD 5 million of aid money were lost to fraud and corruption during the Ebola epidemic in West Africa².

In many ways, COVID-19 represents an opportunity for all Supreme Audit Institutions (SAIs) to increase or affirm their role as critical governance institutions for public sector accountability. As the independent body tasked with watching over public resources, SAIs play an essential role in this process. They can make valuable contributions to their country's response to COVID-19 by helping in protecting lives through oversight ensuring proper resource allocation, suggesting ways to maximize value for money in case of procurements, benefiting vulnerable groups including both men and women equally, enhances thus trust in Government and minimizing risks for mismanagement and corruption.



On the other hand, SAIs themselves are not immune to the effects of the virus. They may face a range of challenges, such as reduced workforce and practical difficulties of working from home

¹Joint paper by IDI, the Audit Service Sierra Leone (ASSL), the General Auditing Commission of Liberia

²(GAC) and the African Organization of French-speaking Supreme Audit Institutions (CREFIAP).

“Accountability in a time of crisis”

³Source: <https://www.bbc.com/news/world-africa-418615523>, November 2017



without access to systems and files and the inability to conduct audits when physical visits are impossible³. While these are operational risks, SAIs also face a significant threat of losing relevance at the strategic level. Especially whenever SAIs fail to respond early and take proactive action, and observing the exceptional circumstances like crisis, they may risk being pushed aside as emergency spending often implies diminished or temporarily halted checks and balances of legislative and audit scrutiny of government action.

1. Pakistan's COVID-19 Response: COVID-19 was reported for the first time on February 26, 2020. Starting on March 23, both the federal and provincial governments implemented containment and mitigation measures, including selective quarantines, border closures, international and domestic travel restrictions, closure of educational institutions, banning public events, social distancing, and varying levels of lockdown. Despite these measures, the number of new daily cases increased rapidly, hitting 6,000 in mid-June, 2020 before slowing down in July, 2020. Between August and October, the number of daily new cases was consistently below 1,000 (reaching a low of 300 cases in early September). The second wave of infections started to emerge in November. As the positive cases and death rates increased before moderating in mid-December. The second wave shows signs of abating as the positive cases rate decreased to less than the 5 percent mark. As a result of the COVID-

19 shock, the economic activity slowed down notably, with growth preliminarily estimated at -0.4 percent in FY 2020. A gradual recovery is expected in FY 2021.

Government of Pakistan Response to COVID-19

a. Fiscal Policy Response

i. A relief package worth PKR 1.2 trillion was announced by the federal government on March 24, 2020 which has been almost fully implemented. Key measures include: (i) elimination of import duties on emergency health equipment (recently extended until December 2020); (ii) cash transfers to 6.2 million daily wage workers (PKR 75 billion); (iii) cash transfers to more than 12 million low-income families (PKR 150 billion); (iv) accelerated tax refunds to exporters (PKR 100 billion); and (v) support to SMEs and the agriculture sector (PKR 100 billion) in the form of power bill deferment, bank lending, as well as subsidies and tax incentives.

ii. The economic package also earmarked resources for an accelerated procurement of wheat (PKR 280 billion), financial support to utility stores (PKR 50 billion) as subsidy on food items, a reduction in regulated fuel prices (with a benefit for end consumers estimated at PKR 70 billion), support for health and protective equipment supplies (PKR 20 billion), electricity bill payments relief (PKR 110 billion), an emergency contingency fund (PKR 100 billion), and a transfer to the

³IDI Guidance note for Supreme Audit Institutions "Covid-19 implications for SAI strategic management"



National Disaster Management Authority (NDMA) for the purchase of COVID-19 related equipment (PKR 25 billion).

