

UNIVERSITY OF STRATHCLYDE

THE DEPARTMENT OF ACCOUNTING AND FINANCE

OPERATIONAL AUDITING PRACTICES IN
WESTERN DEVELOPED COUNTRIES:
IMPLICATIONS FOR GOVERNMENT AUDIT
IN THE STATE OF KUWAIT

ALI G. NEMEH

SUBMITTED TO THE DEPARTMENT OF ACCOUNTING
AND FINANCE, UNIVERSITY OF STRATHCLYDE,
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY.

THE DEPARTMENT OF ACCOUNTING AND FINANCE,
UNIVERSITY OF STRATHCLYDE,
GLASGOW,
UNITED KINGDOM.

DECEMBER 1986

TO
MY PARENTS
MY WIFE UMM MOHAMMAD
AND MY CHILDREN SHIIMA',
MOHAMMAD AND ASMA'.

ABSTRACT

This research aims at finding out to what extent the new audit techniques, (operational auditing, value for money audit ... etc.), which have been developed by western developed countries and used by their supreme audit institutions to review government activities, could be transferred to developing countries. To be more precise, this study attempts to achieve the following objectives:

(1) To study the available literature on the nature and objectives of operational auditing, [OA].

(2) To investigate how OA is performed in practice by some western countries, (namely Canada, Sweden, the UK and the USA).

(3) To determine whether there is a need for introducing OA techniques to the Kuwaiti Public Sector, [KPS], and particularly to the Kuwaiti Audit Bureau, [KAB].

(4) Finally, to draw-up conclusions and implications for the KAB.

Methods used for compiling, and analysing, data has included:

(1) Library research

(2) Review of government documents

(3) Fieldwork in UK local and health authorities and in the State of Kuwait

(4) Statistical analysis

The study revealed that there is no generally accepted definition for operational auditing nor any general agreement on its main components. Furthermore, it confirmed the existence of differences of purpose and scope in the practice of OA investigations in the selected western developed countries, (Canada, Sweden, the UK and the USA). The research concludes by identifying implications for the Kuwaiti Audit Bureau and any foreseeable obstacle which could hinder the introduction, or full adoption, of OA techniques in the Kuwaiti public sector. The researcher proposes suggestions and makes recommendations to overcome these impediments.

ACKNOWLEDGEMENTS

During the period of working on this research project I have received a great deal of support from a number of persons to whom I extend my thanks.

My greatest debt is to David Lyall, under whose supervision this research was carried out. My deep appreciation for his valuable advice and constructive criticism. I am also grateful to all members of the staff at the Accounting and Finance Department, University of Strathclyde especially to Mr E. Minnis.

Special thanks must go to Professor C.W. Nobes, head of the Accounting Department at Reading University, and to Professor D. Hartherly, head of the Accounting Department at Glasgow College of Technology, for their valuable comments and ideas.

I am indebted to the Kuwaiti officials for their support and co-operation, especially to His Highness, the Heir Apparent; to Dr Al-Awadi, the Minister for both Public Health and for Planning; to Mr K. Abu Elsoud, the Budget Expert at the Ministry of Finance; to Mr F. Al-Wukian, The President of the Kuwaiti Audit Bureau, to Mr A. Al-Hamad, the Finance Minister; to the Honourable Members of the National Assembly who took part in interviews; to Mr A. Al-Duwaisan, the Cultural Attache and to His Assistant Mr Y Shourrora at the Kuwait Embassy, London.

I for the period spent working on this project, have received Financial support from the Government of the State of Kuwait through my employer Kuwait University. This Financial assistance is gratefully acknowledged.

Special thanks also to Mr Omar A. Fakieh, President of the General Auditing Bureau in Saudi Arabia; to Dr Hashim A. Dabbas, President of the Audit Bureau, Jordan; to Mr Hassan Al-Wajjad, Under-Secretary at the Central Accounting Office, Egypt; and to Mr Louis W. Hunter, Director of the United States and Saudi Arabian Joint Commission on Economic Co-operation, Audit-Project and to all American members of the Commission, and to all staff of the Saudi Audit Bureau who took part in the interviews, for their co-operation.

I am also much indebted to the public officials working at Local Authorities and Health Authorities in the UK Public Sector; special thanks are extended to those who took part in this research project, either by completing the questionnaire or by taking part in the personal interviews. Without their assistance this research would never have been completed.

My sincere and heartfelt gratitude to my wife, Umm Mohammad, and my children, Shiima', Mohammad and Asma', for their patience, understanding and encouragement during the period of this research work.

I would like to express my sincere thanks and appreciation to my parents, brothers and sisters and to the rest of my family for their support and encouragement.

My admiration and special thanks must go to Dr Hassan NemeH Al-Awadi, my brother, for supplying the data and materials necessary for completing this research.

Finally I would like to thank Mrs Noor 'Aini for typing this thesis.

ALI G. NEMEH

University of Strathclyde

1986

TABLE OF CONTENTS

	Page
ABSTRACT	i
ACKNOWLEDGEMENTS	iii
CHAPTER ONE: INTRODUCTION AND OVERVIEW	
General Background	3
Factors Behind The Development of Government Auditing	5
Terms	13
The Statement of the Problem	16
Objectives of The Study	34
The Significance and justification of the study	35
Expected Contribution	41
Limitations of the Study	42
Research Methodology	44
Appendix	49
CHAPTER TWO: FINANCIAL MONITORING AND ACCOUNTABILITY SYSTEMS IN THE STATE OF KUWAIT	
Introduction	70
System of Government in the State of Kuwait	71
The Organisation of Power in the State of Kuwait	72
Administrative Structure of the Government of Kuwait	80
Co-operation Between the Executive and the Legislative Branches of the Kuwaiti Government	84
The Budgetary System in the State of Kuwait	85
Control System in the State of Kuwait	102
The Role of the Ministry of Finance	111
The Role of, and Reasons for Selecting, the Ministry of Public Health	122
The Kuwaiti Budgetary System in Practice	136

**CHAPTER THREE: PUBLIC SECTOR AUDITING IN THE
STATE OF KUWAIT**

Introduction	157
The Main Role of the Council of Ministers	161
The Main Role of the Ministry of Petroleum	161
The Main Role of the Ministry of Planning	162
The Main Role of the Ministry of Public Works and Kuwait Municipality	165
The Main Role of the Ministry of Finance	165
The Main Role of the Civil Service Commission	169
The Main Role of the Central Tenders Committee	171
The Main Role of the Department of Legal Advice And Legislation	172
The Main Role of the National Assembly	173
Aims and Functions of the Bureau	176
Financial Offences	187
Bureau's Auditing Policy and Technique	189
Reporting the Findings of the Bureau	192
Follow-up System	196
Accountability and audit in the State of Kuwait and the Role of the Bureau	198

**CHAPTER FOUR: THEORETICAL BACKGROUND TO
OPERATIONAL AUDITING**

Current Practice In Auditing Non-Financial Activities	207
Audit Objectives	208
Terminology and General Guideline	212

**CHAPTER FIVE: THE BRITISH AND CANADIAN APPROACHES
TO OPERATIONAL AUDITING**

Introduction	252
I. United Kingdom	253
The National Audit Office	253

Auditing National Health Authorities	261
Auditing Local Authorities	274
The UK VFM Audit Methodology and Philosophy	287
The UK VFM Audit Approach	292
II. Canada	296
The Canadian Audit Approach and Methodology	303
Similarities and Differences Between The Canadian and The UK Approaches	307
Appendix	312

CHAPTER SIX: THE SWEDISH AND AMERICAN APPROACHES TO OPERATIONAL AUDITING

Introduction	327
I. Sweden	327
Swedish Approach to an Audit of Non-Financial Activities	328
Agencies Responsible For Auditing Government Performance	329
Audit Approach	332
II. The United States of America	342
Historical Development of AO in The USA	343
GAO Audit Approach	344
Functions and Responsibilities of GAO	349
Similarities and Differences Between The US GAO and Swedish Approaches	351

CHAPTER SEVEN: SOME COMPARATIVE EXPERIENCE

Introduction	360
An Overall Comparison	360
Firstly, Similarities in the Audit Institutions	361
Secondly, Differences in the Audit Institutions	361
The Underlying Cause of the Differences	381

**CHAPTER EIGHT: THE BRITISH VALUE FOR MONEY AUDIT
SYSTEM IN PRACTICE:
SOME EMPIRICAL EVIDENCE**

Introduction	398
Determining the sample population and sample size	398
Type of questionnaires	400
Designing the questionnaires	401
Sending out the questionnaires	404
Analysis of the findings of the field survey	408
A. Statistical Techniques	409
B. General comment on the results of the questionnaire survey	409
C. In-depth analysis of the fieldwork survey	412
The Analysis of the Programme Managers' Replies	412
The Analysis of the Auditor's Replies	467
Some general views on the UK VFM audit approach.	490
Some concluding remarks.	502
Appendix	506

**CHAPTER NINE: SUMMARY, CONCLUSION AND IMPLICATIONS
OF THE STUDY**

Summary	541
Conclusion	544
Adoptability of OA by Developing Countries	545
Limitations and Possibilities of OA	547
A. Limitations	548
B. Possibilities	550
Implications for the KAB	550
Obstacles and Recommendations	583
Specific Recommendations	593
Further Research	596
BIBLIOGRAPHY	602



CHAPTER ONE

INTRODUCTION AND OVERVIEW

CHAPTER ONE

INTRODUCTION AND OVERVIEW

General Background

Some Factors Behind The Development In Government Auditing

Terms

Statement of the Problem

Expected Answers to the Problem

Objectives of The Study

The Significance And The Justification of the Study

Expected Contribution

Limitations of the Study

Research Methodology

CHAPTER ONE

INTRODUCTION AND OVERVIEW

General Background

For the purpose of this research the project following factors must be clarified:

1. Location and Area

Kuwait lies at the head of the Arabian Gulf. It is bounded on the west and north by Iraq, on the east by the Arabian Gulf, and on the south Saudi Arabia. It has an area of approximately 17,000 sq. km. the land is the flat desert.

2. Population

Kuwait as a whole is a thinly-populated country. The population was 206,473 in 1957, increasing to 467,339 in 1965, to 994,837 in 1975, and approaching 1.4 million according to the 1980 census. It is estimated that it will reach 1.9 million by 1985. Only about 41% of the inhabitants are Kuwaiti, with the rest coming from neighbouring countries.

3. Oil

Exploration began in the 1930's, and in 1934, the Gulf Oil Corporation of America and the Anglo-persian Oil Company (now BP) went into partnership to form the Kuwait Oil Company Ltd. (KOC).

The first exploratory well was drilled by KOC at

Bahra in 1936, and was not commercially successful. In 1938, a second well was drilled. In June 1946 the first commercial shipment of Kuwait crude oil was exported. The total crude oil export that year was about 797,350 tonnes.

4. Public Finance

The fiscal system in the state of Kuwait is made up of three types of budgets and three types of account, through which all fiscal operations of the government sector are processed inside and outside the country. The General Budget is the most important, followed by the Attached Budgets and Independent Budgets.

The fiscal accounts include the General Account, through which the General Budget is financed, and which receives its income from crude oil sales, royalties and all other revenues. They also include the General Reserve Account, which receives surpluses resulting from the differential between public revenues and expenditures, and through which contingent expenses are financed. The third account is the Reserve for Future Generations, to which income from investments and 10% of the public revenues are transferred annually, and from which no outlays are allowed.

5. Public Expenditure

Public expenditure in Kuwait includes all funds injected through the various parts of the General Budget, and some of the Attached and Independent Budgets, as well as all transfers made from the Reserve account.

Factors Behind the Development of Government Auditing

Broadly speaking, auditing in either the public or the private sector is not new: audit practices have been carried out since the Ancient Egyptians, Greeks and Romans.¹ For hundreds of years the term "audit" has been used to refer to activities carried out by an independent person to verify something - the arithmetical correctness of an account, the physical existence of an object or asset, the accuracy of a statement concerning either financial or operational activities, the reliability of a report or the occurrence of an event. Not earlier than the fifteenth century, auditors were called upon to attest to the absence of fraud in the records kept by stewards of wealthy household estates in England.

Since the fifteenth century, many social and economic environments have changed, many new technologies have been invented and adopted, and many new theories have been formulated and applied (as have many others fallen by the wayside). All these factors, and many others besides, put pressure on auditors as a group either to find ways and means in which these changes could be interpreted and transplanted into their plans of work, or to clear the field for some other groups to fill the gap. From the historical evidence available, the fact that many new techniques are being developed and used, and that many new technical devices have been adopted, shows that audit practice has been changed and is still changing.

The development of the audit function has occurred most rapidly in the twentieth century, and the progress in government auditing has been made during the last twenty-five years. Supreme audit institutions have been founded as a results of the separation of the power which used to be in the hands of the head of state and a small group of capital suppliers, into the possession of two different groups: the executives, who possess the managerial know-how, and the legislators, who represent the resource-supplier and are capable of providing these. On the other hand, the historical desire of national legislators is to exercise control over and ensure accountability in respect of public revenues and expenditures.

Since what is traditionally meant by the concepts of control and accountability are these activities of verifying whether the government transactions are in accordance with the sanctions of legislatures, the audit function has consequently concentrated on checking the financial correctness and legal propriety of government transactions.²

In the western developed countries, supreme audit institutions were involved in the relatively simple clerical functions of checking the regularity of accounts and the legality of expenditures, but the present-day audit functions have changed. These institutions have witnessed a vast growth and development which have directed their attention away from an exclusive concern with these traditional functions, to deal with matter

directly related to the information needs of audit recipients concerning the client operations.

The information needed by the information users (that is to say, the audit recipient and the expected interested external parties) falls, according to L. Knighton, into three categories. These are, firstly, the need to assess the reliability of auditee reports issued in response to basic accountability requirements; secondly, the need to know the conditions that exist or results that were achieved in areas not covered by such reports; and, lastly, the need for assurance that adequate and appropriate controls and safeguards exist to protect resources and ensure faithful, efficient and effective performance.

Two factors have provided the basic drive behind this evolutionary movement:

1. A change in the concept of government accountability to include all three types of accountability [see the client relationship with the audit recipient pp 14 & 15 of this chapter]. Thus, public officials are required to be accountable not only for their honesty, for fidelity in the handling of government resources, but also they must be equally accountable for managing their resources as efficiently, economically and effectively as is practical.³
2. Financial auditing, which is the process of examining documents, records, reports, systems of internal control,, accounting and financial procedures, and other evidence for one or more of the following

purposes:

- a. To ascertain whether the statements prepared from the accounts fairly present the financial position and the results of financial operations of the constituent funds and balanced account groups of the governmental unit, in accordance with Generally Accepted Accounting Principles applicable to government units, and on a basis consistent with that of preceding years,
- b. To determine the propriety, legality and mathematical accuracy of the financial transactions of government units, and
- c. To ascertain whether all financial transactions have been properly recorded.⁴

Financial auditing as defined above has failed to meet the expectations of the information user's needs in the twentieth century. The following should be noted in this respects:

- i. The failure is partially caused by the very title of this type of auditing; which could unintentionally influence the performance of the auditor, and restrict the scope of his work to the financial affairs of the organisation concerned.
- ii. This type of audit is largely concerned with the control, for the purpose of protection of the assets from misuse, detection of fraud, and compliance with laws and rules. As a

results, the auditor concentrates his activities on checking the adequacy of books and records, the accuracy of the transaction from the arithmetical and the accounting techniques point of view, the accuracy of the choice and application of accounting techniques, and finally, he seek to find out if there has been any change in the technique already in use by the organization, and then determines what these changes are, the reasons for the departure from the technique, and what effects these changes will bring to bear on the financial statements.

- iii. This type of audit builds its results on gathering, evaluating and analyzing transactions based on the historical costs, which do not take into account any changed in economic conditions and environment (like a change in the rate of inflation) which will affect the organization's activities.
- iv. This type of audit is mainly concerned with what actually took place during any given elapsed financial period, with some exceptions, which it of limited use in drawing and implementing plan stages.
- v. The final output which the financial audit is directed towards, is to express an opinion by the auditor in the form of a report concerning.

- a. adequacy of internal control and accounting books,
 - b. adherence to the applicable laws and regulations,
 - c. consistency of applied accounting procedures with the Generally Accepted Accounting Principles.
- vi. The major limitation of this type of audit is the failure to show and measure the progress towards the organization's objectives and to relate outputs to inputs.

The following factors have contributed directly or indirectly towards creating new demand for adopting the wider concept of accountability and auditing in the government sector:

1. Constitutional rights:

People external to government activities, because of their constitutional rights, are entitled to receive more information concerning the way government runs, in order to exercise their constitutional rights to participate directly or indirectly in government control.

2. Quality and quantity of government services, and decisions as to their delivery:

Further concern for more information about government operation stems from the widely held perception that the quality and quantity of government services have

not kept pace with rapidly increasing costs and taxes.

3. Taxpayer's rights and scarcity of resources:

Governments in general, have the power to established new sources of income to finance their activities. Taxation is one result of exercising this power. Expansion in government services led the tax rate to increase, and made the resources available for government services more limited and scarce. This has in turn led taxpayers to demand that public officials must be held accountable for using these resources in an efficient and economical manner.

4. Economic factors:

During the last decade two economic factors, inflation and recession, have contributed to the demand for more information, as they place an increasing burden on the financial structures of the governments, by leaving them with less real money with which to accomplish their programmes. This has increased the pressure on top government managers both elected or appointed to look for a scientific approach to allocating resources as efficiently as possible.

5. Increased role of the government:

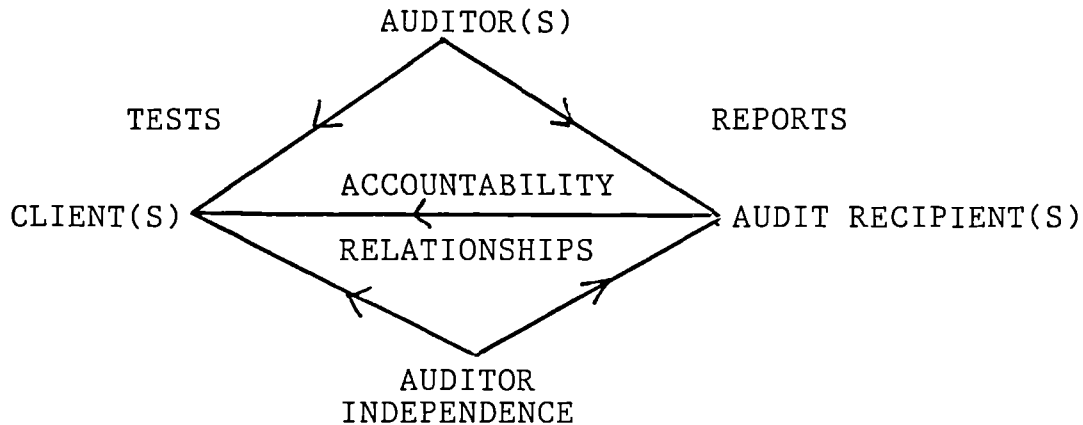
Government all around the world has departed from its traditional role as the protector of its citizens from external enemies and the upholder of the law, to become, especially in the twentieth century, a major economic power affecting not only the economy of the

nation, but also, in some cases, the economy of the whole world, by expanding in the size of its transactions, and by widening its activities. Thus, it not only renders services, but also produces goods which can hardly be measured, or even priced. This is because of the government's uniqueness, and also the increased complexity of the traditional published financial statements concerning the government's activities, which makes them that much more difficult to decipher.⁵

6. The concept of visibility has caused another change in attitude towards government management, leading the public to demand to know more about what is going on behind closed doors; especially to find out how important these matters are and by what means they will be accomplished.
7. At the present time, governments all around the world, regardless of their size, stage of development (developed or developing) and type of economic system adopted (capitalistic and free economy, or socialist and planned economy), have adopted planning techniques meant to accomplish their programmes and activities.⁶ As the concept of accountability adjusts to embrace these changes, audit must follow, ensuring for the society that the quality of accountability it requires is in fact achieved.

Terms

There are some conditions which must be met before any activity can be called auditing as the term is used in this research. These conditions are diagrammed below:



From the above diagram it appears that there should be:

1. Auditor: Any individual with enough experience, solid background, necessary skills, adequate technical training; capable of applying audit techniques, and able to carry out the objective of audit; and whose responsibility is to audit clients on behalf of audit recipients.
2. Audit Recipient: The person or group for whom the audit is performed and who is responsible for engaging the auditor.
3. Clients: The group or organization subject to the audit and responsible for conditions and results.
4. Auditor's Independence: This is an attitude of mind to be maintained by the auditor while performing his auditor's duties.

From the above diagram, some relationship also must exist, and these are:

1. The auditor's relationship with the audit recipient.

This can be encapsulated in the presentation of a report summarizing his work, based on their authorization and the conclusion that he has reached.

2. The auditor's relationship with the client.

Which is to say:

A. Client is responsible for recommending the auditor to the audit recipient, for paying him, and for providing him with all information and assistance requested by him personally or by one of his associates.

B. The auditor's duty, on the other hand, is to examine this party's work and to gather adequate evidence. This might be found inside or outside of the organization, or could be generated by the auditor himself, and it could be obtained in either a written or a verbal format. It enables him to reach his conclusion. His responsibility is to draw the client's attention to his findings.

3. The client relationship with the audit recipient can be summarized as an accountability relationship, and can be explained as follows:

A. The audit recipient is responsible for providing resources for the client's activities.

B. The client is responsible for the administration

and utilization of the resources for the authorized activities and purposes in an effective, efficient and economical manner, and, meanwhile, is held accountable for using them.

Accountability was traditionally defined as providing a formal statement of money, transactions and conditions, from the financial point of view, of an organization or a programme. More recently, the concept of accountability was widened to include not only the financial affairs of the organisation, but also to cover every aspect of the organisation's operation. The following are three types of accountability:⁷

1. Fiscal accountability, which includes fiscal integrity disclosure, and compliance with applicable laws and regulations. The American Accounting Association Committee on Not-for-profit Organization has split this type of accountability into (a) accountability for fiscal resources and (b) accountability for faithful compliance and adherence to legal requirements and administrative policies.
2. Managerial accountability or accountability for efficiency and economy in operation.
3. Programme accountability, or accountability for results of projects. This is designed to assess whether programmes are achieving their pre-determined objectives effectively.