Government of Pakistan Response to COVID-19- contd.

iii. The un-executed part of the relief package is being carried forward to FY2021. In addition, the FY 2021 budget includes further increases in health and social spending, tariff and custom duty reductions on food items, an allocation for 'COVID-19 Responsive and Other Natural Calamities Control Program' (PKR 70 billion), a housing package to subsidize mortgages (PKR 30 billion), as well as the provision of tax incentives to the construction sector (retail and cement companies)) which got extended in the context of the second wave to the end of December 2021.

b. Monetary Policy Response

iv. The State Bank of Pakistan (SBP) has responded to the crisis by cutting the policy rate by a cumulative 625 basis points to 7.0 percent since March 17 2020. The SBP has expanded the scope of existing refinancing facilities and introduced three new ones to: (i) support hospitals and medical centers to purchase COVID-19-related equipment (43 hospitals, PKR 10.1 billion, to date); (ii) stimulate investment in new manufacturing plants and machinery, as well as modernization and expansion of existing projects (388 new projects, PKR 323 billion, to

date); (iii) incentivize businesses to avoid laying off their workers during the pandemic (2,958 firms , PKR 238 billion, to date). These facilities have been extended beyond their original deadline of June 2020 to September or December 2020.

v. Moreover, the SBP introduced temporary regulatory measures to maintain banking system soundness and sustain economic activity. These include: (i) reducing the capital conservation buffer by 100 basis points to 1.5 percent; (ii) increasing the regulatory limit on extension of credit to SMEs by 44 percent to PRs 180 million ; (iii) relaxing the debt burden ratio for consumer loans from 50 percent to 60 percent; (iv) allowing banks to defer clients' payment of principal on loan obligations by one year (PKR 659 billion being deferred to date); (v) relaxing regulatory criteria for restructured loans for borrowers who require relief beyond the extension of principal repayment for one year; and (vi) suspending bank dividends for the first two quarters of 2020 to shore up capital. The SBP has also introduced mandatory targets for banks to ensure loans to construction activities which account for at least 5 percent of the private sector portfolios by December 2021.

c. Exchange rate and Balance of Payments

vi. The SBP has introduced further regulatory measures to facilitate the import of COVID-19-related medical equipment and medicine. These include (i) lifting the limit on import



advance payments and import on open account; and (ii) allowing banks to approve an Electronic Import Form (EIF) for the import of equipment donated by international donor agencies and foreign governments. SBP has also relaxed the condition of 100 percent cash margin requirement on import of certain raw materials to support the manufacturing and industrial sectors.

On March 16, 2020, Government declared emergency. The National Disaster Management Authority (NDMA) was given the focal department's role and assigned Covid-19 related procurements for the whole country. National Command and Operation Centre (NCOC) was established for monitoring at the national level, coordinating the activities for mitigating this Pandemic. NDMA procured medicines and electro-medical equipment based on the demand of health care departments across provinces including Gilgit-Baltistan (GB) and Azad Jammu & Kashmir (AJ&K) duly endorsed by NCOC.

The other organizations like Benazir Income Support Program (BISP), Utility Store Corporation and Federal Board of Revenue (FBR), and other stakeholders were provided funds. They were assigned duties to provide relief to the citizens as the Government was combating the Covid-19 disease.

2.1 Structuring the COVID-19 government nerve centre – National Command and

Operations Center (NCOC): For a country like Pakistan, managing a global pandemic was never going to be an easy task. The developed world had the luxury to enforce strict lockdowns from the get-go, Pakistan due to poverty and lack of infrastructure found itself staring at a tightrope. The Pandemic's magnitude posed daunting challenges: governments (federal and provincial) must coordinate fast-moving and interconnected workstreams across the private and social sectors while communicating vital information to residents, stakeholders, and the media—all clearly and consistently. Mismanagement and the inability to control the virus early on sparked harsh criticism of the Federal Government, which then decided to set up a dedicated office, the National Command and Operation Centre (NCOC), to manage the effects of virus and to co-ordinate the Pakistan's response to the same.

The NCOC is headquartered in Islamabad's capital city and is headed by the Prime Minister with representatives from all provincial chief ministers, health ministers, district administration, disaster management authorities, and the army. The Prime Minister assigned a senior minister and a senior army officer to preside daily meetings and update every week. The NCOC serves as a nerve-centre for all COVID-19 related data and as a secretariat for coordinating and following-up national policy decisions. It also divided tasks among various government departments to assist in its tasks. The first responsibility was



to map the existing healthcare infrastructure, staff and equipment available across the country. This province-wide information — which included details on personal protective equipment, and the number of beds, oxygen tanks and ventilators available at each healthcare facility — helped the government channel resources to enhance capacity, including importing what was required. Next, the NCOC tasked the top three private-sector data analytics companies to run daily projections of COVID-19 infections.

The establishment of NCOC also made the decision-making much more efficient by ensuring any COVID-19 related decision in any department and ministry is taken under a single roof. Decisions once made are uniformly applied; any corrections suggested thereof are referred back to NCOC for consideration and recalibration of approach.

NCOC's Covid-19 strategy was devised along four strands: national awareness, disease prevention and containment, healthcare optimization and buildup, and managing socio-economic fallout.

i. Efforts in creating National awareness: To increase national awareness about Covid-19, NCOC carried out timely risk communication and issued guidelines and standard operating procedures to prevent the virus from spreading. The Command Center also undertook measures to reduce panic, manage expectations, and avoid proliferating fake information.

ii. Efforts in Disease Prevention

Containment: The second strand, disease containment, was broken down further into a 'disease management improvement', enhanced testing, Track Trace and Quarantine (TTQ), smart lock down, SOP compliance and community mobilization strategies. Side by side, the country also took measures to manage international travel and borders, along with high-risk events. Daily testing capacity increased from 472 tests in February to over 60,000 tests, and the number of labs risen from four in February to 155⁴ in February 2021. As many as 8.25 million tests have been conducted so far, the country maintains an average of 31,000 tests per day⁵. Country's lock down strategy has been adaptive, and the Government moved from general lockdowns to smart lockdowns and now, micro smart lockdowns, to zero down on the disease in the long term.

iii. Healthcare optimization: The Government embarked on a hospital ramp up, procuring critical care and protective equipment, improving resource management, and training and motivating healthcare workers. Domestic oxygen manufacturing was also ramped up measures were taken to ensure the availability of essential medicines, while promoting indigenous developments that could help fight COVID-19. The NCOC looked for ways to strengthen the IT base and launched initiatives such as Telehealth and *Yaran-e-Watan* (English: *Friends of the country*).

⁴NCOC Website: <https://covid.gov.pk/stats/pakistan> last accessed 9 February 2021

⁵NCOC Website: <https://ncoc.gov.pk/#section2> last accessed 9 February 2021



iv. Managing socio-economic fallout: On the socio-economic front, the Government took measures such as announcing a stimulus package and ramping up the Ehsaas programme, the country's flagship social safety net. The Government encouraged a gradual re-opening of the economy and passed special anti-hoarding and anti-smuggling ordinances to ensure food and economic security.

3. SAI Pakistan Experience: The large majority of countries worldwide have imposed social distancing measures, most notably working from home and schools' closure to deal with containing the virus's spread. These immediate implications of the crisis call for a first-line response from SAIs. In Pakistan, Public sector institutions, including SAI Pakistan, have had to send staff to work from home, often on very short notice. Staff have usually not been prepared for this new

situation to collect necessary files and information from the office. Ongoing audits, where physical evidence needs to be collected, will be put to a halt. Another challenge encountered in the immediate aftermath of the social distancing measures concerns internal coordination difficulties when people are not physically together. Moreover, many SAI staff have had to combine childcare and work, resulting in a significant reduction in their short-term capacity.

In this context, SAI Pakistan management had to balance the need for vital operations to continue despite reduced capacity. At the same time, it prioritizes the health and safety of its staff.