Accountability is defined in this research as a

relationship based on an agreement between the legislative and executive branches of the government, under which the latter agrees to take charge of property made available by the legislative branch, as a fund administrator, and is held responsible for utilizing the resources economically, efficiently and effectively in pursuing the objectives and wishes expressed by the legislators. It must also be liable to give reasons for, explain and justify what it does, whenever it is requested to do so by the legislators or their agents.

Accountability relationship, along with other factors, determines the scope of the control system in any organisation. Both accountability and control are aimed at satisfying the needs of information-users, by providing accurate information concerning the executive's responsibility in carrying out the goals and objectives of the organisation.

Control can be defined as a dynamic procedure of comparing the intended and expected outcomes with the actual results to ensure that the expected quality of accountability has been met.

The Statement of the Problem

Kuwait's economy in the pre-oil period was entirely dependent on sea-centered commerce: fishing, pearling and shipbuilding. The population was less than a hundred thousand. Government revenues were so low that essential services did not exist. For example, in 1910 the government of that time could not afford to establish and

finance an educational system. This forced Kuwaiti merchants to volunteer and subscribe to build the first school in Kuwait. The same thing happened for the second school in 1921, and in 1936 a group of merchants made an agreement with the government to impose a special tax for education. Modern health services did not exist until the late 1940's, when two hospitals were established.

After the discovery of oil in Kuwait, social, economic, defence and public administration services began to improve. As a result, current expenditures of running government services were gradually increased.

The basic factor behind these expansions in the public services was the increase in government receipts. In the years 1950 to 1959 the government receipts increased from 5 million Kuwaiti Dinar (KD) or \$ 17M to KD 160M (\$ 544M). By the year 1969 revenues has reached more than KD 268M, and this gradually increasing pattern held until 1974/75 when oil revenues jumped to KD 2121.2M, an increase of KD 1533.2M over the previous year. This increase was due to (A) a transfer of the ownership of the working oil companies in the country to the government, and (B) a transfer of the decision on price settings from companies to the government, and later on to the Organization of Petroleum Exporting Countries (OPEC). Oil revenues kept growing till 1981/82 when they reached their peak at KD 6104.4M. they showed a decline in 1982/83 to KD 4233.3M. The researcher believes that this trend will continue for a while because of the oil market around the world.⁸

Expansion in oil revenues encouraged the government to follow some practical policies in distributing the oil wealth among the population by providing various services free of charge (like education and health), or by adopting a policy of direct aid to needy families, old and sick people, or by providing others without considering the real costs, as in the distributions of houses for middle or low income people. Undertaking these activities and rendering all these services did not affect its basic responsibilities of keeping order and looking after the security of its people and the nation's interests.

Kuwait was the first country in the region to introduce these services free of charge and this later on became an example for those countries wishing to follow the Kuwaiti steps.

Few social and economic indicators mirror the growth of the economy and show the real size of actual demand for public services as accurately as population growth. The size of the populations increased almost eight-fold over a period of about twenty-five years, from an estimated 90,000 people in 1946, to approximately 740,000 people by 1971, over one million by 1975, and on to reach 1,355,827 by 1980. This expansion is expected to last for the foreseeable future, as the estimates of the Ministry of planning show that by 1985 the population will reach over 1.9 million people.⁹

The final two factors which caused the above expansion are the relationship between the Kuwaiti

economy and world trade, and the limited size and role of the private sector in the Kuwaiti economy.

Because of the openness of the Kuwaiti economy to the outside world, any change in the world's economic conditions (such as an increase in the inflation rate, or recession in the industrial world) will directly affects the types and size of government services. For example, the consuming public in Kuwait have long enjoyed many government subsidies, irrespective of their income or nationality. These subsidies cover such basic services as water, electricity and gasoline. Due to inflation which pushed the Cost-Of-Living Index up to reach 7.7 in 1980, the Kuwaiti government has adopted a number of direct and indirect policies to curb the rise in domestic prices, such as subsidizing the level of salaries, wages and pensions, and the provision of additional public services at relatively low prices. This claim can easily be justified by examining the actual disbursements for subsidization purposes which were made in 1980. these totalled KD 23.7M, compared to KD 17.5M in the previous year, an increase of 35.4%.

The increase in government services in the State can be better understood when the effects of this expansion are viewed from two different viewpoints such as the Development in the Public Expenditures and the Development in the Government Post Civil Servants. The increase in the government's activities required more public employees to run them, and as a result the number of post civil servants rose from 69,520 in 1965 to

145,451 in 1979/80, which shows an increase of 209.2% over the 1965/66 level.¹⁰ Public expenditure increased from KD 151.5M in 1960/61 to KD 358.2M and KD 836.1M in 1971/72 and 1975/76 respectively. After 1976/77 public expenditures started to increase at a higher rate than in the sixties and early seventies. In 1979/80 public expenditures reached KD 2300.5M, an increase of KD 314.1M and KD 245.9M over 1978/79 and 1977/78 respectively. In 1981/82 budget estimates for the first time reached KD 3309.3M, and continued their escalation, recording 3998.1M in 1982/83, which constitutes an increase of 2081.5% and 2535.5% respectively over the 1960/61 level. In 1982/83 government revenues could not cover the public expenditures, and as a result the budget showed a deficit of KD 312.9M. The researcher believes that the 1983/84 budget will continue to show a deficit if the government expenditures grow at the same rate and if the same reason for the decline in revenues continues to exist.¹¹

A brief review of the current state of the public health sector in Kuwait will show the real effect of the above factors on the service delivery system in the country. There are currently 11 hospitals and sanatoria in Kuwait, and more are under construction. At least six hospitals were under construction in 1977. There are 49 dental clinics, 29 mother and child care centres, 44 preventive health centres, 44 clinics treating nearly 7 million patients annually, and 4,500 hospital beds. There are 1,400 physicians in Kuwait, in addition to 286 school health clinics. The cost of running the health system was

KD 38.9M in 1974/75. This reached KD 105.6M in 1977/78, rising to KD 112.2M in 1979/80, and reaching KD 183.2M and KD 200.7M in 1981/82 and 1982/83 respectively.

This is one part of the problem which shows the growth and size of Kuwaiti government services. Proper follow-up and evaluation of these activities requires information concerning not only the legal usage of resources but also the manner in which these resources have been used to meet the expected results.

Government Interventions in the Domestic Economy

Oil and gas revenues leave the government with a huge budget surplus,¹² and this, along with the poverty or non-existence of natural resources and the effect and influence of the private sector in the economy,¹³ has encouraged the government to intervene in the domestic economy. Their interventions can take place in one of the following ways:

1. Direct government participation with private capital in order to encourage investment in new industries, such as the Kuwait Medicinal Industries Company, which has a capital of 6 million Kuwaiti Dinars, of which 35% is owned by the government. Another example is the establishment of the Kuwait International Petroleum Investment Company, with a capital of 100 million Kuwaiti Dinars, 70% of which represents government participation. The government is also a major shareholder in at least five leading institutions: the Bank of Kuwait and the Middle East,

the Burgan Bank, the Credit and Savings Bank, the Industrial bank of Kuwait, and the Kuwait Foreign Trading Contracting and Investment Company. This is a sizable slice of the market, if one considers that it includes two of the eight commercial banks, two of the specialist institutions set up deliberately to promote development, and the biggest of the Kuwaiti commercial banks.

2. Indirect intervention of the government. This occurs by,
 - A. Direct aids to new and existing private industries, like free credits, free land, and an exemption from paying any tariffs on imports of industrial equipment and raw materials.
 - B. By indirect aids to private and existing organisations in order to keep their actual costs highly competitive with similar imported goods or services. Among the companies included in this group are Kuwait Airways, the Kuwait Industrial Company, the Kuwait Transportation Company and the Kuwait Mills Company.
3. In the case of public tenders the preference is given to goods produced locally whenever they are of similar quality and their price is not over 10% more than those of the imported product. The activities of the Kuwaiti government are no longer limited to the domestic economy, but have increased so that their effects have been noticed internationally. These activities are carried out through different

programmes, such as,

- A. Through direct economic aids to the governments of some developing countries,¹⁴
- B. Direct investment in some existing organisations by acquiring a certain percentage of the outstanding shares, such as: the German Mercedes Benz Company, 15% of whose total out-standing shares are owned by Kuwait; Santaphi International, which in 1981 was completely acquired for 2.5 billion U.S. dollars by the Kuwaiti government; and share of the Gulf oil company in Europe.
- C. Creating new businesses and organizations with the co-operation of the government of the host country, such as the Asian Kuwaiti Bank in Singapore, and the purchasing of an island from the U.S government for the purpose of developing it as a resort for holiday-makers.
- D. Through international organisation such as the World Health Organization, and many voluntary organisations like the International Red Cross.

Thus, in brief, the activities of the Kuwaiti government are no longer limited to enforcing the law and keeping order, but it now plays a major role in the domestic economy. The Kuwaiti government assumes three distinct and direct roles:

- "(1) A direct buyer and purveyor of goods and services
- (2) A market maker or moderator and,

(3) an allocator of money - appropriated or unappropriated - in the pursuit of basic societal objectives. Their intervention is not limited to the domestic economy but reaches to the international community to find a better market for their investment."¹⁵

Unless these actions are carefully planned based on accurate information, and supported by a sound information system which generates all the needed information at the right time, at the right place, and in a proper format, then its costs will be very high.

This is the second part of the problem in the state of Kuwait. The third dimension of the problem is the constitutional rights of the Kuwaiti people.

The Constituent Assembly of the state of Kuwait has followed in the footsteps of the developed countries by initiating the constitution of the state of Kuwait. The constitution states, in Article 51, that the legislative power is exemplified in the National Assembly, and, in Article 52, that the executive power is exemplified in the Cabinet and Ministers. Article 21 of the constitution states that, "Natural resources and all revenues therefrom are the property of the state...."¹⁶ The only natural resource which exists in Kuwait is oil.¹⁷

The oil sector in the state of Kuwait is the most important and dominant sector of the economy. For example, it contributed 79.3% of the GDP in 1974. This ratio fell to 65% in 1976, 61.3% in 1977, and 60.1% in

1978. However, it then rose to 68.9% and 69.9% in 1979 and 1980 respectively.¹⁸ The oil sector's contribution to the public revenue which finances the government's activities and programmes was 82.1% in 1978/79, rising to 85.3% in 1979/80, and expected to reach 95% in 1982/83. Its contribution to the foreign exchange earnings was 75% of the total in 1975/76, and was estimated to reach 90% of the total in 1980.

The Article quoted above says that this natural resource does belong to the public sector, while Article 17 of the the constitution states that "Public property is inviolable and its protection is the duty of every citizen."¹⁹

This article puts the Kuwaiti people directly in charge of the protection of public resources, and indirectly, the public officials accountable to all citizen in handling the public resources. Article 45 of the constitution shows individuals and organisations how to perform their roles, while Articles 81 and 82 of the constitution, along with the Electoral Law, have widened the rights of the Kuwaiti people to participate in controlling the government activities through their elected representatives to the National Assembly.

Under these conditions continuous and accurate information on the performance of public officials in handling the scarce public resources while performing their duties (i.e. greater accountability) is deemed necessary to enable the people to exercise their rights properly and fully.

The final part of the problem is the formulation of

the national plan. The Kuwaiti government for a long time has realized that its source of income is a non-replaceable one, and one day it will dry up. On the other hand, the increasing demands for public services and programmes make the resources available for government activities scarcer every year. This has led the Kuwaiti government to believe that the cure lies in adapting planning techniques.

The first five year economic and social plan of 1967/68 - 1971/72 was the first attempt at long-term economic and social development planning. The second attempt was the second five year plan of 1976/77 - 1980/81. In 1977/78 the government adopted a new reform under which the basis of the budgetary system has been changed from the traditional budgeting system which shows categories according to the type of expenditure, to a programme planning budgeting system. In 1981 the Kuwaiti government presented its plans for the coming four years up to 1985 to the National Assembly. In the public health sector, the Ministry developed a comprehensive plan "Kuwait Health Plan to the year 2000", which covers the period from 1982 to 2000. It is a document in four volumes. All the above reflect the sincere belief of the government in planning technique.

The success of any plan and planning system depends on several factors, such as:

1. The ability to formulate plans and to implement them is largely dependent on the availability of accurate, timely, pertinent and unbiased information, which

will help the decision-maker to find answers for the "How", to reduce uncertainty, and to decide whether the plan needs any adjustments.

2. The availability of skilled, trained and fully experienced people in planning activities and managing programmes.
3. The availability of performance evaluation systems which not only detect deficiencies but also located opportunities for the overfulfilment of targets.

From the researcher's own observations and initial meetings with elected members of the National Assembly, he found out that:

1. The ability of some public managements to transfer some funds from one group to another, as long as these groups are under the same chapter in the budget of the organisation, along with the absence of the performance evaluation system in Kuwait promotes the existence of inefficient practises, and causes errors to take place. This does not mean that these errors can never be found out, but they might be discovered only after a long time, and by accident.
2. The basic logic and drive behind the establishment of the Kuwaiti Audit Bureau was to assist the National Assembly and the Kuwaiti government in controlling the government activities but the Kuwaiti Audit Bureau at the present time is not performing as had been expected. A full discussion of this matter will be undertaken in Chapter Three of this research.

In 1981, according to the Assistant Undersecretary of the Kuwaiti Audit Bureau, Mr. Youseff Saleh 'Al-Othman, speaking in a seminar,

"The purpose of establishing the Kuwaiti Audit Bureau is

- 1) To assist the government and the National Assembly in controlling the government revenues, and to make sure that expenditures are within the budget categories and are within the amounts allowed by the budget,
- 2) To make sure that financial control does exist with the authorities, subject to the control of the Bureau;
- 3) The Kuwaiti Audit Bureau checks and reviews in order to find out if there is any fraud, or errors in the government financial transactions; if such there is, then the responsibility of the Bureau is to discover reasons and motives, and to forestall any opportunities which might lead it to happen again,
- 4) The Kuwaiti Audit Bureau reviews and evaluates the government financial and accounting procedures, to ensure their adequacy for the purpose of financial control, and suggest ways and means of improving any shortcomings in the procedures.

This purely financial and compliance audit appears inadequate, especially when the government has assumed

major responsibility for and a dynamic role in the acceleration of the economic and social development of its society.

The increasing demand by elected public officials and by voters for an expansion of the concept of accountability to include all three types of accountability will create the desire for more information concerning not only the financial aspects of the activities of the organization but also the performance of the management and the conditions under which those results are achieved. Consequently, a somewhat different approach to auditing must be undertaken, and the auditor's role and activities must be increased to an appraisal of the whole range of activities of the entity, as happened in the developed countries.

This does not mean that this type of audit (the financial and compliance audit) is no longer needed, or that this technique is out of date, for this type of audit will always be needed to ensure that management financial statements give a true and fair view of the organisation's financial position, and that the managers are performing their stewardship duties in a manner capable of ensuring the safeguard and maintenance of funds entrusted to them by the ultimate owners. Finally, financial and compliance auditing is needed to verify the key information upon which certain decisions should be based.

The public sector committee of the National Centre

for Productivity and Quality of Working Life has concluded that improved management will result from the development and dissemination of information in the following four areas:

- (1) The unit cost and effectiveness of government services within one jurisdiction and compared to other jurisdictions,
- (2) The extent to which current government services meet the true needs of the citizen, and which are deemed satisfactory by the consumer,
- (3) The extent to which the employee's personal and organisational needs are met, and
- (4) The extent to which the best practices of the other jurisdictions are considered for adoption into service delivery systems.²⁰

The Comptroller General of the United States in "Standards for Audit of Governmental Organizations, Programs, Activities & Functions" (1972) states (page i):

"Public officials, legislators and the general public want to know whether governmental funds are handled properly and in compliance with existing laws and whether governmental programs are being conducted efficiently, effectively, and economically. They also want to have this information provided, or at least concurred in, by someone who is not an advocate of the program but is independent and objective."²¹ (Emphasis added).

The researcher believes that there are many ways and

means of filling the gaps and overcoming the shortcomings of the existing government monitoring system in the state of Kuwait. Auditing is needed which goes beyond tracing financial irregularities, frauds and misconduct, to include management performance, and the financial and non-financial aspects of the government's activities. This type of auditing in this research will be called "Operational Auditing" (O.A.), and is one of the most valuable instruments available for ensuring that management is effectively carrying out its responsibilities in handling public funds. This belief is based on the fact that, for as long as public resources remain without owner(s), the general public and their elected representatives are kept away from the daily routine and day-to-day decision-making processes concerning the activities of the government. The responsibility for judging the manner in which activities are carried out, the output in relation to the input, the output in relation to the goals and objectives of the organisation, and the determining of the scope of the monitoring and reporting system are left with the management, who alone know what is going on in the organisation under these conditions, which causes them to seem to be lacking in rationality and objectivity, as no-one else has sufficient information upon which to question them. The following should be noted in this respect:

1. Auditing which provides such information will not only identify for managers and elected officials where

performance excels or suffers, but it will also help to forestall affliction in currently healthy communities by highlighting and picking out any weaknesses spotted in government service delivery systems at an early stage.

2. Auditing (Operational Auditing) can help decision-makers improve the efficiency, economy and effectiveness of government operations by reporting not only how money was spent, but also what has been accomplished with it. They can also relate that money (along with the other resources which have been used in any given activity) to the output produced from the same activity on the one hand, and can furthermore relate the output to the overall objectives and goals of the organisation.
3. Auditing in general, and O.A. in particular, is an important part of both accountability and the control mechanism, as W.J. MacKenzie states: "without audit, no accountability, without accountability, no control, and if there is no control, where is the seat of power?"²²

James R. Davis, in his Ph.D dissertation "An Inquiry into the Nature of Management Auditing and the Feasibility of its Performance by Certified Public Accountants", has conducted a comparison between CPAs and other groups like financial analysts, and he has reached the conclusion that CPAs are the more suitable available group to carry out this task. The researcher believes

that auditors are capable of carrying out operational auditing for the following reasons:

1. Auditors are considered to be the core of any proposed solution for the above situation because
 - (a) auditors as a professional group have developed a complete set of standards to govern auditing practice, which must be obeyed by the individual, and
 - (b) the auditor's independence enables him to express an unbiased opinion, which makes those reports and statements prepared by the management trustworthy, and
 - (c) auditors, by carrying out operational auditing, can assure the general public and both managers and elected officials that the expected conditions of utilizing the public resources have been met, by providing information concerning the manner in which government officials have employed their resources.
2. Auditors, because of their professional competence and practical experience in many different industries, can help not only to clarify the source of problems in already ailing local governments, but they will also recommend corrective actions and suggest some practical bases on which community consensus can be developed for supporting improvements in service delivery efficiency and effectiveness.
3. Auditors, through the performance of financial auditing and management advisory services, have

become expert in using many non-financial techniques to evaluate the activities of management.

4. Auditors, using the knowledge and experience gained from performing financial auditing and management advisory services, and their close contact with interested parties, can help management to establish ways of ensuring that information is placed in proper perspective, and made available to all concerned parties in the most helpful form.
5. In the Kuwaiti case where government is completely dependent on oil to finance its programmes and activities it is well known that this source of income is not renewable or replaceable. Bearing in mind also the poor land and non-existence of natural resources (apart from oil), this shows the importance of the government auditor's report, based on operational auditing, which shows the facts properly and makes appropriate recommendations. Their audits will produce a hard cash saving which could be considered an indirect source of income. (Harry Rose explains hard cash saving as "a reduction in expenditures, an increase in revenues, or an increase in the value of additional public services without an increase in staff costs.")

Objectives of the Study

This research aims to achieve the following six objectives:

- (1) To determine the current state of the the monitoring

system in the state of Kuwait;

- (2) To conduct a comprehensive review of most common terminologies used to describe operational auditing and to ascertain the nature of any relationship they may have.
- (3) To study the basic differences in the purpose and scope of public sector auditing in the United Kingdom, Canada, Sweden and the USA, and to identify those factors which may explain or contribute to such differences.
- (4) To undertake field work, mainly in the United Kingdom, for the purpose of finding out how value for money, [British term for operational audit], audit is practised in the UK health and local authorities.
- (5) To determine whether there is a need for operational auditing in Kuwait.
- (6) To draw-up conclusions and implications for the Kuwaiti Auditing Bureau.

The Significance and Justifications of the Study

1. Since independence, the Kuwaiti government has assumed the major role and shouldered the responsibility for establishing a social welfare state in the country. At that time the population was several hundred thousand in number, and the government revenues were adequate to finance all its activities, and so leave some extra funds to be kept for future use. In 1982/83 the case has been changed completely, with population

size running to more than a million, and public expenditure increasing at the alarming rate of 23% annually. The rate of acquisition of public revenues is slowing down, while inflation is eating up any reserve being kept for the future use.

2. Some new developments have occurred in the past few years such as:

A. Oil revenue failed to generate adequate revenues to finance the estimated budgeted government expenditures. There were budget deficits in 1966/67 and 1967/68 (totalling KD 35.3M and KD 11.2M respectively) but these were so small that no-one paid much attention to the matter. But in the year (1982/83) the deficit is so large (totalling KD 312.6M)²³ that every member of the government has started to express a deep concern about the alarming rate of increase in the government expenditures (20-23% annually), and a public warning has been issued that the state could go bankrupt if this rate is continued.

B. As a result of the above, the government is trying to limit its activities and reduce its programmes. The direct results of this was a partial disbanding of the subsidization system, especially where the government thinks that the demand is not a real one. Some waste exist (like water and electricity, which went up by 200%, and petrol, which increased 500% in price) but the demand is still so high that the researcher

believes, following his meetings in November 1982 in Kuwait with an official at the Central Bank of Kuwait, that the Budget in Kuwait will show another deficit for the second year in row, and it will be higher than it was in 1982/83.

This situation left the government under extreme pressure to meet the increasing demands for public services while the available resources are limited and becoming scarcer. This led the government to look for alternatives to:

- A. The existing source of income used to generate more revenues to meet the increasing public demand, especially with the Kuwaiti case, where agriculture is non-existent, and mining, other than for oil, is absent,
 - B. The way in which government activities are established and presented. To put this another way, government must depend on a scientific approach, and use modern techniques to justify introducing, increasing or terminating any existing programme, instead of depending on personal experience and personal intuition. This approach requires a system capable of providing the needful information for the decision-makers. This research aims to be an example to show how public officials can use one approach which will help to generate the required information.
3. A review of the literature reveals that Shuaib

Al-Shuaib was the first person to write a comprehensive study of accounting and auditing in Kuwait. His Ph.D dissertation was "Accounting and Economic Development in Kuwait: Description and Analysis", where he concentrated his work and the scope of his research on the private sector of the Kuwaiti economy, or to be more exact, on how accounting principles, auditing procedures, accounting legislation and regulation can participate in the economic development of Kuwait.