SAI Pakistan Challenges, Risks and Strategic Choice Dilemma	
Challenges/ Risks/Opportunities	Potential Strategic Management Choices/ Dilemmas
<ol style="list-style-type: none"> 1. Limitations in staff capacity 2. Difficulties in internal coordination 3. Staff likely to be worried and fear for their health and safety 4. Limited access to internal systems and files, e.g., on ongoing audits 5. Lack of IT and equipment 6. External coordination with key stakeholders, i.e. Executive and Parliament more difficult 	<ol style="list-style-type: none"> 1. How to ensure the health and safety of staff and observe Pandemic related social distancing regulations without altogether discontinuing work 2. How to ensure an inclusive approach towards the expected working capacity of the staff, given their family situation, gender roles, disabilities, economic situation etc 3. How to remain relevant in the context of COVID-19 and emphasize key role as a watchdog over critical public



<p>7. Audits are stalled as field visits to clients and access to manual files are impaired</p> <p>8. SAI cannot deliver on its mandate in the short term due to the immediate limitations</p>	<p>spending when focus and power are concentrated with the Executive and Parliament's authority to follow up on spending</p> <p>4. How to not compromise the emergency response of the Government, while providing intended users, interested parties and the public with timely re- porting to support accountability and learning</p>
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3.1 SAI Pakistan Audit Approach: During the Covid-19 Pandemic, the agility and strength of public finance management systems were tested, and centralized TORs for the Covid-19 audit were prepared. The Auditor General of Pakistan chaired a high-level meeting to finalize the TORs of the Covid19 expenditure audit and constituted a committee to oversee the field activity. Information on budget and spending on Pandemic (Covid-19) was obtained. Extensive desk audit was ensured before the execution of a field audit. Risk-based audit approach was used to identify the areas for audit. Extended use of computer-aided techniques to limit fieldwork was adopted. Audit undertook a comprehensive, multifaceted and risk-based audit of the organizations involved in managing relief activities and implementing the fiscal-stimulus package.

Also, the increased spending from the Government to counter the effects of COVID-19 required SAI Pakistan to take into account the following considerations such as:

a. How to undertake a whole of the government-related audit that can have the

most significant value addition in the short term, enabling Government to deal with the crisis more effectively,

b. How to execute the audit given limited data availability, the skills of SAI audit staff in the pandemic, and the health risk for auditors and movement restrictions, and

c. What audits should be done, considering the limited capacity of government agencies to serve auditors with the needed information and not impair emergency operations.

3.2 Field Audit Activity: Audit of Covid-19 expenditure was a completely new assignment. The audit plans were modified to accommodate the audit of expenditure of Covid-19. The audit activity was undertaken to understand that there was an emergency in the county, and accordingly, the planning, execution and reporting of the audit were done. Access to documentation, timely data, systems and government officials was limited in the lockdown period, which caused significant audit delays. Active/virtual monitoring of field audit activity of field audit

teams was carried out.

3-3 SAI Pakistan Contribution: As a result of audit irregularities, the management pointed out when Pandemic was not over. While dealing with ongoing Pandemic, an opportunity was provided so that decisions previously made could be reviewed/revisited. SAI Pakistan tried to sensitize the departments about need and areas to take care of during an emergency. Informing possibilities like adopting E-Procurements formed part of recommended to avoid delay in procurement. Importance of IT roles like ERPs' use was highlighted to ensure uncompromised controls and documentation during an emergency.

4. Recommendations and way forward

i. Ensure auditee and client preparedness for auditing: While conducting COVID-19 audits, the primary auditees are health ministries, disaster management agencies, ministries of finance, and other government entities responsible for funding and managing the crises. SAIs should communicate closely with these entities, and the legislature on when, how and what to audit so that SAIs' audit can be conducted smoothly, and the results are adequately reported. Close communication helps ensure the cooperation from audited agencies on relevant record maintenance and provision for audit purpose. Proactive communications will help with audit objective and mutual expectations.