The present research is a second attempt to discuss auditing in Kuwait, but it is unique in that it is the first attempt to write about auditing in the Kuwaiti government sector.

4. The Kuwaiti government in its budget proposals to the National Assembly for the fiscal year 1982/83, showed concern over the rapid expansion in public sector expenditure. The government hopes to find ways whereby it will be able to achieved its objectives of limiting the annual rate of increase in public expenditure, and to make more efficient use of public resources through reviewing and evaluating the existing managerial and financial procedures. This research could be of use in effecting such a system in Kuwait because operational auditing, if properly implemented, could be used to identify areas where waste and inefficiency in operation exist. Operational auditing could also be used as a redistribution technique to effect better use of

The following factors put this group among the developed countries:

- (1) The highest per capita income.
- (2) The highest saving rates.
- (3) A strong annual growth rate.
- (4) A consistently favourable balance-of-payments.
- (5) An abundance of capital.

On the other hand, the following factors would tend to put this group among the developing countries:

- (1) A total or near-total reliance on a single source for generating revenues to finance their programmes.
- (2) A lack of managerial skill, technical skills; scarce labour.
- (3) Total or near-total reliance on government to provide and generate programmes and services. The government sector is the dominant sector in the economy.
- (4) A total dependence on imports of all kinds of goods to satisfy and meet consumer and industrial needs.

This research, by concentrating on the state of Kuwait, will contribute to the literature concerning this group. Of its kind, it is unique, and a first attempt to deal with this group.

- (5) In the case of Kuwait, contact with the western world is not new. This relationship goes back to the days before the signing of the Independence Treaty, and its existence gives the present research an advantage over other examples.

The researcher believes that the present research will be more acceptable to Kuwaiti officials because:

- A. The consultancy teams in Kuwait who undertake initial work and field studies are from the Western developed countries, especially the U.S.A. and the U.K.
- B. The foundation of the country's modern sectors were laid during the period of British protectorship. Consequently, its institutions and structures tend to resemble Western models adapted to Kuwait's unique social, economic and political needs.
- C. A significant number of the leading Kuwaiti planners and policy-makers are western-trained.

Expected Contribution

This research will combine the existing theoretical literature with the actual and practical experience of some developed western countries in the field of operational auditing, in order to clarify the technique of operational auditing, and to produce a more comprehensive study of this field. This may be used by academic teachers and planners in civil services, and by international institutions which render technical assistance, as a base upon which to build their systems. This pertains especially to those countries with a mixed economy, like Kuwait.

This research project is based on fieldwork

undertaken mainly in the UK health and local authorities, which may not only enrich the existing literature on operational auditing in the public sector, but also will fill in the gaps in the information relating to how value for money audit, [the British term for operational auditing], is practised. This could be considered, along with the implications of this research project for the Kuwaiti Audit Bureau, to be the major contribution which this research could achieve.

Limitations of the Study

- (1) The State-owned and joint sector of the Kuwaiti economy, along with the private sector, are excluded from this research because of
 - (a) their limited size and role in the economy, and
 - (b) the minimal effect of their financial influence - consumptions and investments - on the economy as a whole.
- (2) Auditing as a field of knowledge cannot generate information. As a result, the auditor will not be involved in generating information, but he will assist managements in evaluating the existing information system or in establishing a new one. It must be borne in mind that the managements are responsible for generating and presenting the required information.
- (3) The information generated in (2) must be auditable, which means that there must be adequate supporting evidence to enable the auditor to perform

his duties up to the expected standards. The information must also be quantifiable. To put it another way, unauditible, qualitative and unquantifiable information will be excluded.

(4) This research will neither produce new information or approaches nor invent new techniques or tools, but it will show how to take advantage of the available tools in planning, performance measurement and decision-making.

(5) Because of the researcher's limited knowledge of psychology and political science, the behaviour aspects of operational auditing will be beyond the scope of this research, as will the political motives (if any) behind the decision to render one service or terminate another.

(6) Some Ministries and government departments will be excluded for the following reasons:

A. Their activities are so sensitive that exposure could

(i) endanger the economy of the nation or the security of the state,

(ii) involve government activities and policies which are considered secret by the state.

(iii) where, as a result of (ii) it is difficult or impossible to obtain the necessary data concerning their activities.

B. Motives for rendering services will never be revealed.

(These Ministries are: the Ministry of the Interior, the Ministry of Foreign Affairs, the Ministry of Information, the Ministry of Defence, and the Department at the Ministry of Finance which handles the government investments abroad.)

- (7) This research will concentrate on some agencies and units with general programmes and activities, rather than the Ministry as a whole or specialized organisations.

In short, this research will concentrate on government units with general activities and will use those items of information produced by the organisation which are auditable and quantifiable, while the information concerning political motives or behavioural aspects of operational auditing, and the organisation as a whole (along with several ministries and a department of a ministry) will not be used.

Research Methodology

In order to obtain the needed data to achieve the objectives of this research, the following four research methods will be utilized:

- (1) Library research
- (2) Review of Government Documents
- (3) Fieldwork
- (4) Statistical analysis

- (1) Library research

Review of secondary sources of information will be undertaken regarding:

- A. State Audit in the Developing Countries, and
- B. Operational Auditing in Developed Countries.

A. State Audit in the Developing Countries

The history of the development of the state audit system in the developing countries will be studied so as to determine those factor(s) which universally affect the auditing system in these countries. This will be done in order to gain an insight into their ways and means of diagnosing problems, methods of treatment and proposing answers.

B. Operational Auditing in Developed Countries

This entails a review of the literature on government auditing (especially operational auditing) which describes and explains public sector auditing in some selected developed countries, such as Sweden, Canada, the United Kingdom and the United States. The purpose of this part is to gain an understanding of how the system theoretically works, and to build up a sound background on this subject which will help the researcher to develop his questionnaire.

2. Review of Government Documents

The primary approach to this technique may be summarized in two different steps:

- A. Law and Constitutions.
- B. Annual Government Reports.

With regard to A, some selected laws and constitutions will be reviewed in order to determine the phases which the government auditing systems in the selected countries have passed through, and to discuss the current state of these auditing systems.

With regard to B, some selected annual audits, plans and government reports will be analysed. The purposes of reviewing government documents are:

- (i) to isolate which elements are included,
- (ii) to investigate and analyse the reason(s) behind the decision whether to include an element or exclude it,
- (iii) to attempt to find out if there is any obstacle or deficiency in the existing system which might prevent or postpone the implementation phase, and finally,
- (iv) to try to propose some answers in forms of implications, and to recommend some solutions to the existing and potential difficulties which could be faced when operational auditing techniques are introduced to the Kuwaiti Audit Bureau.

3. Fieldwork:

The necessary fieldwork required for this project consists of two research methodologies:

- A. Questionnaire survey, and
- B. Personal interviews.

With regard to point (A), two different sets of questionnaires will be used in this stage in order to acquire data. The first set will be addressed to top

officials in the UK health and local authorities, while the other will be addressed to the statutory and external auditors of the above-mentioned authorities.

The main aim of these questionnaires is to explore value for money audit practice in the selected parts, (health and local authorities), of the UK public sector.

With regard to point (B) the researcher plans to carry out two different steps:

Firstly, after the questionnaires have been returned, and primary analysis has been conducted to determine areas which need more attention, personal interviews will be held which concentrate on the targeted areas.

Secondly, as has been mentioned earlier, this research is unique, in that library data concerning auditing in the State of Kuwait is largely unavailable. However, first hand data will be acquired by undertaking interviews with top Kuwaiti government officials at different government units as well as at the Kuwaiti Audit Bureau, and with some of the selected members of the National Assembly. These interviews are aimed at throwing light on the current state of the auditing system in the Kuwaiti public sector, and at finding out whether there is a need for introducing new audit techniques there.

4. Statistical Analysis

This technique will be utilized whenever possible (such as, in analyzing the results of both methods -

questionnaires and interviews - in calculating means, finding standard deviations, and computing the correlation between different factors and opinions) in order to discover what relationships (if) any exist between the various elements which are included in the questionnaires.

APPENDIX (1)

Growth of The Government Revenues

(Nearest Million)

Fiscal Year	(1) BUDGETED		(2) CLOSING ACCOUNTS		$2 \div 1$ X 100	Notes
	Estimates	%	Actual	%		
1960/1961	160.9	-	173.9	-	108.1	
61/62	172.4	7.1	180.8	4.0	104.9	
62/63	174.9	8.7	189.8	9.1	108.5	
63/64	197.1	22.5	209.4	20.4	106.2	
64/65	207.2	28.8	225.5	29.7	108.8	
65/66	234.6	45.8	250.1	43.4	106.6	
66/67	253.3	57.4	258.0	48.4	101.9	
67/68	290.0	80.2	317.2	82.4	109.4	
68/69	263.2	63.6	272.7	56.8	103.6	
69/70	308.0	91.4	314.1	80.6	101.9	
70/71	326.7	102.0	352.3	102.6	107.8	
71/72	366.0	127.5	391.8	125.3	107.0	
72/73	544.5	238.4	560.5	222.3	102.9	
73/74	576.8	258.5	603.2	246.9	104.6	

to be continued.

continued.

Fiscal Year	(1) BUDGETED		(2) CLOSING ACCOUNTS		2 ÷ 1 X 100	Notes
	Estimates	%	Actual	%		
1974/1975	972.4	504.4	2167.8	1146.6	229.9	
75/76	1776.3	1004.0	3687.2	2020.3	207.6	*(1)
76/77	2255.0	1301.0	2759.3	1486.7	122.4	
77/78	2347.0	1358.7	2780.2	1498.7	118.5	
78/79	2387.2	1383.7	2407.5	1859.5	142.7	
79/80	3349.1	1981.5	6304.0	3525.1	188.2	
80/81	4804.7	2886.1	4895.5	2715.1	101.9	
81/82	6104.4	3693.9				*(2)
82/83	4233.3	2531.0				*(3)

(1) Fiscal Year is 15 months

(2) and (3) Projected and approved

1960/1961 is a base year 100%.

It includes net income of attached and independent budget agencies.

Table (1)

Population in Census Year

		Total
1957	Kuwaiti	113,622
	Non-Kuwaiti	92,851
	Total	206,473
1961	Kuwaiti	161,909
	Non-Kuwaiti	159,712
	Total	321,621
1965	Kuwaiti	220,059
	Non-Kuwaiti	247,280
	Total	467,339
1970	Kuwaiti	347,396
	Non-Kuwaiti	391,266
	Total	738,662
1975	Kuwaiti	472,088
	Non-Kuwaiti	522,749
	Total	994,837
1980	Kuwaiti	562,065
	Non-Kuwaiti	793,762
	Total *	1,355,827
1985	Kuwaiti	673,820
	Non-Kuwaiti	1,233,330
	Total **	1,907,150

* Preliminary Results.

** Estimated

Source: Ministry of Planning, Annual Statistical Abstract
1981 and Ministry of Planning Estimates for 1985

Table (2)

Development of Government Post Civil Servants and
Development Index of Government Post Civil Servants

Years	Non Kuwaiti	Kuwaiti	Total
1965/66	42,639	26,881	69,520
66/67	43,842	32,637	76,479
67/68	44,695	34,974	79,669
68/69	45,138	25,187	70,325
69/70	44,391	26,531	70,922
70/71	48,282	28,888	77,170
71/72	51,977	35,055	87,032
72/73	54,118	39,299	93,417
73/74	54,855	40,244	95,099
74/75	60,611	43,340	103,951
75/76	67,852	45,422	113,274
76/77	80,387	48,121	128,508
77/78	85,325	48,328	133,653*
78/79	87,709	48,402	136,129*
79/80	96,050	49,401	145,451

Excluded Independent Budget.

* Included U.N. excerpts.

Base Year 1965/66

Source: Ministry of Planning, Annual Statistical
Abstract 1981.

Table (3)

Growth of The Government Expenditures

Fiscal Year	(1) BUDGETED		(2) CLOSING ACCOUNT		2 ÷ 1 X 100	Notes
	Estimates	%	Actual	%		
1960/1961	151.7	-	135.1	-	89.0	
61/62	155.2	2.3	161.7	19.7	104.2	
62/63	173.1	14.1	165.2	22.3	95.4	
63/64	180.3	18.8	176.7	30.8	98.0	
64/65	201.7	32.9	182.5	25.1	90.5	
65/66	223.2	47.1	249.0	84.3	111.5	
66/67	243.2	60.3	292.3	116.4	120.2	
67/68	285.7	88.3	325.4	140.9	113.9	
68/69	256.6	69.1	264.2	95.6	102.9	
69/70	302.4	99.3	286.7	112.2	94.8	
70/71	322.8	112.8	306.9	127.2	95.1	
71/72	358.2	136.1	351.2	160.0	98.0	
72/73	414.7	173.4	397.8	194.4	95.9	
73/74	453.1	200.0	538.6	298.7	118.9	

to be continued.

continued.

Fiscal Year	(1) BUDGETED		(2) CLOSING ACCOUNT		2 ÷ 1 X 100	Notes
	Estimates	%	Actual	%		
1974/1975	579.6	282.1	1091.8	708.1	188.4	
75/76	836.1	451.2	1037.8	668.2	124.1	*
76/77	1401.8	824.1	1389.1	928.2	99.1	
77/78	2054.6	1254.4	1779.7	1217.3	86.6	
78/79	1986.4	1209.4	1736.3	1185.2	87.4	
79/80	2300.5	1414.3	2328.6	1623.6	101.2	
80/81	2985.1	1867.8	2746.8	1933.2	92.0	
81/82	3309.3	2081.5				
82/83	3998.1	2535.5				

1960/1961 is a base year 100%

It includes expenditures of attachment and independent budget agencies. *Fiscal year is 15 months.

Table (4)

Government Revenues

(Million Dinars)

Year Ending	(1) 75/76	76/77	77/78	78/79	79/80	80/81 Budget Estimates
Revenues from Oil	2793.3	2598.2	2575.3	3036.1	5940.5	4493.5
Others ⁽²⁾	431.1	437.6	518.1	765.6	1027.5	141.3 ⁽³⁾
Total	3224.4	3035.8	3093.4	3801.7	6968.0	4634.8
Oil Revenues as Percent of Total	87	86	83	80	85	97

Source: Ministry of Finance.

1. Fifteen months ending 30th June 1976.
2. Revenues from reserve investment and other revenues.
3. Excluding income from investment.

Found in Central Bank of Kuwait - Economic Report 1980.
pp. 122.

Table (5)

Table (6)

Economical Aids from The State of Kuwait and Some
International Groups to The Developing Countries

	Value in Millions of U.S Dollars					Percentage of total National Product				
	1977	1978	1979	1980	average 77-80	1977	1978	1979	1980	average 77-80
Organisation of Economic and Development Cooperation	5680	19994	22267	26603	21136	0.33	0.35	0.34	0.37	0.35
OPEC	5858	4338	6123	6999	5830	1.91	1.29	1.49	1.36	1.51
OAPEC	5521	3913	5989	6798	5555	3.75	2.39	2.80	2.34	2.82
Kuwait	1517	1268	1053	1186	1256	10.02	7.36	4.08	3.87	6.33

World Bank, World Development Report, 1981.

Found in Economic Report, 1980 by Central Bank of Kuwait, pp. 11.

OPEC: Organization of Petroleum Exporting Countries. OAPEC: Organization of Arabian Petroleum Exporting Countries.

Budgets for 1980/81, 1981/82 and 1982/83. (KD Millions)

Revenue	80/81	81/82	82/83
Oil	4,493	5,097	2,967
Other	147	182	239
Total	4,640	5,279	3,206
Expenditure			
General	2,925	3,008	3,168
of which			
salaries	449	591	630
general running expenses	185	268	450
development project	444	603	570
real estate acquisitions	200	300	150
unclassified transfer and payments	1,597	1,279	1,335
Reverse fund for future generation	928	1,500	320.6
KFAED *	50	75	30
State reserve	737	696	Nil
Total	4,640	5,279	3,518.6

* Kuwait Fund for Arab Economic Development

+ KD 312.6 deficit planned for 1982/83.

Source: Kuwait Government.

Table (7)

Contribution to Gross Domestic Product at Current Prices by Sector (%)

	1970	1971	1972	1973	1974	1975	1976	1977 ⁽¹⁾	1978 ⁽¹⁾	1979 ⁽²⁾	1980 ⁽³⁾
1. Oil Sector	60.3	65.7	62.5	62.1	79.3	70.6	65.7	61.3	60.1	68.9	69.9
2. Non-oil Sector	39.7	34.3	37.5	37.9	20.7	29.4	34.3	38.7	39.9	31.1	30.1
3. GDP (1 + 2)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Planning, Central Statistical Office.
 1. Likely to be revised.
 2. Provisional.
 3. Estimates - Central Bank of Kuwait.

Table (8)

Gross Domestic Product at Current Prices

(Million Dinars)

	1970	1971	1972	1973	1974	1975	1976	1977(1)	1978(1)	1979(2)	1980(3)
1. Oil Sector	618.80	907.83	914.45	996.56	3022.61	2459.00	2524.11	2483.03	2520.10	4433.80	5156.80
2. Non-oil Sector	407.51	473.96	549.52	607.58	790.34	1075.98	1315.56	1570.70	1674.38	2005.38	2216.90
3. GDP (1 + 2)	1026.31	1381.79	1463.97	1604.14	3812.95	3494.98	3839.67	4053.23	4194.48	6439.18	7373.70

Source: Ministry of Planning, Central Statistical Office.

1. Likely to be revised.

2. Provisional.

3. Estimates - Central Bank of Kuwait.

Table (9)

Gross Domestic Product at Constant Prices of 1972
(Million Dinars)

	1970	1971	1972	1973	1974	1975	1976	1977 ⁽¹⁾	1978 ⁽¹⁾	1979 ⁽²⁾
1. Oil Sector	829.74	587.48	914.45	340.39	708.43	579.93	599.78	548.98	593.91	694.96
2. Non-oil Sector	454.88	539.02	549.52	533.51	627.39	777.06	873.52	978.90	991.75	1052.55
3. GDP (1 + 2)	1284.62	1385.62	1463.97	1423.90	1335.82	1303.99	1473.30	1527.88	1585.61	1747.51

Source: Ministry of Planning, Central Statistical Office.
 1. Likely to be revised.
 2. Provisional.

Table (10)

Table (11)
Final Consumption at Current Prices

(Million Dinars)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Expenditure										
Government										
Consumption	139.29	173.27	198.65	214.60	279.14	385.54	432.31	588.95	621.97	735.09
Private										
Consumption	296.29	420.00	427.41	438.71	563.81	756.72	1029.81	1323.42	1487.01	1641.89
Total	535.58	293.27	626.06	653.31	842.95	1142.26	1462.26	1912.37	2108.98	2376.98

source: Ministry of Planning-Central Statistical Office.

(1) Likely to be revised.

(2) Provisional.

Made up from GDP by Type of Expenditure at Current Prices which found in Central Bank of Kuwait-Economic Report 1980, page 147.

Summary of Foreign Trade (KD Millions)

	1977	1978	1979	1980	*1981
Export					
Oil Export	2,557.1	2,628.7	4,781.0	5,111.5	2,212.8
Others ⁺	235.5	235.4	307.5	408.1	285.2
Total	2,792.6	2,864.1	5,088.5	5,519.6	2,498.0
Imports	1,387.0	1,263.9	1,437.0	1,764.9	914.9
Balance of Trade	1,405.6	1,600.2	3,651.5	3,754.7	1,583.1

+ Including re-exports *1981 Jan-June only.

Source: Central Bank of Kuwait.

Table (12)

Rate of Increase in GDP/Total Real GDP

International Groups	1978	1979	1980	1981
Industrial World	3.1	3.5	1.3	1.2
Exporting Countries	1.6	2.2	3.2	3.1
Non-Exporting Developing Countries	6.6	5.1	4.8	4.2
Arabian	6.6	8.0	-	-

IMF: World Economic Outlook, August 1981.

Found in Economic Report 1980, by Central Bank of Kuwait, page 6.

Table (13)

REFERENCES

1. See Brown, R. Gene, "Changing Audit Objectives and Techniques". The Accounting Review Vol. 37 October 1962, No. 4 pp. 696-703
2. See Bird, Peter, "Accountability : Standards in Financial Reporting" Accountancy Age Books, London 1973.
3. See for example "Concepts of Governmental Auditing" Edited by Mortimer A. Dittenhofer. The Institute of Internal Auditor INC, Florida, USA, 1977 or Peter Bird "Accountability : Standards in Financial Reporting" Accountancy Age Books, London 1973.
4. Paul, Daniel, "Can the Government Internal Auditor Be Independent?" p. 31. Found in "Concepts of Governmental Auditing" Edited by Motimer A. Dittenhofer. The Institute of Internal Auditor INC Florida, USA 1977.
5. See for example "Concepts of Governmental Auditing" Edited by Mortimer A. Dittenhofer or "Accountability : Standards in Financial Reporting" by Peter Bird.
6. See United Nations, "Public Auditing Techniques For Performance Improvement" Report of The United Nations/INTOSOI Seminar on government Auditing Vienna, 14-25 May 1979 United Nations. New York 1980.
7. See Morse, Ellsworth H.J.R, "Auditing Government Operations" The Internal Auditor July/August 1973. pp. 10-19.
8. See table (1), Appendix (1).
9. See table (2), Appendix (1).
10. See table (3), Appendix (1).
11. See table (4), Appendix (1).
12. See tables 1, 4, 5 and 7 Appendix (1).
13. See table (11), Appendix (1).
14. See table (6) and Kuwait Funds for Arab Economic Development in Table (7) Appendix (1)

15. Hayward, Nancy, and George Kuper, "The National Economy and Productivity in Government" Public Administration Review, January/February 1978 p. p. 2.
16. The Government of the State of Kuwait, "The Constitution of the State of Kuwait" Article (21).
17. See Table (12), Appendix (1).
18. See Tables 8, 9, and 10 Appendix (1).
19. The Government of the State of Kuwait, "The Constitution of The State of Kuwait" Article (17).
20. Hayward, Nancy, and George Kuper, "The National Economy and Productivity in Government" p. 4.
21. Leon E. Hay and R.M. Mikesell, "Governmental Accounting" p. 631.
22. W.J. MacKanzie, "Accounting and Business Review" p. 288.
23. See Table (7) Appendix (1)

CHAPTER TWO

FINANCIAL MONITORING AND ACCOUNTABILITY
SYSTEMS IN THE STATE OF KUWAIT

CHAPTER TWO

FINANCIAL MONITORING AND ACCOUNTABILITY SYSTEMS IN THE STATE OF KUWAIT

Introduction

System of Government in the State of Kuwait.

The Organisation of Power in the State of Kuwait.

Some of the Amir's Power According to the
Constitution.

The Power of the National Assembly

The Executive Power in the State of Kuwait

The Power of the Council of Ministers

The Power of the Prime Minister

The Power of Ministers

Administrative Structure of the Government of Kuwait

Co-operation Between the Executive and the
Legislative Branches of the Kuwaiti Government

The Budgetary System in the State of Kuwait

The Importance of Studying The Budgetary System
in the State of Kuwait.

The Expected Benefits of a Budgetary System.

Aims of the Budgetary System in the State of
Kuwait.

Different Stages in the Budget Preparation in
the State of Kuwait.

The first subsidiary system

The second subsidiary system

The main Budgetary system

Ratifying Stage

The proposed Budget in the Committee of Finance and Economy.

The Proposed Budget in the National Assembly.

Control System in the State of Kuwait

The Power of the Department of Public Budget

The Role of the Ministry of Finance

The Ministry's Role in Controlling Revenue Activities

The Ministry's Role in Monitoring Government Disbursements

Issuing Regulations and Memoranda

Regulating the Accounting System.

Monthly, Quarterly and Final Accounts Reports.

The Monthly Allotments, and

Pre-audit.

The Role of, and Reasons for Selecting, the Ministry of Public Health.

Internal Administrative Control

Internal Accounting Control

Internal Auditing

Internal Checks

The Kuwaiti Budgetary System in Practice

CHAPTER TWO

The Financial and Accountability Systems in the State of Kuwait

Introduction:

The literature shows that operational auditing demands a lot in terms of co-operation and co-ordination of effort, and requires staff with special talent and skills. Furthermore, sound management monitoring systems and good management information and reporting systems are considered to be pre-requisite for any operational auditing systems. Therefore, while keeping in mind these conditions affecting the successful introduction and implementation of operational auditing to a new environment, the researcher shall examine the financial systems and accountability relationships existing in the Kuwaiti public sector.

Investigating these systems and relationships is not an end in itself, but is a means of evaluating these systems for the purpose of isolating the major points of weakness and strength from the operational auditing point of view. The researcher will ascertain whether it is feasible to introduce the new audit techniques to the Kuwaiti Public Sector (KPS) and will determine from this investigation whether any modification of form and approach in the new audit techniques would be advisable for the KPS. The existence of any major obstacles which could block or limit the operational auditing application

in the KPS, should emerge from this investigation. Therefore, the purpose of this chapter, as stated in chapter one is to determine the current state of the financial monitoring systems and the accountability relationships operating in the KPS.

The gathered and developed literature for this chapter can be subcategorized under the following headings:

- 1) The system of government in the state of Kuwait.
- 2) The organization of power in the state of Kuwait.
- 3) Administrative structure in the state of Kuwait.
- 4) The budgetary system in the state of Kuwait.
- 5) Changing the accountability relationships in the state of Kuwait.
- 6) Audit of financial affairs of the state of Kuwait.

System of Government in the State of Kuwait

Article No. 6 of the constitution of The State of Kuwait states that "the system of government in Kuwait shall be democratic, under which sovereignty resides in the people, the source of all powers". The Constituent Assembly has followed the footsteps of the developed countries by adopting the separation of powers philosophy:- "The system of government is based on the principle of separation of powers functioning in co-operation with each other in accordance with the provision of the constitution. None of these powers may relinquish all or part of its competence specified in this constitution".¹

The Organisation of Power in the State of Kuwait

The approval and promulgation of the constitution in 1962 has widened the power-sharing principle and put words into action. According to the constitution, "The legislative power shall be vested in the Amir and the National Assembly".² "Executive power shall be vested in the Amir, the Cabinet and the Ministers".³

Some of the Amir's Power according to the Constitution:

The Amir appoints the Prime Minister and may relieve him of office. The Amir also appoints Ministers and may relieve them of office upon the recommendation of the Prime Minister.⁴ Furthermore, the Amir has the right to initiate, sanction and promulgate laws.

The Amir can by a decree, issue the regulations necessary for the execution of laws without amending or making any exemption from their execution,⁵ and he may also issue regulation for public order and health, and regulations necessary for the organisation of the public services and administration, not conflicting with any law.⁶ In a case where the National Assembly is not in session or dissolved and a necessity arises for urgent measures to be taken, the Amir may issue a decree in respect thereof, which shall have the force law, provided that they are in accordance with the constitution and with the appropriations included in the budget law. Such decrees must be referred to the National Assembly within the fifteen days following their issue, or must referred

to the next Assembly at its first sitting if the National Assembly legislative terms has expired or has been dissolved.

By an Amiri decree, the National Assembly may be called to an extraordinary session if the Amir deems it necessary, or upon the demand of the majority of the members of the Assembly,⁷ and the Amir may announce the propagation of ordinary and extraordinary sessions.⁸ The Amir may by a decree, adjourn the meeting of the National Assembly for a period not exceeding one month. Adjournment may be repeated during the same session with the consent of the Assembly and then once only.⁹

The Power of National Assembly

The roots of the National Assembly as a legislative Council go back to the ruling period of Sheikh Ahmad when a council of twelve members was appointed under the presidency of one of the leading merchants. This legislative council was not only the first attempt at democratic rule in Kuwait but also the first in the Arabic Peninsula. This council was short-lived one. In 1937-38, another attempt took place when legislative assembly of fourteen members was elected. The decision to dissolve the Assembly was taken by the Amir. "The new assembly soon ended in its dissolution and imprisonment of its members after the first political confrontation with the ruler".¹⁰ A draft constitution was put forward by the Assembly but had failed to get the approval of the ruler. The ruler then drew up another new constitution.

The first really firm step toward democratic life was taken with approval and promulgation of the 1962 constitution, which was put together, after eleven months, by an elected constitutional assembly of twenty members. The National Assembly is composed of fifty members elected directly by universal suffrage and secret ballot.¹¹

The National Assembly shall start its ordinary session during the month of October of every year upon a convocation by the Amir,¹² who outlines the projects and reforms that the government plans to undertake during the coming years.¹³ The legislative term of the National Assembly is four calendar years commencing on the day of its first sitting.¹⁴

The National Assembly shall have an annual session of not less than eight months. The annual session may not be prorogued before the budget approval.¹⁵

During the first week of its annual session, the National Assembly will form the committees which are necessary for performing its functions completely, among which is a Financial and Economic Committee, whose main duty consists of financial and economic affairs and activities of the ministries and government bodies, and in addition, it deals with the final account of the financial administration of the state, the annual budget of the state, the attached budgets, and independent ones, the Civil Servant Commission, the Ministry of Planning, the Ministry of Industry and Commerce, the Credit and Saving Bank, all companies and institutions owned by the

government and finally The Audit Bureau.

In meetings of the National Assembly the members exercise their powers such as to make comments with regard to the Cabinet programme,¹⁶ or to put of questions to the Prime Minister and to Ministers with a view to clarifying matters falling within their competence.¹⁷ Every member of the National Assembly may put to the Prime Minister and to Ministers interpellations with regard to matters falling within their competence.¹⁸

Members may request any subject of general interest to be discussed by the National assembly. "Upon a request signed by five members, any subjects of general interest may be put to the National Assembly for discussion with a view to securing clarification of the government's policy and to exchange views thereon.¹⁹

The National Assembly at all time, has the right to set up committees of inquiry or to delegate one or more of its members to investigate any matter within its competence. The Ministers and all government officials must produce testimonials, documents and statements requested from them.²⁰

The Assembly, through its special committee to deal with Petitions and Complaints submitted by citizens to the Assembly, may seek explanation thereon from the competent authorities and shall inform the person concerned of the result.²¹ The National Assembly may express to the government wishes regarding public matters.²² If these wishes have been withdrawn by the presenter, then any other member has the right to adopt

them. In a case where these wishes have been rejected by the National Assembly, none of the members have the right either to adopt or request a second presentation or discussion before four months have elapsed since the date on which the rejection took place.²³ If the government cannot comply with these wishes, it shall state to the National Assembly the reasons therefor. Then the National Assembly may comment once on the government's statement.²⁴

Members of the National Assembly have the right to initiate bills.²⁵ Unless these bills have been passed on by the National Assembly and are sanctioned by the Amir, they cannot be enforceable.²⁶

Members of the National Assembly have the right to express their views and opinions in the National Assembly or in its committees without being held, under any circumstances, liable.

The President of the National Assembly may attend the meetings of the Council of Ministers.

The Executive Power in the State of Kuwait

As in early stages of the establishment of the state of Kuwait, the executive power along with the legislative power used to be vested in the head of the state and as a custom he used to rule personally and avoid all delegation of his power or authority. This pattern of government continued until the beginning of the ruling period of Sheikh Ahmad al-Jabir al-Sabah where a council of twelve members was appointed. This council was the first step toward separation of power and delegation of

authority. Although a council was established, the situation remained the same as before, 1937-38 when Legislative Assembly was formed. The most significant result and important accomplishment was achieved when the Assembly successfully convinced the ruler to establish different government departments to help him in carrying out some of his duties. These departments survived until 1962 when the constitution of the state of Kuwait was promulgated.

Law No.1 of 1962, concerning the system of the government during the period of transaction, may be considered as the first evidence, which can be traced of separation of power in the state of Kuwait. This law was composed of thirty-eight articles and was divided into five chapters. The first chapter dealt with the Public Rights, the second discussed the legislative power, while the third and the fourth chapters dealt with the executive power and judicial power respectively. The last chapter laid down the general rules.

Articles twenty-five of this law states that, "the Executive power shall be vested in the Amir and the Ministers will assist him".

According to the above law, the Amir, as the head of the executive branch of the government, has the right to initiate public agencies, to appoint and relieve ministers of office.²⁷

The Amir chairs the Council of Ministers and he may depute the chairing of the Council.²⁸ The Council is to be composed of all Ministers.²⁹

All ministers, even those who were not elected, are members of the National Assembly.³⁰

This power is composed of three parts:-

(A) The power of the Council of Ministers

The council of Ministers is empowered to handle the public affairs of the government, draw broad line policies concerning every aspect and activity of the government, such as finance, the economy, health, education, peace-keeping within the country and the defence of the territory.

The Council of Ministers through the Prime Ministers can establish new organisations and render new services. The Council of Ministers may exercise control over various departments of the State. The Council has the right to supervise the execution of policies:- "The Council of Ministers shall have control over the department of the State. It shall formulate the general policy of the government, pursue its execution and supervise the conduct of work in government departments"³¹. Article 140 puts the Government Ministers and the Council of Ministers in a responsible position of preparing and drawing up the annual budget of the State. Deliberation of the Council of Ministers is secret. Resolution of the Council of Ministers shall be submitted to the Head of the State for approval in the case where the issue of a decree is required.³²

(B) The Power of the Prime Minister

In the State of Kuwait, the Prime Minister is the

Heir Apparent. He acts on behalf of the Amir. He is empowered to direct, supervise and co-ordinate the ministerial authority and administrative activities among the various ministries:- "The Prime Minister shall preside over the meeting of the Council of Ministers and supervise the co-ordination of work among the various ministries".³³

The Prime Minister, according to the Constitution, cannot hold any portfolio,³⁴ and he may be given a chance to address the National Assembly whenever he asks for it.³⁵ If for any reason the Prime Minister has resigned or is removed from office, this means as a rule, the resignation or removal of all other ministers.³⁶ The Prime Minister may recommend to the Amir that a minister be relieved of office.

(C) The Power of Ministers

As stated earlier, all ministers, even those who are not elected are members of the National Assembly.³⁷ This means that they are entitled to an equivalent right of the members of the National Assembly. Every minister is fully authorised and completely empowered to formulate policies for his ministry, set up procedures for carrying out the activities of his ministry, translate the broad lines of government policy into short-term programmes and put forward to the Council of Ministers the annual budget proposed for his ministry. "Every minister shall supervise the affairs of his ministry and shall execute thereon the general policy of the government. He shall

also formulate directives for the ministry and supervise their execution".³⁸

Every minister at the meeting of the Council of Ministers may propose laws, statutes, or any other matters related to his ministry, solicit the Council's opinion regarding these matters, or just introduce new thoughts, and clarify and exchange views.

Whenever a committee of the National Assembly is considering a matter or discussing a subject related to one of the Ministry's activities, the minister concerned may attend these meetings and take along with him one or more of his senior staff or experts or depute one of them to attend these meetings on his behalf, but neither the minister nor his deputy has the right to express his opinion on the committee's deliberations; however their opinion will be taken down in writing in their report.³⁹

Administrative Structure of the Government of Kuwait

The tribe was the centre of the social system, when Kuwait was a small town. The ruler, (Sheikh), used to administer and run the state's affairs from his palace or from the market place. This pattern of government continued until the Legislative Council was elected in 1937-1938. The most significant accomplishment of the Council was the creation of some public departments which later became a centre of the modern administrative structure.

The administrative structure in Kuwait started with a few departments which could have been counted on one

hand. These department were the Department of Justice, the Department of Police and Security, the Department of Ports, the Department of Custom and the Department of Health. In the late 1940's, some other departments were created, such as those of Electricity and Water. This structure kept expanding and the number kept increasing until there were twenty departments in 1962⁴⁰ as shown in Figure (1).

Each department was headed by a President who was a member of the Sabah family. The Presidents of various departments constituted the Supreme Council, which met regularly with the Ruler.⁴¹

According to Law No.1 of 1962, concerning the system of government during the period of transition, and in 1962 these Departments became Ministries and President of each Department became Minister.⁴²

The purpose of establishing these departments which by law No.1 of 1962 became ministries was to assist the ruler in the fulfilment of his responsibilities and to offer him advice.

According to Article 57 of the Constitution, at the beginning of the legislative term of the National Assembly the Cabinet shall be reconstituted. Titles and numbers of ministries were automatically changed whenever the Cabinet reconstituted. For example, in 1962, the Cabinet was made up of fourteen ministries but in 1981-1982, the number was increased to seventeen.

The current administrative structure of the Kuwait government, as shown in Figure (2), consists of:-

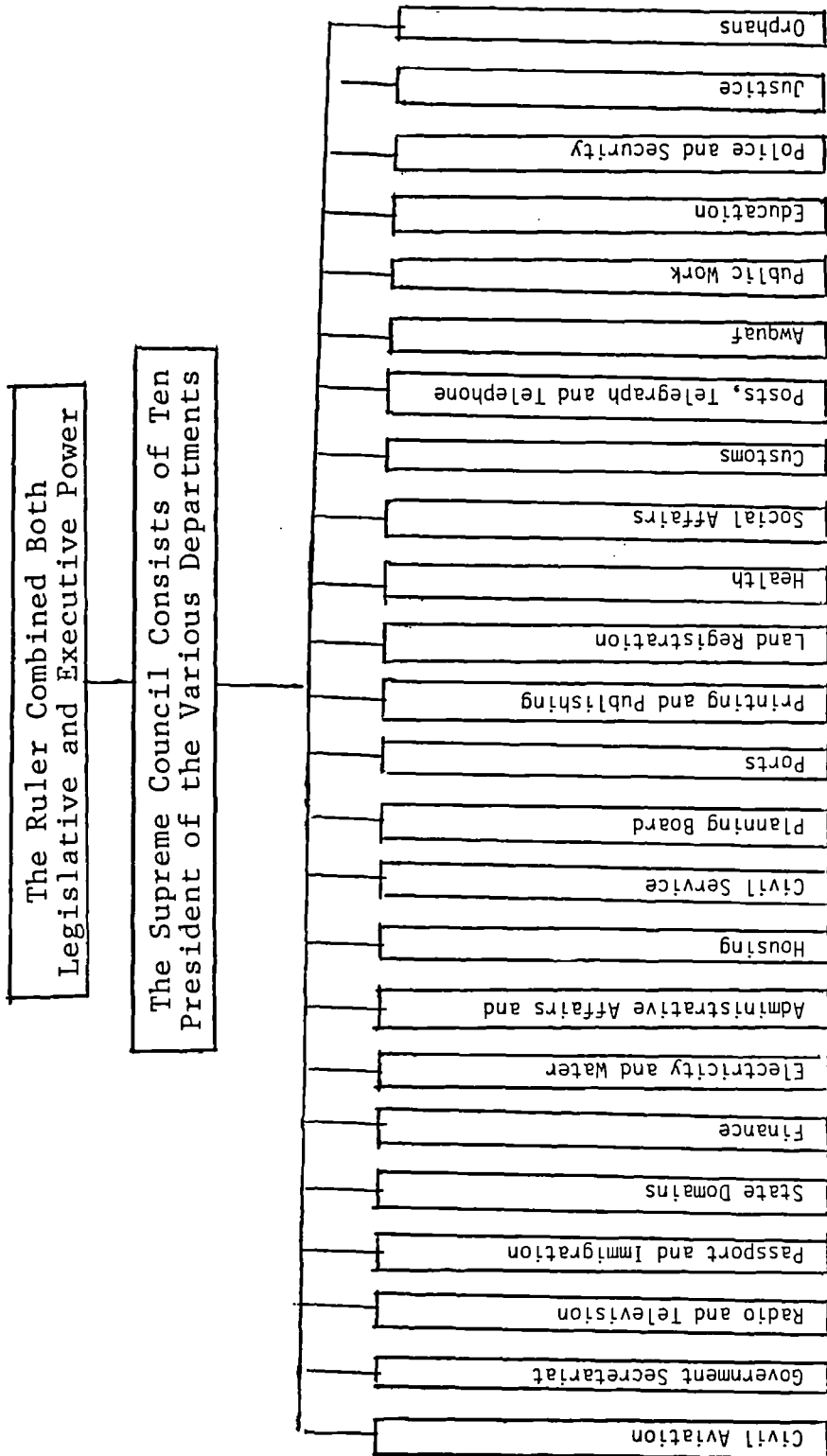


Figure (1) The Structure of Kuwait's Government after the 1964 Reorganization Act.

Sources: Kuwait; A Political Study by Hassan A. Al-Ebraheem p.139.

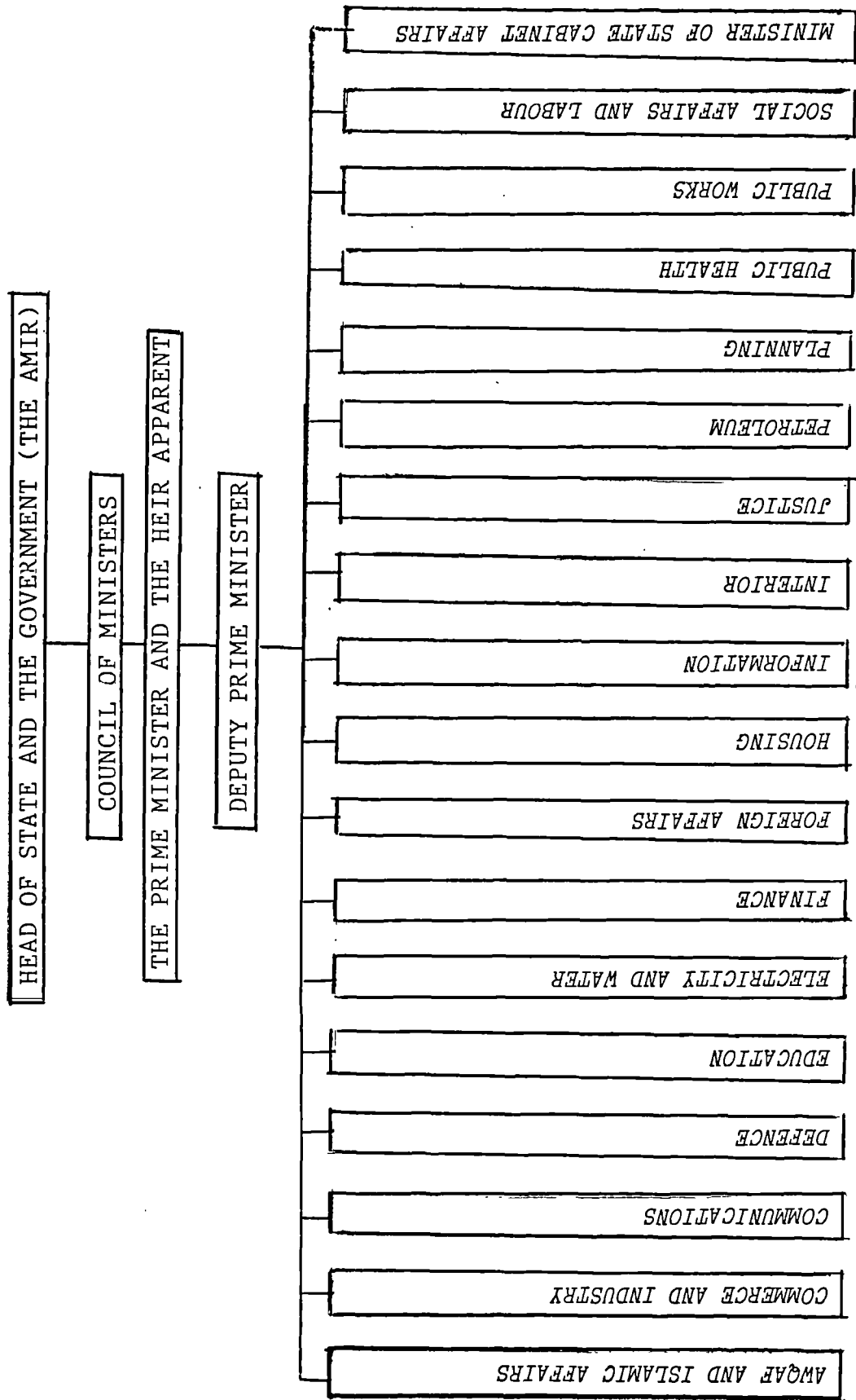


Figure (2) Administrative Structure of The Kuwait Government.

- (A) The Council of Ministers, which is composed of all ministries and is chaired by the Prime Minister, who is the Heir Apparent, and who has a deputy; and
- (B) Eighteen ministries.