A high-level forum established in the Government should ensure that audit issues are addressed promptly and adequately. The public has the right to raise their voices on COVID-19 preparedness and response. When the citizenry participates in the audit process, they will become more active eyes and ears for SAIs and oversee audit recommendations. An example is when one SAI conducted an issue analysis during MERS audit planning to identify the specific concerns of people, the legislature and an expert group on the MERS response.

ii. Use professional judgment and appropriately apply nuisance conclusions to context: Auditors' professional judgment gains higher levels of significance during performance audits of the COVID-19 response. Audit teams need to understand the overall context of the situation and the constraints faced by government agencies while executing their responsibilities. Materiality may change threshold amounts. Auditors need to ensure that their findings are based on circumstances prevalent in the crisis phase and are nuanced constructively to enhance accountability and strengthen future events' resilience.

iii. Timeliness of audit reports is vital: The best opportunity for Government and the legislature to strengthen systems is when the crisis issues are fresh in people's minds. It would be advisable to explore the possibility of quick and brief products with several themes, each output issued as standalone



product when ready, instead of one comprehensive report, which often can be substantially delayed. A brief high-level synthesis with overall results could be produced after several standalone reports are issued quickly.

iv. Categorize COVID-19 expenditures for auditing procedures: It is essential to use the auditing procedures most appropriate to each particular set of transactions and issues. For instance, ISSAI 5520 presents as many as 17 inherent risk factors associated with critical disaster-related aid activities. Most of them are also relevant for COVID-19 expenditures: delays; unintended recipients; undistributed funds, materials, and aid; lack of fiduciary controls; fraud and corruption; poor economy; inflation; inefficiency and ineffectiveness; financial statement risk; unrecorded aid; assets ownership; double funding; and limited information flows. The COVID-19 expenditures can be grouped into three different categories: (i) health care support; (ii) social protection and humanitarian aid; and (iii) economic support. Each spending category represents different recipients, objectives, and inherent risk factors. As a result, audit ability, audit timing, and audit questions can be different, implying different audit types for various expenditure categories.

v. SAI auditing of procurement must align with actions taken during the COVID-19 emergency: Procurement plays a crucial role in public expenditure during an emergency

response. The SAI focus needs to be appropriately aligned. COVID-19 procurement auditing is a critical issue with enormous interest. SAIs need to consider the particular context of procuring related PPE, test kits, ventilators and other medical equipment. SAIs need to be aware of the higher risks of fraud and corruption and disclose overall facts (e.g., costs, shortages, delays, and unused PPE) as a basis for improving preparedness. The specific focus may be given to cases relating to direct contracting or streamlined competitive procedures, including under national policies. SAIs may use risk-based categorization to review procurement and focus on those awards that are not publicly disclosed immediately after the award.

vi. GovTech Leverage in Auditing: COVID-19 is likely to accelerate digital payments in the Government, with special priority for welfare payments through mobile money targeted to poor households most affected by the Pandemic. Audits should enhance readiness, with appropriate skills and tools, to identify control risks in these environments. In some settings, these arrangements are fraught with fraud and corruption, which would need the special attention of SAIs.

In more advanced settings, the use of disruptive technologies in auditing, such as artificial intelligence (AI), should be initiated through proof of concepts. AI tools, such as natural language processing, could be deployed to read documents, including



voluminous contracts and millions of vouchers, and match pre-identified text to prepare samples of high-risk areas needing special attention. AI can also produce a risk score for several data points, mostly General Ledger entries, using data science, data analytics and compliance and assurance parameters. The auditors can extract and load the accounting and finance data

from IFMIS, or underlying ERP system into the AI tool, which finds anomalies, errors, using built-in algorithms against user-defined parameters (e.g., materiality levels, all urgent payments, unbalanced debits and credits, rare flows, all payments that went through multiple revisions or approval queries, acquisition of assets beyond a certain threshold, etc.).