Co-operation Between the Executive and the
Legislative Branches of The Kuwaiti Government

The Kuwaiti Constitution, in Article No. 50 states that the system of government in the state of Kuwait is based on the principle of separation of powers functioning in co-operation with each other. Some of the existing ways and means of co-operation are:-

- 1) That the government independently presents information or introduces a subject with regard to the higher policy of the State for general discussion.
- 2) The Kuwaiti Government presents its programmes for the coming period immediately after the formation of the Cabinet.
- 3) The annual speech of His Highness the Amir, inaugurates the annual session of the National Assembly: in the speech, His Highness reviews the situation of the country and the important events which interest to the Nation, have occurred during the preceding year. He outlines the projects and reforms which the government plans to undertake during the coming year.
- 4) The relationship which is established between those who wish to put questions, and the Prime Minister and Ministers who must reply, may lead to better relations and better understanding.

- 5) Positive evidence of the existing co-operation in the Kuwaiti government system between the two branches is visible in those open dialogues, which take place between the government and the National Assembly on any subject of general interest, and
- 6) The government submits a statement on the financial position of the state to the National Assembly once during each ordinary session.

The above cases show the desire and sincere willingness of the Kuwaiti government to work closely with the National assembly, and to realize their intentions.

The Budgetary System in The State of Kuwait

The researcher believes that it would be useful if the historical background were recalled first to find out where and how the idea of the Public Budgetary System originated and what the present budgetary situation in the state of Kuwait is.

This part of the chapter will be divided into six parts:

- (A) The importance of studying the budgetary system in the state of Kuwait.
- (B) The expected benefits of a budgetary system.
- (C) Different stages in the budget preparation in the state of Kuwait.
- (D) The budgatary system as a mean of co-operation.
- (E) A brief description of main accounts of the state budget, and finally

(F) Some obstacles and shortcoming of the state budget.

The Importance of Studying The Budgetary System in
The State of Kuwait

The importance of the discussion of the budgetary system in any government in general and in the Kuwaiti government in particular is attributed to:-

- 1) The usefulness of the budget as a financial tool through which the government co-ordinates its efforts and co-operates with other branches of the government to achieve national economic and social goals.
- 2) The usefulness of the budget as planning device with which the government strive to relate the national goals and desires to its activities on one hand to translate these goals especially the long term ones into short term projects, and in addition to do their best to achieve them through the annual budget allocations.
- 3) The usefulness of the budget as an instrument of control. This was the traditional aim of the budget in which the government branches (the legislative and the Executive) used to use the budgetary system to detect any deviations from the total figures of the appropriations and finally,
- 4) The usefulness of the budget as a publicity and communication tool with which the government communicates its financial policy to the National Assembly and at the same time informs the public about the monetary and fiscal policy of the

government.

The final point is so important that all economic sectors in the country watch carefully the day in which the budget will be announced because the budget announcement could effect their own aims and policy on the one hand, and eventually affect their activities on the other.

The Expected Benefits of a Budgetary System

The adoption of a budgetary system serves many diverse uses but in the section below the researcher shall explain some of the ways in which the benefits of a budgetary system could be realized:-

- 1) The budgetary system could help in identifying the relationships existing among the various functions of the government on the one hand, and public programmes on the other. This would lead the government to evaluate each function according to its usefulness in serving other functions and in accomplishing the pre-determining goals. The outcome of this evaluation could be either to alter the function to meet the new demand; to decide to keep the function unchanged or finally, to decide to drop the function completely.
- 2) Adoption of the budgetary system would assist the public officials in determining cost and the associated benefits of each programme or even each activity. This factor could lead to an important decision concerning the selection from alternative

programmes available to the Public Officials.

- 3) In any government system detecting deviation could be much easier and faster than those without, or even with, a poor budgetary system. So a good budget could save time and resources.
- 4) The decision makers could adjust at the right time their previous decisions with regard to input, activity and/or output of programmes under their control, but this could be very hard if it is not impossible in the absence of budgetary system.
- 5) In a government with a budget, it is easier to relate the actual output to pre-determined aims and then to measure the standard of achievements.

Aims of The Budgetary System in The State of Kuwait

The Kuwaiti government is looking ahead to achieve certain objectives by adopting a budgetary system. Their first objective is to determine the expected cost and benefits of different public programmes which could lead to a better allocation of the available resources among the competing programmes and as a result to rationalise the public expenditures. Another aim of the budgetary system is to strengthen the domestic economic activities and to increase the rate of growth of the national economy or at least keep it growing horizontally and smoothly.

Oil is the only resource in the state of Kuwait. According to the constitution, the resource is the property of the state, the philosophy of the government

is that national ownership helps the citizens and ensure a decent standard of living.

With large amounts of revenue derived from oil production, the Kuwaiti government is planning for a fairer distribution of income through the budgetary system. In other words, the government in the state of Kuwait is determined to improve income distribution.

The government expects that the budgetary system would assist it in building enough reserves for the future generations.

Finally, the budgetary system is structured around the aim of developing other sources of income. The logic behind this goal is the same as for the previous one.

There are still more goals but the researcher believes that it would be more suitable if these were left for the time being to be discussed in another part of this chapter.

Different Stages in the Budget Preparation in the State of Kuwait

The major sources of information for the section following consisted of: an interview with the Budget Expert at the Ministry of Finance, the constitution of the State of Kuwait, the Standard Orders of the National Assembly, the Amiri Decree Laws Number (1) and Number (31) for the years 1960 and 1978 respectively, and finally, the statement of the Finance Minister concerning the proposed budget for the fiscal year 1982/1983.

The budgetary system in the state of Kuwait is

composed of two subsidiary systems. The final output of these system would be used as input for the main budgetary system of the State at the Public Budget Department in the Ministry of Finance.

The First Subsidiary System:

The Amiri Decree Law Number (31) for the year 1978 has filled a wide gap existing in the previous budgetary system loop and caused by the absence of more comprehensive laws and regulations to identify the government body responsible for drawing up the budgetary and allocation policies. The law has authorized the Finance Minister to commission a High Budget Committee composed of the Finance Minister as the Chairman of the Committee and representatives from the Ministry of Planning and Civil Service Commission as members of the Committee.⁴³

The High Budget Committee holds several meetings in which the Committee reviews the existing frame-work of the State budget, discusses the budgetary policy of the State, and finally, recommends the adoption of an allocation strategy to govern the appropriation process of the available resources among the competing groups.

The results of the Committee's meetings shall be submitted to the council of Ministers for review and the soliciting of new ideas. When an appropriate decision is reached and formulated in the Committee's report. The Finance Minister shall be notified of the Council of Ministers' ruling. The Public Budget Department at the

Ministry of Finance is among those government units responsible to the Finance Minister for the implementation of the Council's decision.

On two different occasions, the Public Budget Department at the Ministry of Finance shall be guided by the Council's decision according to existing budgetary rules and regulations: Firstly, when preparing the Annual Financial Administrative Memorandum and secondly, when reviewing and discussing individual budgets with the representatives of the government units concerned.

The Second Subsidiary System

All government units, regardless of the degree of autonomy they enjoy, are empowered to formulate long term plans which are based on experts' economic, social and political studies, on one hand, and the guidance of His Highness the Amir and the desires of the Council of Ministers on the other.

Prior to the beginning of the fiscal year, the Prime Minister discusses and reviews with the head of each government unit, individually, the major financial policies of the government applicable to the area of their concern. The major responsibility of the heads of each government units is then to translate their long term goals, in the light of these policies, into an annual short term plan. They usually conclude their responsibilities, at this stage, by forming a Budget Committee, which shall be responsible for the implementation of the remaining stages of the budget

preparation process.

The undersecretary of the concerned unit, or his representative, shall act as president of the Budget Committee. The Ministry of Planning, the Civil Service Commission, the Public Budget Department at the Ministry of Finance and the Finance Department of the concerned unit shall be represented by members in the Committee. The first task of the Committee is to determine the required numbers and types of projects to meet the demands presented in the short-term plan and then determine the cost of these projects. The Committee depends on an unscientific approach to determine the cost of these projects because of the lack of a Cost Accounting System at most of the government units. The Committee's second task is to draw up the budget of their unit according to existing budgetary laws and regulations.

The Public Budget Department at the Ministry of Finance, seven months prior to the commencement of the fiscal year, issues and supplies all government units with a copy of the Annual Financial Administrative Memorandum to enable those Committees to fulfill their tasks. The memorandum is annually revised to meet the latest budgetary laws and regulations. Usually the memorandum outlines the financial policy of the State and points out not only the new and existing financial regulations and budgetary laws to which they must adhere, but also explains the methods and means of achieving them.

The Ministry of Finance, for the purpose of making uniform the budget presentations and budget accounts among the various government units, supplies these Committees with forms needed for the budget preparations. The Ministry of Finance provides the Committees with a copy of the Ground Rules which will enable them to draw up their estimates for certain items of the budget, such as services, wages and salaries.

The Committee shall submit the first draft of the budget, when ready, to the head of the unit for his approval. Rarely does the first draft receive approval without alteration.

At present, according to the Amiri Decree Law Number (31) for the year 1978, the authority to review the individual budgets of the government units and then to prepare the State Budget rests completely with the Ministry of Finance, while the Civil Service Commission and the Ministry of Planning play a restricted consultative and advisory role.

According to new law, the government units are asked to send a certain number of copies of their budgets, when approved by the head of the concerned units, to the Ministry of Finance. Thereupon the Ministry of Finance sends a complete copy of each budget to the Ministry of Planning and another copy to the Civil Service Commission for the purpose of soliciting opinion with regard to technical matters of the budget.⁴⁴

The Main Budgetary System:

This system receives and co-ordinates the output of subsidiary systems in order to formulate a comprehensive budget for the State.

The Department of Public Budget at the Ministry of Finance is responsible for operating the system. The actual and main responsibility of the department is to co-ordinate the proposed budgets by the government units in a way which takes into account the key factors of the guidelines and in order to form a comprehensive budget for the State.

In the State of Kuwait, the Department of Public Budget at the Ministry of Finance prepares the State Budget in a way completely different to those of other countries. Firstly, estimates of income for the new fiscal year are drawn up. This task could be considered an easy one, especially where no political or economical opposition parties exist and where there is only one source of income to finance the State Budget.

According to the new law, the Department determines a certain percentage that should be deducted from the Gross Total Income which would be added to the Reserve Fund For the Future Generations.⁴⁵ This percentage differs from year to year.

In the next stage, the department undertakes a careful examination of the budgets proposed by the government units. When finished with its examinations, the department holds several meetings with representatives of the government units to explore the

real needs of the concerned unit.

In the past, the government units used to have their budget approved without any changes, but at the present time and for the past three years, the situation has been different not because the department was empowered with additional rights but because the right to examine and change the proposed estimates of units had never been applied before. It was not necessary to exercise this right as long as the amount of revenues was more than adequate.

Nowadays, the situation is different especially with the oil glut in major international markets, which pushes the price of crude oil down. This state of affairs has caused the department to look for an effective way to bring the budget estimates under control.

Practising the right to alter the estimates of the proposed budgets whenever possible and the interest of the National Economy, was found to be the first step toward controlling public expenditure.

The number and magnitude of changes made in the budget estimates depends on the results of the technical studies carried out by both the Ministry of Planning and the Civil Service Commission, the results of those meetings with representatives of the government units and the overall plan for the State. The personality of the head of the government unit and/or the personality of the representatives has a great influence on the decision of the department and may over-ride the above factors.

When the department is finished with the budget

examinations and the adjustment of estimates, they then add estimates for the Ministry of Finance. Then the department compares the net estimated revenues after reduction of all percentages required by law and the total estimated expenditures for all government units. Then the Ministry tries to balance the State Budget through the available ways and means for balancing the budget, e.g., the Ministry may reconsider the estimated expenditures, or it may review the estimated revenue. Furthermore, the Ministry may look for new sources of revenue within the government body, or alternatively the Ministry may look for new external sources to finance the state budget.

When the estimated expenditure balances with the estimated revenue, the department organises and collates those estimated expenditure and revenue of the government units, and prepares the proposed state budget. The department, then, submits a copy of the proposed state budget along with all supplementary tables to the Minister of Finance.

The Finance Minister reviews the proposed State budget with his budget experts. He then discusses the proposed State budget with the representatives of the Public Budget Department in the presence of the budget experts.

The Finance Minister, when finished reviewing and discussing the proposed State budget, prepares his annual report.

Usually not later than the fifteenth of April, the

Finance Minister submits a certain number of copies of the proposed State budget along with his annual report to the Council of Ministers for further discussion.

For another two weeks, from the fifteenth of April till the end of April, the Council of Ministers examines the proposed State budget thoroughly. The Council discusses the items presented in the proposed state budget along with the annual report of the Finance Minister. After listening to the Finance Minister's report on those unsettled projects and programmes (on which the Public Budget Department could not reach an agreement with the government unit concerned), and after the Council of Minister reaches an appropriate decision on that matter. In a special sitting, the Council approves the proposed state budget along with the report of the Finance Minister, which could be considered a statement of the government's financial policy.

The Council of Ministers submits a certain number of copies of the proposed state budget along with the supplementary tables to His Highness the Amir along with a request letter in which the council asks the Amir, as the Head of State, to send the proposed state budget to the National Assembly. The preparation stage of the state budget is thereby completed.

Ratifying Stage

In the State of Kuwait the National Assembly is the Legislative body and is charged with the responsibility of ratifying the state budget.

Article Number (140) of the Constitution of the State of Kuwait states that the government shall draw up the annual budget, " and submit it to the National Assembly, for examination and approval, at least two months before the end of each current financial year". Two months prior to the end of the current financial year, His Highness The Amir, acting as the Head of the State and according to the above-mentioned article, submits the proposed state budget to the president of the National Assembly who in his turn transfers it immediately to the chairman of the Committee of Finance and Economy. The president shall notify the National Assembly of this matter at its first sitting.

The Proposed Budget in The Committee of Finance and Economy

The committee studies the proposed state budget with the aid of some competent personnel of the National Assembly and/or with budget experts and economic consultants of the government in order to formulate a clear understanding of the issue.⁴⁶

To reach this goal, the committee is empowered indirectly [through the chairman and then through the president of the National Assembly] to ask the government to provide the committee with the necessary documents and information⁴⁷ and to invite the head of the concerned government unit to attend its sittings.⁴⁸

The representatives of the Public Budget Department at the Ministry of Finance, acting on behalf of the

government, are then called before the committee to present the government's justifications of the budget generally, and specifically, to clarify any ambiguous accounts presented in the budget.

The committee studies and reviews the proposed state budget thoroughly to ensure that the major parts of the proposed budget accord with each other. Furthermore, they are to ascertain that the proposed state budget as whole does not contradict the Constitution of the State or the Financial Laws and Budgetary Regulations currently in force. The committee's responsibility is to ensure that the government has considered all available alternative income resources. Consequently the estimate of revenue ought to be a reasonable conjecture, neither overstated nor underestimated. Also, the committee must satisfy themselves through all means available to them, that the government has disclosed all expected expenditures and any foreseeable liabilities, and that these estimated expenditures are reasonable and within an acceptable range.

After reviewing the budget and formulating their decisions on the matter, the committee presents its report to the National Assembly.

The Proposed State Budget in the National Assembly . . .

When they have finished their discussion of the proposed state budget and prepared their report, the Finance and Economy Committee shall submit the proposed state budget along with a copy of their report to the

president of the National Assembly, where he shall fix a date on which to commence discussion of the proposed state budget by the National Assembly.

On the designated date, the National Assembly shall commence its sitting by listening to the Statement of the Finance Minister which shall be followed by the presentation of the Finance and Economy Committee's report by the speaker of the committee. The Assembly examines in detail every account of the budget: "The budget shall be discussed by the National Assembly part by part"⁴⁹ beginning, traditionally, with those accounts presented on the expenditure side of the budget and followed by those accounts on the revenue side of the budget.

Usually the National Assembly devotes the last few weeks of its annual session for the discussion of the proposed State budget. Normally the national Assembly completes its discussion and approves the State budget before the annual session ends.

The researcher found that an instance where the session ended before an acceptable formula for the approval of the budget was reached had never occurred and it should never occur in the State of Kuwait because of the stipulation in Article Number (85) of the Constitution of the State of Kuwait which specifies that the annual session of the National Assembly may not be prorogued before the budget is approved.

The National Assembly and its committees are

required to discuss the proposed state budget in a hasty manner, with no second chance for reconsideration of the budget. Article Number (104) of the Standing Order of the National Assembly requires a second reading when a bill is submitted to the National Assembly for approval.

Article Number (166) of the Standing Order draws the attention of the members of the National Assembly to the rule stating that if the National Assembly desires to abolish an existing government unit or any existing programme or project, which has been established according to the law and has been approved by Law, or to alter any existing law by abolishing or changing its appropriation enclosed in the proposed state budget must be by proposing a new bill concerning the subject.

After it has been examined thoroughly by the Committee of Finance and Economy and followed by another round of discussion by the National Assembly, the proposed state budget may be changed or preserved as it was; it may also be ratified or rejected by the National Assembly.

When the Assembly has approved the proposed state budget, the President of the National Assembly shall submit the budget to His Highness the Amir for sanctioning and promulgation.

Finally, before the proposed budget becomes law it must be published in the Official Gazette.⁵⁰ The Finance Minister shall then inform the government units of their approved budget and give the "go ahead" signal to the various units who may now begin to realize their

programmes and projects.⁵¹ At this point, the ratifying stages are completed and the process of implementation has begun.

Control System in the State of Kuwait

The Minister of Public Health receives directions, from the Prime Minister and the State (Higher) Budget Committee, on the expectations of the coming financial year. Consequently, the Minister issues a Ministerial Order to form the Ministry's Annual Budget Committee.

The Ministry of planning, the Civil Service Commission, the Department of the Public Budget at the Ministry of Finance and the Department of Finance at the Ministry of Public Health (Controllership of the budget and cost at the Ministry of Public Health) shall be represented at the meetings of the Committee.

The chairman of the Committee receives instructions directly from the Minister himself concerning new plans and objectives of the Ministry for the coming financial year, and these programmes and projects which are expected to be altered in the new financial year.

Once the plan has been set up, the chairman starts to contact the other department at the Ministry, one of these being the Department of Employment or Personnel. The department assists in estimating the manpower needed to meet the Ministry's new plans for the coming financial year. The Department of Purchase, tender and warehouse is another department from which the chairman seeks aid. The department's responsibility is to assist in determining

the quantity and quality of tools, equipment and apparatus needed to meet the Ministry's needs.

All other departments at the Ministry share the responsibility for preparing The Ministry's budget by preparing the estimates of manpower, and all goods and services needed to carry out their duties normally and without any difficulties or shortages.

In order for these estimates to be useful and fully exploited (directly in the process of preparing the budget, and indirectly in decision making), the estimates must be prepared in good time, according to the required and predetermined formats. Furthermore, they must be submitted to the person responsible in the appropriate department, in accordance with the routine procedure.

The purpose of drawing some examples from the actual situation of the Ministry of Public Health was to emphasize that a clear role for every individual in each department, and well-defined duties and responsibilities for each department are essential and requisite for a good budgetary system.

Concurrently, the Department of Public Budget circulates its Annual Administrative Memorandum or Directive among all government units and the Ministry of Public Health is one of them.

Each memorandum is designed to draw the attention of the budget committees to the critical issues and policies with which they must comply when preparing the Ministry's Annual Budget.

Prior to issuance of those memoranda, the Department

of Public Budget receives directions from the Finance Minister. These directions are based on the decision of the State Budget Committee, the expectations and wishes of the Council of Ministers, and the Financial Laws and Budgetary Regulations which are currently in force.

These instructions, together with the activities of the Department of Public Budget, the power and authority of the Finance Minister to dictate these regulations and to monitor the execution thereof, form part of the first control system in the Budgetary System of the state of Kuwait, as shown in Figure (3).

Such control system is a combined system: It is a mixture of an Administrative Control System and a Precautionary Control system.

Once these memoranda have been approved by the Finance Minister, they would be circulated as mentioned above.

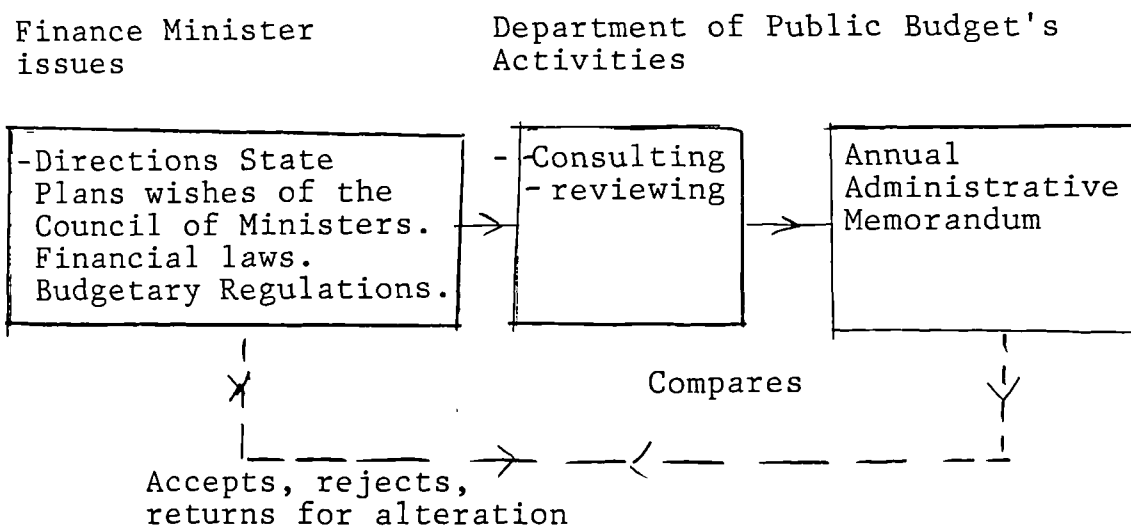


Figure (3)

In the same ways, another control system which operates within the Ministry of Public Health could be diagrammed as shown in Figure (4).

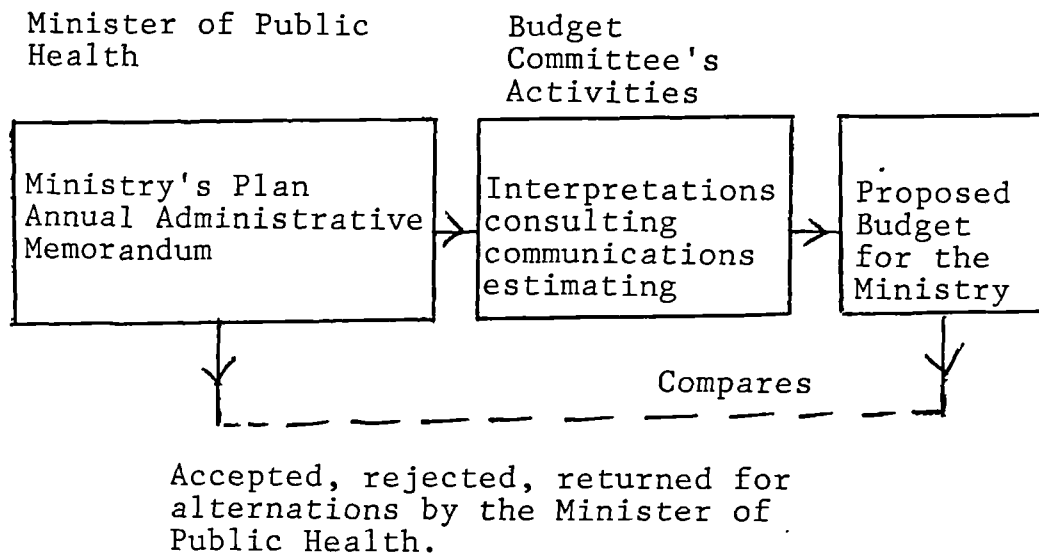


Figure (4)

The major elements of the above-mentioned control system are:

- (1) a copy of the Annual Administrative Memorandum prepared by the Department of the Public Budget.
- (2) The Ministry's overall plans and the expectations of the Minister of Public Health.
- (3) The activities of the Budget Committee at the Ministry of Public Health, beginning with the interpretation of the Ministry's Plan and leading to the formulation of an Annual Budget for the Ministry. Consequently, the entire process is monitored by the control system described above.
- (4) The power of the Minister of Public Health to review

the budget, and to compare the budget with articles (1) and (2) mentioned above for the purpose of ensuring the Committee's compliance with those articles.

This type of control is a combined system which could be considered as a mixture of an administrative control system-with the intention to ensure that the Budget Committee has formulated the Ministry's Plans and prepared Financial Estimates, which are necessary for the Budget preparation, according to the rules stated in articles (1) and (2) mentioned above - and the Precautionary Control System.

Even where the budget has been prepared by the Ministry's Budget Committee and submitted to the Minister of Public Health, it may not be considered a final document for many reasons: The budget might be returned to the Committee for some alterations or in an extreme case, it might be rejected.

Even if the Minister of Public Health has accepted the plans and the budget, his acceptance may not initiate the implementation of the plans and budget, unless they are fully authorized by the Ministry of Finance and the National Assembly.

The purpose of a system like this is to ensure that the plans and consequently, the budget shall be carried out normally, without difficulty, if for any foreseeable reason, either the plan or the budget or both do not function normally. This type of control system should be helpful in identifying any obstacles. Another aim of the

Precautionary Control System is to check on the adequacy and appropriateness of the contingent plans, such as in the case where the Ministry of Finance and/or the National Assembly have decided not to approve some of the Ministry's proposed programmes or projects, or in a case where the Ministry of Finance and/or the National Assembly have decided to cut the Ministry's proposed budget and therefore, reduced the Ministry's annual appropriation.

When the budget of the Ministry is finished and approved by the Minister of Public Health, the Ministry, according to the memorandum Number (14) for the year 1981, sends three copies of their Proposed Budget to the Department of the Public Budget at the Ministry of Finance. Still, another control system exists and operates at this stage of the budgetary cycle. The system could be diagrammed as shown in Figure (5).

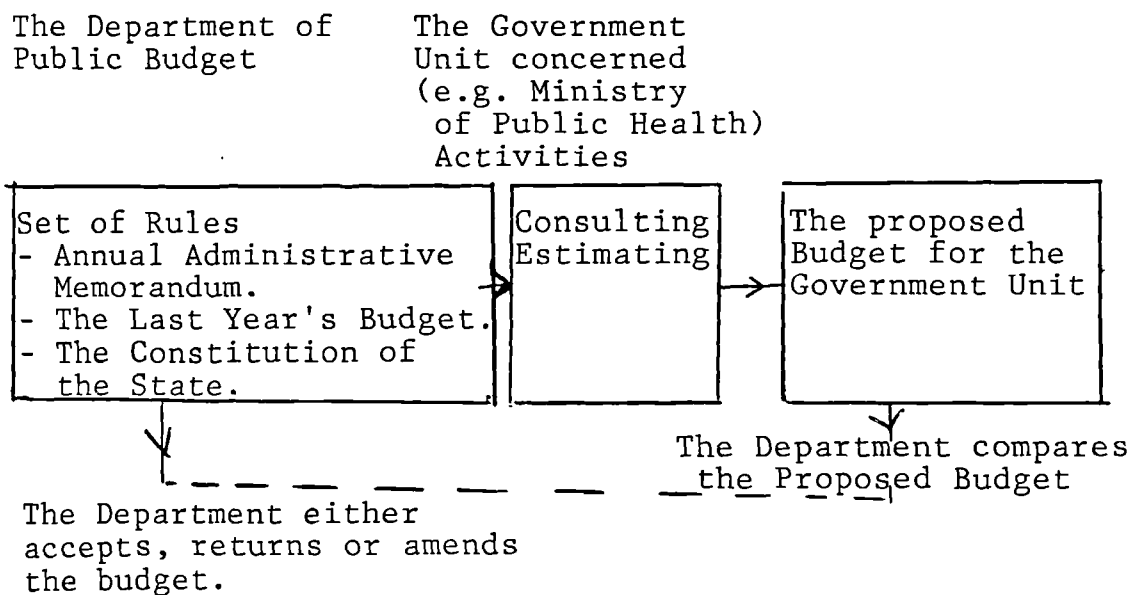


Figure (5)

The Power of the Department of Public Budget:

The Department, acting on behalf of the Finance Minister, is authorized by the law either to disregard completely, return, or amend any proposed Budget which does not accord with the above-mentioned rules.

The afore-mentioned control system is combined system of Precautionary Control System and an Administrative one.

The Department scrutinizes the Proposed Budget of the Ministry and discusses it with the Ministry. The department performs a similar task with the Proposed Budgets of the other government units.

After carefully reviewing those proposed Budgets, the Department, as mentioned earlier in this chapter, prepares the first Draft of the State Budget and submits a certain number of copies of the Budget to the Finance Minister. The budget shall then be subjected to another control system (the fourth control system which operates within this stage of the budgetary cycle).

The last system is similar to the third in the sense that both systems combine a Precautionary Control System with an Administrative one. The possible alternative decisions available to the authority, based on the comparison between the set of rules and the Budget, are the same under the two systems. But there are two points on which both systems differ. These are, firstly, that the fourth control system utilizes four sets of rules: ((1) The wishes of the Council of Ministers and the State Budget Committee's decision. The remaining three sets of

rules are the same as those in the third control system). Secondly, the Proposed State Budget and the activities of the Department of Public Budget shall be subject to the control system.

When the proposed State Budget is approved by the Finance Minister, then certain number of copies shall be submitted to the Council of Ministers.

The proposed State Budget shall be subject to a final control system, before leaving the preparation stage of the budgetary cycle, where the Council scrutinizes the Proposed Budget and compares it with the Council's wishes and the State's Long-Term Plans.

This control system is the same as the above-mentioned third and fourth control systems.

When the Proposed State Budget is approved by the Council of Ministers, certain number of copies of the Budget shall be submitted to His Highness the Amir, who shall submit them to the National Assembly. The Proposed State Budget shall be subject to one major and comprehensive control system which consists of two smaller control systems.

The afore-mentioned systems complement each other, rather than operating in isolation.

The proposed State Budget at the meetings of the Committee of Finance and Economy shall be subject to the first control system in which the members of the Committee scrutinize the proposed State Budget in order to ensure that the government's policies are clearly stated, attainable and prepared with a high level of

accuracy. The system ensures that those government policies are in accord with the government's announced plans. Furthermore, the Committee checks that the Proposed State Budget does not violate any of the Financial Laws or Budgetary regulations currently in force, and does not contradict the constitution of the State.

When the first system is operating correctly, it paves the way for the second system to function with higher efficiency. It will further increase effective action by helping the group in charge of operating the second control system to concentrate their efforts on reviewing and discussing the main issues of the subject rather than on peripheral material.

The entire National Assembly is involved in and responsible for operating the second control system when examining the Proposed State Budget.

The second control system, as well as the first, utilizes the current Financial Laws and Budgetary regulations, the Constitution of the State and the public and business lobbies, as guidelines and models to govern their activities when reviewing and discussing the budget.

In addition, each control system composed of the administrative control, political control and pre-emptive control systems.

The purpose of the above-mentioned control systems is to act as the last check before the budget could be realized. In addition, the two systems could help the

legislators to ensure that the government's plans are sound and operable, and that they conform with the existing guidelines.

When the budget has been passed by the National Assembly, it shall be submitted to His Highness the Amir for sanctioning and promulgation, where upon the execution stage of the budgetary cycle commences.

The Ministry of Finance and the individual Government Unit, share the responsibilities of monitoring the budget from the time of receiving the Finance Minister's approval to commence the implementation of the budget until the last day of the Financial Year. [This could be described in short as the execution stage of the budgetary cycle.]

I. The Role of the Ministry of Finance:

The historical role of the Ministry in monitoring the execution of the budget goes back to January of 1957, when His Highness the Amir issued the Amiri Order Number One for the Year 1957 in which His Highness commanded that all payments made out of the Departmental Budgets must be issued through the Department of Finance.

Over the last two decades, the Ministry's activities have been extended and its role has been broadened. At the present time, the Ministry's role extends to include not only the expenditure side of the budget but the revenue side also. In addition, the Ministry's activities are not limited to monitoring the financial activities of the Government Units after the expenditure has been

disbursed or after the revenue has been collected. It also includes monitoring the financial activities of the Government Units, before these units create agreements with contractors or make any new financial commitments.

The role of the Ministry in monitoring the activities of the Government Units which are related to collecting and handling Government Revenues (Revenue Activities) shall be explained firstly, followed by an explanation of the Ministry's role in monitoring the activities of the Government Units which are related to the disbursement of Government Funds.

A. The Ministry's Role in Controlling Revenue Activities:

The Ministry performs its duties in monitoring the budget execution with the intention of ensuring that all revenues estimated in the budget have been collected in accordance with the laws, alternatively where the revenue is due and could not be collected, the Government Units must show that they have tried and are still trying to obtain the over-due revenue.

The Ministry performs its duties which consist mainly of collecting and handling Government Revenue, through laying down regulations and procedures to be followed by Government Units. Furthermore, the Ministry asks all Government Units to prepare monthly, quarterly, supplementary and final reports. These reports are prepared in the same way as those prepared for reporting the government disbursements, [see next section for details].

B. The Ministry's Role in Monitoring Government Disbursements

In an interview with the Budgetary Expert at the Ministry of Finance in the State of Kuwait. The Budget Expert summarized the Ministry's objective of budgetary control, and consequently the Ministry's role in monitoring the Government disbursements, in this way, "the State Budget is a means of disbursement which means that the budget shows the ceiling amount of funds appropriated by the National Assembly for the proposed plans of the government (intended services, projects and programmes of the Government) and which have been approved by the National Assembly. The ceiling amounts means that all government units cannot and must not exceed the amount shown in the budget or to use those appropriated funds for purposes other than the approved ones by the National Assembly unless the law has made allowances in special cases. The role of the Ministry is:

1. To ensure that the amount spent does not exceed the appropriate fund designated for that purpose.
2. That all disbursements must be made for the approved purposes, and finally, to ensure the adherence to the Financial Laws and Financial guidelines currently in force".⁵³

The Ministry has implemented five different means to reinforce its role in monitoring government disbursements. These means include:

1. Issuing regulations and memoranda.
2. Regulating the accounting system.

3. Monthly, Quarterly and Final Accounts Reports.
4. The monthly allotments, and
5. Pre-audit.

Issuing regulations and Memoranda:

In order to ensure that the execution of the budget accords with the existing Financial Laws and Budgetary Regulations, the Current Budgetary Regulations authorized the Finance Minister to issue regulations and guidelines, and to inform the Government Units of those regulations and guidelines at the time of informing the units of their approved budget.⁵⁴ These regulations and guidelines specify suitable and approved methods, within the boundary of the existing laws, for the execution of the budget.

Regulating the Accounting System:

The Ministry monitors the financial activities of government units through prerogative to determine the procedures and standards of the government accounting system "The Ministry of Finance determines forms, contents of the financial records and its supporting documents which are necessary for recording the government's financial transactions. The Ministry also lays down guidelines and dictates the accounting procedures which govern the government units' activities regarding the disbursements and receipts of government resources".⁵⁵

The Government Accounting System has been defined

for the purpose of this research as "a system for collecting, recording, summarizing (classification and evaluation) analyzing, interpreting and reporting in monetary terms the financial transactions of government units."

Therefore, the Accounting System could be diagrammed as shown in Figure (6).

Monthly, Quarterly and Final Accounts Reports:

The Ministry carries out its duties of monitoring government disbursement through Monthly, Quarterly and Final Account Reports. Four copies of the Monthly Disbursement Report must be filled by government units and received by the Ministry during the first week of the month following the month under consideration. It must, of course, be submitted in accordance with the pre-determined guidelines.

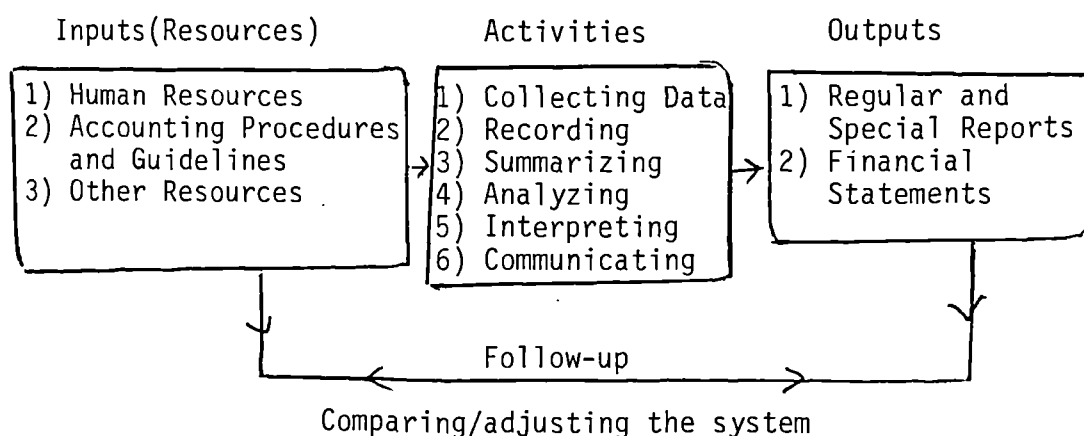


Figure (6)

These guidelines specify not only the data required to prepare the report but also determine the forms in which the data must be presented.

Twelve different forms are required to be completed by the government units for the purpose of preparing the monthly report.

At the end of each quarter of the Financial year, the government unit must submit a Quarterly Report on which all financial transactions of the government unit which took place during the quarter under consideration, must be reported in full. Furthermore, at the end of the Financial year (end of the month of June), all government units must submit to the Ministry a Supplementary Report, in addition to the monthly report of the month of June.

All these reports must be submitted to the Ministry in accordance with the Ministry's pre-determined guidelines and received by the Ministry not later than the tenth of the month following the period under consideration.

Both the Quarterly and Supplementary Reports are prepared by following the same procedures and techniques for preparing the Supplementary and Quarterly Reports on Revenue Accounts.

Any government unit failing to submit its monthly reports by the time designated in the Ministry's guidelines or who submits an incomplete report shall be subjected to disciplinary action imposed by the Ministry.

The disciplinary action available to the Ministry is to reject and return the incomplete report to the

government unit without reviewing it. Consequently, this could lead to a delay in releasing the last imprest of the monthly allotments. In addition, the Ministry could withhold the monthly allotments of any government unit which fails to submit its monthly reports, until a report is received by the Ministry.

All government Units are asked by the Ministry in accordance with the present budgetary regulations, to submit a report on which all government units are to summarize their financial transactions during the year (Final Account Reports).

The Final Account Report must be submitted to the Ministry not later than the end of the month of August, two months after the end of the Financial year under consideration.

The Ministry requires twenty different forms in preparing the Final Accounts of each government Unit.

Some notes on the reporting systems in the Kuwaiti Public Sector

In the following chapters, the review of the theoretical background and the actual performance of the operational auditing type of investigation in some western countries show how important the reporting aspect is to the success of any OA assignments.

The reporting system is not only a device for communicating the audit findings, but may also be used to determine the format, timing, and type of audit report (i.e., verbal or written), as well as to decide where and

to whom the report should be addressed.

It is, therefore, necessary to find out how effective the Kuwaiti reporting system is and to identify any deficiencies present, in order to determine the degree of reliance which can be put on the system, especially by those performing operational audit reviews in the Kuwaiti public sector.

Having completed the review of the reporting systems for both revenue and disbursement activities of the Kuwaiti government, and having highlighted the number of forms required of each government unit by the Ministry of Finance for the preparation of the monthly, quarterly and final accounts reports, it seems to the researcher that:

1. The Ministry partially succeeded in achieving its objectives to monitor the government revenues and disbursements. The Ministry's partial success is due to two factors: the first factor being the cash basis of recording government activities, the second being the manner in which the reporting system is set up, specially the design of the forms required by the Ministry.
2. The Ministry depends heavily on utilizing the reporting system to ensure that the government resources trusted to the government units are not misused and have been utilized in accordance with the budgetary regulations.
3. The Ministry utilizes those reports to ensure the honesty of the government employees in handling the

government revenue and resources through checking that the revenue has been collected in accordance with the Financial Laws and the revenue has been handed over to the Ministry in accordance with the pre-determined procedures.

4. The forms required by the Ministry and used in reporting are neither adequate for performance evaluation nor for financial control purposes.
5. The reporting system and even the Final Account Reports, do not aid the government officials in the Budget Committees to utilize the reports prepared by the system as intelligence by which they might judge requests for funds and evaluate their plans for the coming year. The cause for this belief lies in the inadequacy of the system to relate the budget estimates to the actual figures, except in the Final Account Reports and even this report is prepared two months following the last day of the financial year. Since the preparation process of the budget commences in early February each year, this means that the information needed for preparing the budget is generated at least seven months late (from February to the end of the month of August).
6. Massive and redundant amounts of data and a large number of forms required by the ministry for the reporting system, turn the preparation of required reports into an end in itself rather than means for achieving certain objectives.

The monthly allotments system:

The Ministry of Finance in Memorandum number two for the year 1958 introduced the monthly allotment system.

The system comprises the following steps:

- 1) The Ministry of Finance, following certain procedures based on the appropriations of each government unit, calculates a monthly allotment for each government unit by dividing its appropriation into twelve portions. These portions are not necessarily equal. The amount of each monthly allotment depends on the nature of the activities of the government unit and on other factors.
- 2) Each government unit receives one portion of the appropriated amount per month.

The Ministry's guidelines prescribe that each monthly portion shall be paid in three advance payments (imprests) on three different dates:

The first imprest shall be transferred to the accounts of the government unit with the Central Bank of Kuwait by the tenth of every month.

The second imprest shall be transferred to the accounts of each government unit with the Central Bank of Kuwait by the twentieth of every month. The amount for the first and second imprests is 25% per imprest of the total amount of the monthly allotment.

The third and final imprest shall be transferred to the accounts of the government units with the Central Bank of Kuwait, when the government unit's monthly report has been received and reviewed by the Ministry. The

amount of the last imprest is equal to the amount remaining of the monthly allotment.

The balance of current accounts, of cash on hand and with local banks, for each government unit at the time of transferring each imprest shall be considered when calculating the amount of the imprest of the government units.

- 3) The Ministry transfers the first monthly allotment to the government units on the first day of August (one month after commencement of the Financial year) while the last monthly allotment shall be transferred at the beginning of July (one month after the conclusion of the Financial year).

The system functions as a monitoring device in two different ways:

- (1) The system assists in monitoring the financial activities of the government units indirectly through controlling release of the last imprest of the monthly allotment: The Ministry of Finance must receive the monthly reports which show, among other things, the balance of the current accounts and the amount disbursed each month. The monthly reports in its capacity as a monitoring device has been described earlier in the chapter.
- (2) The system operates as a monitoring device by reducing the amount of money left with and made available for the government units.

Pre-audit:

The Ministry is authorized to audit the financial transactions of the government units through assigning representatives of the Ministry (comptrollers) to each government unit with the duty of reviewing and verifying the financial activities of the government unit to which they are assigned. The comptroller's role and duties shall be fully explored in the next chapter.

The role of, and reasons for selecting, the Ministry of Public Health in the State of Kuwait

During the execution stage of the budget, every government unit bears the responsibility of monitoring its activities jointly with the Ministry of Finance, who oversees how well those activities are performed.

In the following section, the researcher shall concentrate on the Ministry of Public Health [MOPH] as a typical example of a government unit.

After library research and the reviewing of government documents supplied by the government audit institutions of the selected four countries, (Canada, Sweden, the UK and the USA), the researcher has decided to concentrate on the UK health and local authorities for the necessary fieldwork for this research project. Consequently, this decision on fieldwork, to a large extent, dictated the researcher's selection of an

appropriate ministry or government department to illustrate the role played by government units in Kuwait. Besides that other justifications for concentrating on the MOPH exist, such as, the readiness of the Ministry to co-operate with the researcher, the availability of certain systems such as cost accounting and follow-up systems; the existence of a written plan for the Ministry up to the year 2000, the size of the Ministry's activities and expenditure, and the diversified nature of the Ministry's operations.

The Minister of Public Health is fully authorized to determine the ministerial policies, (which must not contradict with those of the government) and to organise his ministry in a way which he thinks would enable him to achieve his organisational plans on the one hand, and to fulfill his duties on the other hand; his method must aid in carrying out the State's plans and policies.

The Minister is held responsible for the performance of his ministry, and therefore, he must oversee and supervise the activities of his employees and monitor their performance.

The Minister supervises the staff's performance and their activities through one of the following three means:

A) The Minister supervises the performance of his staff and the activities of his Ministry directly, without any intermediary system or person. This type of supervision is the best means available because it promotes a direct relationship and enable solution to

be found promptly for any problem which may occur. This type of supervision is neither applicable nor practicable when the Ministry is a major organisation, with a large number of staff and used to executing projects on a large scale.

- B) The Minister could supervise the performance of his staff and monitor the activities of the Ministry by appointing individuals or groups to look into a certain matter or activity and to report their findings back to the Minister. The Budget Committee is an example of this type of monitoring process, as has been explained earlier. When the Budget Committee prepares a budget which receives approval, the Committee may be abolished: Once members of the group have accomplished their goals, they shall return to their normal routine duties.
- C) Finally, the best way of monitoring the activities of the Ministry is to create certain systems and determine policies and procedures which, if correctly designed and applied, could ensure acceptable performance. This is what has been called an "Internal Control System".

The researcher grouped the main methods of the monitoring system of the Ministry of Public Health according to the main components of the internal control system because it is a direct, simple and comprehensive way to explain the subject.

The main components of the internal control system are:

1. Internal administrative Control.

2. Internal Accounting Control.
3. Internal Auditing.
4. Internal Checks.

1. Internal Administrative Control

"Internal Administrative Control includes but is not limited to the plan of organization and the procedures and records that are concerned with the decision processes leading to the management's authorization of transactions. Such authorization is a management function directly associated with the responsibility for achieving the objectives of the organization and is the starting point for establishing accounting control of transaction".⁵⁶

This type of control includes:

a. Duties and responsibilities:

For the purpose of monitoring the performance of every individual, the Ministry must determine the duties and responsibilities of every department and consequently assign the departmental duties to the appropriate members of staff.

Drawing up the organisational chart for the Ministry of Public Health is the first step to understanding these duties and responsibilities. As shown in the charts [Appended to this chapter], the Minister of Public Health is at the top of the hierarchy, subordinate to him are an Undersecretary, and three Assistant Undersecretaries who answer to the Undersecretary. According to the rules of the State of Kuwait "Every Ministry must have a Minister and an Undersecretary".⁵⁷ Each Assistant Undersecretary is authorized to handle certain types of activities, and affairs of the Ministry. For example, the Assistant

Undersecretary for Financial Affairs is responsible for planning the financial activities of the Ministry, preparing the Ministry's Annual Budget and the follow-up to the execution of the budget.

The chart not only shows the location of every individual department to the Ministry as a whole, and the powers assigned to each department, but also shows the interdepartmental relationships.

b. By-laws:

Every ministry prepares booklets in which are explained the rules and guidelines which govern certain types of activities, such by-laws include those dealing with purchases, another for warehouses, and one dealing with receipts and disbursements.

These by-laws must be clearly written, so that they might be easily understood and applied, the staff are well informed concerning the regulations and their applications.

Each booklet shows not only the different steps necessary for carrying out the required activities but also describes the required procedures and authorization for completion of the transaction.

For example, for maintenance work required for equipments, the Ministry's Manual in Rules for Execution of the Budget shows that before carrying out such activity, the concerned division must:

1. Check the guarantee of the item in question, and if the guarantee has expired then,
2. They must look for the service within the

Ministry, and if the required service cannot be provided by other departments of the Ministry, then

3. The concerned division could seek the dealer's assistance directly if the cost of repair is less than fifty percent of the purchase price of the item, and on the basis that the total repair cost is less than fifty Kuwaiti Dinars, otherwise, they must seek prior approval of the Department of Finance.

c. Special report:

These reports are concerned mainly with operational efficiency and adherence to managerial policies. These reports include statistical analysis, quantity and quality control reports, reports on staff training programmes and reports on the performance of the different departments.

d. Organisational plans:

This includes all other administrative tools through which the Ministry could monitor and handle certain types of activities. An example of this type of device is the "Petty Cash System" which is designed to handle the disbursement activities of small amounts of cash.

II. Internal Accounting Control

P. Grady defines the Internal Accounting Control as that which

"comprises the plan of organisation and the co-ordinated procedures used within the business to (1) safeguard its assets from loss by fraud or unintentional errors, (2) check the accuracy and reliability of the

accounting data which management uses in making decisions, and (3) promote operational efficiency and encourage adherence to adopt policies in those areas in which the Accounting and Financial Departments have responsibility, directly or indirectly".⁵⁸

An important objective of the Internal Accounting Control is to ensure that the accounting books, records and forms of the government unit (Ministry of Public Health) are accurate, complete, up-to-date and suitable for intended purposes.

As mentioned earlier in the chapter, it is the duty of the Ministry of Finance to determine the accounting system and the forms and format of the accounting books, records and files but it is the duty of every individual head of a government unit (Ministry of Public Health) to establish and maintain the accounting system. The Minister has complete freedom to organise the Ministry's Accounting Department in the way in which he thinks would enable him to monitor closely the Ministry's activities. It has also been mentioned that the Ministry of Finance has issued a memorandum for the purpose of unifying the government accounts.

The internal Accounting Control System aids the Minister of Public Health and the decision-makers of his Ministry to perform their duties by supplying them with the necessary information. This information, is based on records of the past performance of the Ministry and is provided punctually in order to reflect the actual financial situation of the Ministry. Furthermore, if the information is properly classified (according to

programmes classification) and the results of such performance are recorded, then the decision-makers could use them to accomplish easily the required task.

The required task could be to formulate a plan for the Ministry and this would involve the budget preparation as a direct means.

The Internal Accounting Control aids to safeguard the Ministry's assets through separation of duties. The Amiri Decree-Law Number Thirty-One for the year 1978, article thirty-two, adopted this approach when it stated that "It is the duty of the Minister (the head of the government unit) to approve the disbursement of funds of the Ministry (the government unit) and he may deputize the task to any of his staff except those who work in the accounting department or whose tasks are related to the accounts" (emphasis added).

The system helps to oversee the activities of the Ministry by another means: The constant review of transactions by different members of staff such as the head of the operating section, the chief accountants of the Ministry and the director of the Department of Finance.

In the case of recording the performance of the Ministry by using the data processing machine, the data must be reviewed by the Ministry of Finance before it may be fed to the machine. All of these checks tend to lend some credibility to the recording of financial transactions in the accounting books and consequently, to the statement based on this information and on this

accounting system.

III. Internal Auditing

"Internal Auditing is an independent appraisal function established within an organization for the purpose of serving the organization by examining and evaluating activities and communicating results. It may be concerned with any activity of the organization. Consequently, the practice of Professional Internal Auditing beyond examining accounting controls, records and financial statements and reports".⁵⁹

Sound Internal Auditing system helps to achieve the following three objectives:

- A) Evaluation of the Internal Control System of the Ministry.
- B) Evaluation of the degree of compliance with management's policies and procedures.
- C) Finally, assessment of the integrity of the management's information system.

(A) Evaluation of the Internal Control System:

The Internal Audit System or department aids the Minister and the management of the Ministry of Public Health by way of a periodic review of the Internal Control System and by reporting and drawing the government's attention to any weakness in the system. Furthermore, the Internal Auditor assures the head of government unit (Minister) that the Ministry's internal control system is effective in both design and operation.

(B) Evaluation of the degree of compliance:

The Internal Auditor might assist the Minister and the management of the Ministry in determining whether the ministerial policies are being implemented, and what effects they are having on the Ministry's operation. On the other hand, the Internal Auditor could assist the decision-makers of the Ministry in preceiving what obstacles the system may face.

(C) Assessment of the integrity of the management's information system:

The management must be confident that all parties are complying with the various laws and regulations; moreover, they must be certain of the accuracy and consistency of information pertaining to the Ministry's operations. The system checks and ensures that the information needed for the making of a decision is accurately and punctually prepared.

In practice, it is deemed essential to have a department specializing in Internal Auditing because the leadership of the Ministry cannot always verify personally the degree of compliance with the various financial laws, budgetary regulations and guidelines established by the Ministry of Finance.

The Internal Auditing System as defined earlier, does not exist in the Kuwaiti government unit with administrative budgets (Ministries) but it exists in some of the government units with attached budgets. Furthermore, the system is required by law to exist in the government units with independent budgets.

In the Ministry of Public Health, the controller of verification and review performs some tasks of what is the Internal Auditing Department supposed to do. The task of the controller is:

1. To review and verify the salaries of the top public officials as well as the wages of operating staff.
2. To review all entry forms of the Department of Finance in accordance with the programme classification of the budget.
3. To review all transactions with regard to opening the letter of credit for the Warehouse Department. In addition to reviewing the transactions of purchases from abroad. This task involves the following activities:
 - a. The review of transactions of the Warehouse Department.
 - b. The verification of payments made by bill of exchange or by postal order.
 - c. The review of the liability accounts for the inventory and the review of all receipt certificates.
 - d. Finally, the review of all alterations made to letters of credit which have already been issued and the review of transactions related to purchase of goods and others.
4. To review all tenders and negotiating activities. Furthermore, to verify payments to contractors.
5. To review all transactions of locally purchased materials: The necessary medicine and medical

equipments, books and journals.

6. To review warehouse transactions specially those related to purchase and supply regardless of whether these are related to the direct purchase or through negotiation or through tenders.
7. Finally, to review all disbursement and collection activities, especially their documentation, the arithmetical calculations, and the accounting system for recording and posting the transactions.

IV. Internal Checks

Gilbert R. Byrent describes "Internal Check" as "those accounting procedures or statistical or fiscal or other controls which safeguard assets against defalcation or other similar irregularities".⁶⁰

Internal Checks in the State of Kuwait comprise the following activities:

1. Inspection;
2. Stock-taking;
3. Maintaining and preparing special accounts;
4. Double check system;
5. Reports; and
6. Special procedures for handling certain activities or assets.

1. Inspection:

The Inspection entails a careful investigation of all office and managerial procedures in a government unit for the purpose of ensuring the accuracy of these

procedures, the diligence of the staff responsible for these activities and the adherence of their methods of execution to the prescribed guidelines and procedures.

Inspection is a direct and immediate means of ensuring and securing internal administrative control over various activities. The Inspection process could be carried out at arbitrary intervals or on a random basis, also it may occur without any prior notice.

The head of the government unit may designate one or more members of his staff, or he may establish a special department for that purpose who will report their findings to the head of the government unit.

In the State of Kuwait, only three ministries have such a system: The Ministry of Justice, the Ministry of the Interior and the Ministry of Defence.

2. Stock-taking:

The government units are required under the budgetary laws and financial regulation to count physically all their assets, at least once a year on the thirtieth of June , to verify the existence of the assets and to determine how well they function and their monetary value.

The inventory-taking process is not limited to durable assets, but also includes non-durable ones, in addition to the cash and non-cash assets.

In an interview, the Budget Expert of the Ministry of Finance said, with regard to inventory-taking in the Ministry of Public Health "that in June of every year,

the highly dangerous and very expensive materials are physically counted but the other materials of less importance are not, because the cost of counting them is greater than the cost of purchase".

3. Maintaining and keeping special accounts:

Some government units prepare and keep self-controlled accounts for the purpose of monitoring their activities. These accounts are specially designed not to balance if some of the relevant data are in-correct. A straight forward example: The sub-total of the items added together horizontally must balance with the sub-total of the same items added together vertically (as shown in figure below).

Items	A	B	C	Total
D	1	2	3	6
E	0	1	2	3
F	6	5	4	15
G	1	0	1	2
Total	8	8	10	26

Furthermore, the government units prepare a daily trial balance for the activities of each day to ensure the accuracy of their account recording and posting, and the completeness of their financial activities.

4. Double check system:

In order to perform certain activities, it is

necessary that at least two persons must work together. For example, a cheque may not be cashed until it bears two authorized signatures, the door of the safe may not be opened until the staff holding the necessary keys are present.

5. Reports:

The government units prepare monthly, quarterly and final account reports which meet the requirements of the Ministry of Finance and simultaneously, might be used to monitor the financial activities of the government unit. Furthermore, the government unit prepares a daily statement which summarizes the financial activities of the government unit concerned.

It is very sad to say that quality control and performance evaluation reports are never prepared. The reasons for the lack of this type of reports are the way in which the budget is set up and the absence of an accurate performance indicator.

6. Special procedures for handling certain activities or assets:

These include sets of rules and steps which must be followed when carrying out certain activities of the government unit (for example, the procedure for handling cash or revenue collected by the Unit concerned).

The Kuwaiti Budgetary System in Practice:

How well the Budgetary System accords in theory with

the Kuwaiti financial laws and budgetary regulations has been explained in the preceding parts of this chapter except where the researcher has stated directly that the example (task or activity) has been taken from actual practice.

The data for the following section is drawn mainly from the following six sources:

1. An interview with the Assistant Undersecretary of the Ministry of Planning and other with the former Finance Minister Mr Abdul Lateef Al-Hamad, in addition to an interview with the budget expert of the Ministry of Finance.
2. Several interviews with some honourable and distinguished members of the Kuwaiti National Assembly who were members of the National Assembly for the session lasting from 1981 to 1985.

All above-mentioned interviews were carried out by the researcher personally.

3. Some interviews with honourable members of the National Assembly and top government officials, reported by some Kuwaiti newspapers and magazines.
4. Two studies recently carried out on the evaluation of the Financial Department of the Ministry of Public Health with the purpose of reorganising the Department. The first study was carried out by the Department of the Public Administrative and Industrial Management at the Arab Planning Institute of Kuwait with the co-operation of the Ministry of Public Health. The other study was carried out by a

team from the Ministry of Public Health.

5. Initiated by a request from His Highness the Amir, a team from the International Bank for Reconstruction and Development (the World Bank) which was chaired by Mr John Mosler, visited Kuwait in 1977 in order to carry out a research work for the State. At the end of their mission, they submitted a report to His Highness the Amir. A copy of the report shall be taken into account in the following part of the chapter.
6. Reports and other documents prepared by the government of the State of Kuwait. Such reports and documents include:

Complete copies of the State Budgets for the fiscal years of 1974 till 1983 and complete copies of the Kuwaiti Supreme Audit Bureau since its establishment in 1964 and until 1982. In addition to other government documents, there is a copy of "the Government's Projects and Policies" which was presented to the National Assembly in the session of the year 1981 and which covers the following four years, the Constitution of the State, and the Budgetary Laws. All these shall be taken into consideration in the next section.

It is the researcher's intention to break down the material below into different sections, in accordance with the classification of the budgetary cycles, i.e.,

the stage of preparation, ratification and execution.

Firstly, the preparation stage of the State Budget in practice:

1. The Budget Committees consider the State's long-term plan as an indicator influencing the budget estimates when the budget Committees are preparing the Annual State Budget.

The literature stipulates that preparing the long-term plans is one of the duties of the Ministry of Planning. The Ministry has succeeded, since its establishment, in formulating two long-term plans: The First Five-Year Plan for Economic and Social Development (1967/68 - 1971/72) and the Second Five-Year Plan (1976/77 - 1980/81).

In practice, and although the Ministry of Planning has been established a long time ago, the State was unfortunately still without comprehensive long-term plans, what the Ministry prepared and called a Five-Year Plan was actually no more than a list of broad vague ideas. As Mr John Mosler said in his report to His Highness the Amir, "it is just a broad and vast aspiration which is supported by some statistical figures and presented in well designed forms".⁶¹

Reasons behind Mosler's remarks are:

- A. The plans were designed around goals which are too vague and general, and which in some instances were contradictory.
- B. The plans lacked clearly defined policies and the

necessary procedures to support such plans.

- C. The plans were not reinforced by specific projects.
- D. The plans lacked the managerial knowledge for effective formulation and implementation.
- E. The plans received little or no commitment or support from the top government officials.
- F. When the plans were prepared, the Ministry of Planning had not considered the effect of the private sector, and of the inter-relationship between the public and private sectors, on the National Economy.
- G. The Ministry of Public Health has successfully completed its plan up to the year 2000 but a little consideration and careful review could lead to the conclusion that the Ministry's plan shows the same symptoms which were evident in the long-term plans of the state; moreover, the Ministry's plan failed to state how the Ministry's goal could be achieved. Furthermore, the Department of Health Planning of the Ministry of Public Health is short of qualified staff with adequate training or backgrounds in economics or public financial or planning the labour force in the Public Sector.

The most important reason why the plans could not be implemented was the failure to State Government's long-term goals. The Undersecretary of the Ministry of Planning was quoted as saying that "the Ministry is ready and well prepared to formulate long-term plans, at any time but the real obstacle which faces the Ministry is the lack of long-term goals for the State".⁶²

The researcher assumes from the above discussion that the Assistant Undersecretary of the Ministry of Planning was correct when he replied to a question put to him by the researcher. His answer to the question was that "the State never had any long-term plans or what is called 'a five-year plan'. Consequently, we did not have a chance to implement any plan in order to discover the obstacles

In 1981, the government of the State of Kuwait prepared another form of long-term planning and it was called "the Government's Projects and Policies" which was to cover the following four years. "The Government Projects and Policies" consisted of two volumes: The first volume dealt with the Government projects, and the other with Government Policies.

When the afore-mentioned volumes were consulted by the researcher, it was found that most of the pitfalls in the previous plans were repeated here too.

The following discussion in the remaining parts of this section hinges largely on the previous discussion of the Government's goals and plans, and must be considered within this framework.

- (1) The absence of long-term goals and long-term plans has consequently resulted in adopting short-term planning techniques.
- (2) As the result of the absence of clear-cut government goals and plans, and effective cost and performance evaluation systems, the members of the budget committees for the government units were unable to

consider the alternatives available to them. As a result, they were acting unwisely when they were preparing the Annual Budget for their units.

- (3) Lack of cooperation among the government units is another result of the absence of government goals and plans. The Annual Reports of the Kuwaiti Supreme Audit Bureau showed that at least 20% of funds appropriated annually for construction projects remained unused because of the lack of cooperation among the government units.

The study which was carried out by the Arab Planning Institute of Kuwait (with regard to the cooperation within the departments of a single government unit such as the Ministry of Public Health) showed that the departments of the Ministry of Public Health never shared the process of budget preparation for the Ministry. They were simply left in the dark. The researcher expects that such a lack of cooperation within the departments of a single government unit to continue generally for some time in the future, unless some practical solution is adopted to overcome the problem.

- (4) Some government units collect data without any prior notion of how to implement the data. The above-mentioned study showed that the Ministry of Public Health gathers data mainly concerned with the costs of its projects and which has been produced internally but these data are never used.
- (5) The direct and continuous involvement of the Ministry of Finance in the budget presentations i.e.,

arranging the budget classification left the Ministry with little or no time to consider some more important issues e.g. reviewing the major financial policies of the government.

- (6) The budgetary regulations and the Financial Laws require that Annual Budget of all government units must pass through certain steps before it may be realized. Furthermore, these laws and regulations state that all government units must refrain from implementing their future plans until the budget is approved by the National Assembly, and consequently the Ministry of Finance has informed those government units of their budgets.

In practice, it is found that several government units initiate their plans before a discussion of their budget with the Ministry of Finance, and before the ratification of these budgets by the National Assembly is completed".⁶³

- (7) Finally, in practice the previous year's budget is a primary indicator, if it is not the only indicator, used in budget preparation. The Former Finance Minister, Mr Al-Hamad said that, "using the previous year's budget as an indicator is responsible for the Current Budget deficit",⁶⁴ when he was asked for further clarification of the point, he replied. "In order to prepare the coming year's budget, all government units without exception, add certain percentages to the previous year's budget and then these government units present the results

of that addition to the Ministry of Finance as their new budget".⁶⁵

Secondly, the Ratifying Stage of the State Budget in Practice:

The budget, as shown in the preceding parts of the chapter, must be approved by the National Assembly before it could become law and consequently realized. In the section below, the researcher shall describe some deficiencies which exist in this stage of the budget preparation.

1. The practice showed that some government units carry out their intended plans and projects for a designated financial year before that year has commenced. The report of the Supreme Audit Bureau for the year 1975/76 showed that "a certain government unit, before the end of the fiscal year of 1974/75 gave a contract for a tender to a contractor for a project which was supposed to be presented in the budget for the fiscal year of 1975/76".⁶⁶
2. Sometimes, the executive branch of the Kuwaiti Government deliberately withholds information which is necessary for the National Assembly when considering budget. A member of the National Assembly, Dr Khalid Al-Wasmi was quoted as saying, (in a speech directed to the executive branch of the government) "at least give us information to enable us to know what the problem is rather than sitting in closed rooms".⁶⁷

3. The National Assembly seeks the help of government experts to assist them in evaluating and judging the fairness of the budget. However, these budget experts are employed by the government and consequently they might not be impartial in their judgements. Furthermore, those budget experts are the same people who prepared the budget in the first stages.

A member of the National Assembly, Mr Mohammed Al-Resheid pointed out a possible solution to this problem when he was quoted in the Kuwaiti newspaper "Al-Siyasa" as saying that "all Parliaments of the world, especially those which have existed for a long time and those well-respected ones, are well staffed with qualified financial and economic experts; in addition to many consultants in every area of specialization ".⁶⁸

Finally, the execution stage of the State Budget in Practice:

Some of the shortcomings of the Budgetary and Financial Guidelines which have been recognized are:

1. The Current Budgetary Regulations have enabled the Ministry of Finance to determine solely and absolutely the principles, procedures, books and ledgers of the Accounting System.

The Current Budgetary Laws disregard the beneficiaries of the accounting system who are most closely concerned, such as the government units who are responsible for implementing such system.

Secondly, the laws disregard the most qualified entities, who possess adequate and experience in

accounting, such as the Supreme Audit Bureau.

2. The Budgetary Regulations and Financial Laws, in general, must accord with each other. The researcher discovered that in some cases, contradictions are found in the guidelines. For example the government units could transfer from one appropriated fund to another.

The outcome of such transfers during the execution stage of the budget may be to cover up any inefficient practices or methods adopted by the government units.

The Annual Report of the Supreme Audit Bureau shows that most of the government units transfer funds from one appropriation to another, just for the purpose of keeping the funds in that government unit.

The researcher would draw attention to Articles (146) and (147) of the Constitution which read as follows: "Any expenditure not included in the budget, or in excess of the budget appropriation, as well as the transfer of any fund from one part of the budget to another, shall be effected by law", and "in no case, shall the maximum estimate of expenditure in the budget law or the laws amending it, be exceeded" respectively. Not only are these transfer activities (which could lead to increase in the amount appropriated for certain items of expenditure) prohibited by the Constitution and consequently illegal, but also these memoranda and policies of the Ministry of Finance which permit such transfer transactions to take place contradict the Constitution.

4. The State of Kuwait maintains several reserve Accounts, which are kept for certain purposes, including the General Reserve Account of the State and the Reserve Fund for the Future Generations.

These reserved accounts are invested in many different countries, and these investments are rapidly increasing source of revenue for the Government's Budget.

The income from these investments, which was estimated to reach ten billion dollars in 1981/82, is recycled along with the principle without disclosing any information in the annual State Budget.

The Article Number (140) of the Constitution and Article One of the Amiri Decree-Law-Number Thirty-one for the year 1978 reads as follows: "The State Budget shall include all revenue which is expected to be earned and all expenditures which are expected to be disbursed".

From the above discussion, it is clear that not all guidelines are followed. Furthermore, the above case shows that the Kuwaiti Government is in a direct breach of the Constitution of the State and its Budgetary Laws.

5. The review of the Final Account Reports for the Financial Administration of the government showed, without exception and even in the year 1982/83 where the budget showed a deficit, that the revenue collected exceeds the amount estimated. In the meantime, the amount disbursed is less than the estimated.

This could be interpreted as a deliberate move on the part of the government to underestimate The annual

income of the State and to overestimate annual expenditure for the purpose of reducing the pressure to spend more. Alternatively, it could be posited that those estimates were prepared without careful consideration of the government's ability to collect the annual revenue and realize its own plans. Obviously, this state of affairs could arise in the absence of sound information and feedback systems.

6. The review of the Annual Report of the Supreme Audit Bureau describes some violations committed by some government units namely:

- a. Payments out: to a photocopy instead of the original documents.
- b. Liabilities paid without any supporting documents.
- c. Transactions carried out, such as payment to suppliers, with no record made in account books and ledgers.
- d. Failure to post the total for each page of a journal, and in some case, failure to sum-up the figures.
- e. Alteration of figures recorded in the accounting books by correcting them directly, i.e, by erasing the number without an appropriate authorization or at least the initials of the person responsible for them.
- f. Failure to carry out a thorough inventory at the end of the year, or indeed, any inventory whatsoever.

g. Failure to return undisbursed wages and salaries immediately. Delays in the delivery of uncollected salaries has become a tradition in most government units.

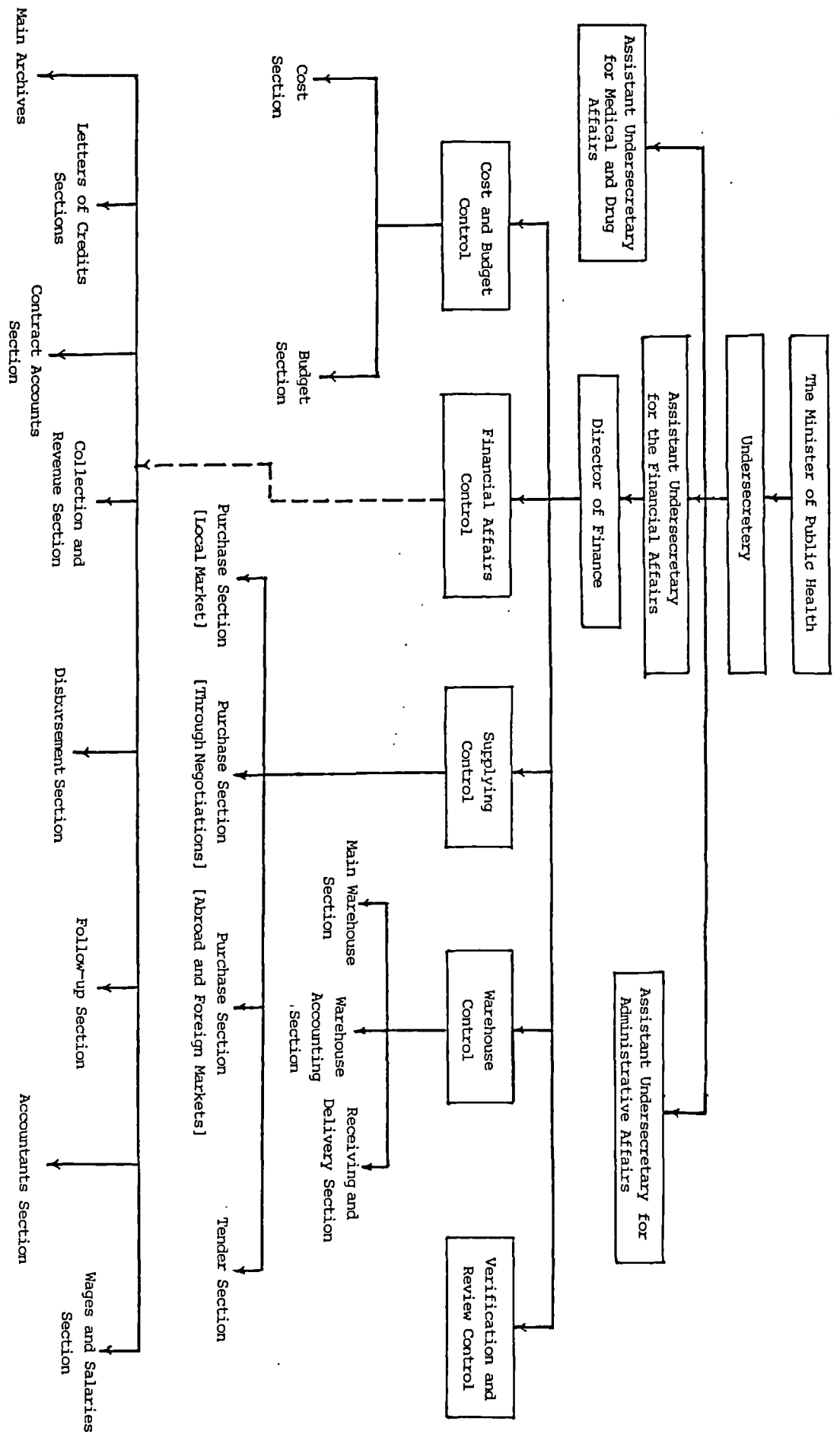
All the above-cited violations, (a to g), may indicate one of two things (a) the existence of a weak Internal Control System or the total absence thereof, or (b) the lack of well-qualified accounting staff at these government units.

By this point in the chapter, the researcher has explained the budgetary processes of preparation, ratification and execution of the State Budget in the State of Kuwait in both theory (how the system ought to function), and practice, (how the system actually operates). The next step in the Budgetary Cycle is to review and verify the transactions which took place during the execution stage of the budget."Gladstone's expenditure circle started with the executive's presentation to the House of Commons of Annual and Comprehensive Estimates. It ran through the long and tedious procedures for Parliamentary Vote and legal appropriation, the departmental spending processes, and the keeping of Annual Cash Accounts: The next point was the Audit of Accounts, on behalf of Parliament, by the Comptroller and Auditor-General, to ensure that money had been spent in accordance with the appropriations made, and finally the circle returned to Parliament via the House's Committee of Public Accounts and its follow-up enquiry into the criticisms made in the Auditor's

Report".⁶⁹

The activities of verification and review of the transaction on behalf of the National Assembly by the Supreme Audit Bureau shall be explained in the next chapter.

Appendix



Organizational Chart of the Ministry of Public Health in the State of Kuwait

REFERENCES

1. The Government of the State of Kuwait, "The Constitution of the State of Kuwait", Government Publications. The State of Kuwait, 1962, Article Number (50).
2. Ibid, Article (51)
3. Ibid, Article (52)
4. Ibid, Article (56)
5. Ibid, Article (72)
6. Ibid, Article (74)
7. Ibid, Article (88)
8. Ibid, Article (89)
9. Ibid, Article (106)
10. Hassan A. Al-Ebraheem, "Kuwait: A Political Study", Kuwait University. The State of Kuwait 1975 p. 134.
11. The Constitution of the State of Kuwait, Article Number (80).
12. Ibid, Article (86)
13. Ibid, Article (104)
14. Ibid, Article (83)
15. Ibid, Article (83)
16. Ibid, Article (98)
17. Ibid, Article (99)
18. Ibid, Article (100)
19. Ibid, Article (112).
20. The Kuwaiti National Assembly, "Standing Order of the Assembly", Government Publications, The State of Kuwait, 1963. Article Number (147).
21. The Constitution of the State of Kuwait, Article Number (115).

22. Ibid, Article (113)
23. Standing Order of the Assembly, Article Number (119).
24. The Constitution of the State of Kuwait, Article Number (113).
25. Ibid, Article (111)
26. Ibid, Article (79)
27. The Government of the State of Kuwait, "The Amiri Decree-LAW Number One for the Year 1960. Government Publications. The State of Kuwait 1960, Article Number (27).
28. Ibid, Article (28)
29. Ibid, Article (31)
30. The Constitution of the State of Kuwait, Article Number (80).
31. Ibid, Article (123)
32. Ibid, Article (128)
33. Ibid, Article (127)
34. Ibid, Article (102)
35. Ibid, Article (116)
36. Ibid, Article (129)
37. Ibid, Article Number (80).
38. Ibid, Article (130)
39. Standing Order of the Assembly, Article Number (50)
40. Hassan A. Al-Ebraheem, p. 134.
41. Ibid, pp. 134-135.
42. The Government of the State of Kuwait, "The Law Number One for the Year 1962". Government Publications. The State of Kuwait 1962, Article Number (35).
43. "Toward a Better Future for Our Nation", A Similar was presented by Abdul Lateef Al-Hamad and was arranged by the National Union of Kuwait Student, Branch of U.K. and Ireland, London, May 1984.

44. The Amiri Decree-Law Number Thirty-One for the Year 1978, Article Number (8).
45. The Government of the State of Kuwait, "The Amiri Decree-LAW Number One for the Year 1960. Government Publications. The State of Kuwait 1960, Article Number (6).
46. Standing Order of the Assembly, Article Number (50)
47. Ibid, Article (47)
48. Ibid, Article (50)
49. The Constitution of the State of Kuwait, Article Number (141).
50. Ibid, Article (178)
51. The Amiri Decree-Law Number Thirty-One for the Year 1978, Article Number (15).
52. The Constitution of the State of Kuwait, Article Number (134).
53. An Interview with the Budget Expert of the Ministry of Finance, October 1982, State of Kuwait.
54. The Amiri Decree-Law Number Thirty-One for the Year 1978, Article Number (17).
55. Ibid, Article (31)
56. John, C. Fletcher, "A Search of the Elusive Definition of Internal Control". The Internal Auditor, June 1981, p. 40.
57. The Government of the State of Kuwait, "The Amiri Decree-LAW Number Two for the Year 1962. Government Publications, State of Kuwait, Article Number (2 and 3).
58. P. Grady, "The Broader Concept of Internal Control". The Journal of Accountancy, Volume 103, May 1957, p. 41.
59. American Hospital Association, "Internal Control, Internal Auditing and Operational Auditing in Hospitals", 1979, p. 11.
60. G.R. Byrne, "The Independent Auditor and Internal Control". Journal of Accountancy, Volume (103), January 1957, in "Readings in Auditing", by James T. Johnson.
61. John Mosler, "A Report by a Team of the World Bank Visited Kuwait in 1977", Ministry of Planning,

November 1977, State of Kuwait, p. 51.

62. The Undersecretary of the Ministry of Planning, "The Ministry is able to Draw a Comprehensive Plans", AL-QABAS. Tuesday 28/2/1984, p. 2.
63. Hassan A. Al-Ebraheem, p. 26.
64. "Toward a Better Future for Our Nation", Presented by Abdul Lateef Al-Hamad.
65. "Toward a Better Future for Our Nation", Presented by Abdul Lateef Al-Hamad.
66. Supreme Audit Bureau, "The Annual Report of 1974/1975", State of Kuwait, p. 99.
67. Local News: "The National Assembly Starts Its Discussion of the 1982/83 State Budget", AL-SIYASA, Tuesday, June 15, 1982, p. 5.
68. Local News: "The National Assembly Continue Its Discussion of the State Budget for the year 1982/83", AL-SIYASA, Sunday, June 20, 1982, p. 5.
69. Reid, Gordon, "The Politics of Financial Control", Hutchinson University Library, London 1966, p. 58.

CHAPTER THREE

PUBLIC SECTOR AUDITING IN THE STATE OF KUWAIT

CHAPTER THREE

PUBLIC SECTOR AUDITING IN THE STATE OF KUWAIT

Introduction

1. The main role of the Council of Ministers
2. The main role of the Ministry of Petroleum
3. The main role of the Ministry of Planning
4. The main role of the Ministry of Public Works and Kuwait Municipality
5. The main role of the Ministry of Finance
6. The main role of the Civil Service Commission (CSC)
7. The main role of the Central Traders Committee (CTC)
8. The main role of the Department of Legal Advice and Legislation (DOLAAL).

The main role of the National Assembly

Aims and Functions of the Bureau

The main role of the Bureau in respect of revenue and government disbursement

Financial offences

Bureau's auditing policy and technique

Reporting the findings of the Bureau.

Follow-up system

Accountability and audit in the State of Kuwait and the role of the Bureau.

CHAPTER THREE

Public Sector Auditing in The State of Kuwait

Introduction

In this chapter, the researcher intends to continue the discussion of the remaining stages of the budgetary cycle in the State.

In the first chapter the researcher stated the objectives of this research project, one of which is to investigate the historical development of the government auditing system in the State and to explore fully the present state of the auditing system in the Kuwaiti Public Sector for the purpose of indentifying any need to extend the scope of the auditing process to include other types of auditing procedures utilized in the developed countries.

Accordingly, the plan for this chapter shall be as follows:

- (1) To continue the discussion of the current monitoring system in the State with particular interest in the role of the various government units responsible for monitoring government activities.
- (2) To investigate briefly the historical development of the Kuwaiti Auditing Bureau and to explain in depth the present state of affairs.
- (3) Finally, to explain briefly the historical development of the concept of the accountability

relationship between the government and The National Assembly in the Kuwaiti Public Sector and the nature of this relationship at present.

The last stage in the budgetary cycle involves auditing government activities for the purpose of ensuring that the collection of revenue, and the disbursement of appropriated funds accords with the plans approved by the Legislature. Furthermore, the performance of the executive branch of the government is assessed with regard to whether this branch has succeeded in achieving the overall policies and plans of the State, and if not, to establish what obstacles prevented the executive branch from achieving its goals.

In order to complete the last stage of the budgetary cycle the Constitution, in Article Number (149), states that "the final accounts of the Financial Administration of the State for the preceding year shall be submitted, within four months following the end of the said year, to the national Assembly for consideration and approval". In compliance with the above-quoted article the government units prepare their reports and submit them to the Ministry of Finance in accordance with pre-determined guidelines and within the prescribed time allowed by the Ministry of Finance".¹ Consequently, the Finance Ministry prepares the final accounts of the Financial Administration of the State and also prepares his own statement pertaining to this account.

The procedures to be followed for submitting and ratifying the Final Accounts of the State and the

Minister's statement by both the Council of Ministers and the National Assembly are identical to those procedures for approving the proposed State budget with the exception that the options available to the Council and the Assembly are these; either to approve the Final Accounts of the State and the combined statement made by the Finance Minister or merely to reject them with no option of modifying either the Accounts or the Statement.

Auditing systems defined earlier in this research could be categorized according to the type [such as financial and compliance, performance audit, comprehensive audit (value for money audit), efficiency audit, effectiveness audit etc.]. Alternatively, they could be categorized in terms of timing: for example, the audit could be described as a pre-audit if auditing activities commence prior to the commencement of the designated activity, or as a post-audit, if it commences after the activity in question is completed; or, the audit may take place while the activity in question is under way. Furthermore, auditing system could be categorized according to the relationship which exists at the time of conducting the audit, between the organisation or agency responsible for carrying out the audit procedure and the entity which is being audited. This category would include both the internal audit, where both entities, the one conducting the audit and the one being audited, belong to a single organisation, and the external audit, where the entities are under the jurisdiction of two different organisations.

Auditing is only one type of monitoring system existing in the Kuwaiti Public Sector. The above-described systems are carried out by various government units, and these government units are:

- (1) The Council of Ministers
- (2) The Ministry of Petroleum
- (3) The Ministry of Planning
- (4) The Ministry of Public Works and the Kuwait Municipality
- (5) The Ministry of Finance
- (6) The Civil Service Commission (CSC)
- (7) The Central Tenders Committee (CTC)
- (8) The Department of Legal Advice And Legislation (DOLAAL)
- (9) Finally, The National Assembly (NA)

General comments on the Role of the above-listed Government Units:

- (i) The role played by the above-mentioned government units with regard to budget preparation and monitoring of government financial activities during this stage has been fully explained in the previous chapter.
- (ii) The duties of the above-mentioned government units, except the CTC and the DOLAAL, are performed while the government units are carrying out the activities assigned to them.
- (iii) According to the existing regulations, the Ministry of Finance, the Council of Ministers, the CTC and the DOLAAL, may be engaged in monitoring certain

government activities prior to the commencement of said activities.

- (iv) Finally, the Ministry of Finance, the Council of Ministers and the NA monitor the government financial activities when those activities are completed.

(1) The main role of the Council of Ministers:

The Council exercises its power through specialized committees which are composed of Council members. The function of the Finance Committee is closely related to the subject of this research; they are responsible for the financial and economic affairs of the government units.

The role of the Council in monitoring government activities in general and with regard to auditing in particular is covered in a discussion of the roles of the other government units.

(2) The main role of the Ministry of Petroleum:

When the Kuwaiti government acquired all shares in oil companies working within the Kuwaiti territories, the government decided to establish a specialized ministry to be responsible for drawing up policies and plans, and for the supervision and monitoring of the activities in that sectors. This decision was implemented in 1975 by establishing the Ministry of Petroleum, whose functions are:

- (i) The preparation of guidelines and policies to be

followed when supervising, inspecting, and monitoring the activities of the oil companies with the purpose of checking the accuracy of the technical and actual data necessary for the activities of safeguarding this resources.

- (ii) The evaluation of exploitation and development programmes of each individual company.
- (iii) The review and analysis of data pertaining to the petroleum reserves of the State.

The main role of the Ministry is to monitor the performance of the oil companies during the period of execution of their projects in relation to pre-determined goals; and to ensure efficiency and economy in the execution of petroleum projects.

(3) The main role of the Ministry of Planning:

The Ministry was first established in 1955 as an Economic Development Board which was responsible for preparing the long-term economic and construction plans of the government. In 1960 the Board became an independent body attached to the Council of Ministers. However, a Planning Board was established in 1962 to replace the Economic and Development Board. The newly-established board for planning was responsible for the preparation of the long-term budget for the State (five year budget). The long-term budget was prepared not only for the government units but also for all other sectors of the economy in the State.

In 1976 the Planning Board was replaced by the

Ministry of Planning. The current roles of the Ministry are as follows:

- (i) To prepare the long-term plans of the State.
- (ii) To follow up the execution of the construction projects.

This task includes

- (i) the gathering, on a regular basis, of data related to the execution of government plans.
- (ii) classification and analysis of those collected data in order to determine the degree of accuracy in the execution and whether the State's goals have been achieved. fully. Additionally, any deviations from these plans must be identified and analyzed.
- (iii) the keeping of up-to-date records on the progress made in each government project.
- (iv) the determination of real causes of obstacles facing and effecting projects during execution; also the ascertaining of the extent of any complications and possible damage.
- (v) the prescribing of corective action to remedy the situation.

In an interview with the Assistant Undersecretary of the Ministry of Planning, the actual role of the Ministry was explored. The Undersecretary stated that "the role of the Ministry is to monitor, assess and follow up the progress made by each government project or programme. The data needed are collected at regular intervals and are compared with the State's plan but at this stage the Ministry's role is limited to a review and assessment of

the quantities involved in a certain project rather than quality. Furthermore, this role is limited to the construction projects".

The Assistant Undersecretary replied to the question put to him by the researcher concerning the extent of utilization of the data collected and any underlying obstacles which prevent the Ministry from fully exploiting the data. He stated that "the Ministry undertakes not only the responsibility for preparing and monitoring the State's plans but also it is responsible for selecting the consultants for the government, for contracting feasibility studies and for selecting suitable Data Processing Machines needed by the government unit. In short, our role is complex and diversified and because of the huge number of government projects and programmes, the Ministry uses as much of the information supplied as its resources allow".

In Mosler's report (page 67), he comments on the data collected by the Ministry: "Although the current regulations, with regard to the construction projects, require a quarterly report to be submitted to the Ministry of Planning by the undertaker, (whether a government unit or outside contractor), the existing evidence shows directly that those reports are never used by the top government officials at the Ministry and those data have never been utilized in any sort of evaluation of the government programmes or projects for the purpose of assessing the actual accomplishment in terms of long-term plans of the State."

(4) The main role of the Ministry of Public Works and Kuwait Municipality.

The roles played by these two government bodies are complementary to the role played by the Ministry of Planning. These bodies are responsible for determining the technical standards and specifications required by the government concerned for each project, and for monitoring the construction projects of the Government by reviewing and evaluating the progress made in each project. The role of these two bodies is technical in nature: to assess the quality of the task accomplished and to compare the actual results with the intended ones.

The logic behind the roles played by these two bodies finds its origins in those times when these bodies were responsible for undertaking, supervising and inspecting the construction projects of the government; but nowadays every individual government unit supervises its own projects and may seek the assistance of these bodies. However, the possession of modern and specialized laboratories, and well-qualified technicians is another reason for the continuation of the roles of these two government bodies.

(5) The main role of the Ministry of Finance.

In 1978 the Amiri Decree-Law Number (31) for the year was promulgated; Article (33) of the Decree states that "Financial Comptroller and Principal Finance officers shall be appointed at the government departments and ministries" while Article (34) elaborates that "based

on a recommendation of the Finance Minister, the duties and jurisdictional attachment of the financial comptrollers and principle finance officers shall be determined by a resolution to be passed by the Council of Ministers".

The duties of financial comptrollers and the principal financial officers (Public Officials) are as follows:

- (i) To monitor the realization of the approved budget in accordance with the present financial laws and budgetary regulations. This task could be achieved through reviewing documents prior to payment for the purpose of ensuring that those documents are accurate, complete and conforming to existing financial and non-financial guidelines, and to monitor and review journal entries and any subsequent closing entries; furthermore, to review and check the accuracy of the monthly, quarterly and final accounts reports prior to their submission to the Ministry of Finance; and finally, to review the payment orders to ensure that the disbursement of funds does not exceed the appropriated amount for that item of expenditure.
- (ii) To review the present guidelines pertaining to certain types of expenditure to assess their adequacy.
- (iii) To observe and monitor the inventory during and at the end of the fiscal year.
- (iv) To inspect the government warehouses and to assess

their by-laws.

- (v) To clarify and explain new and existing financial regulations and guidelines; and finally to assist the government officials of the unit to reply to the comments received from external sources such as the Audit Bureau.

Since its establishment as a department of Finance in 1938, the Ministry of Finance claims unofficially that these Public officials operate under the auspices of the Ministry of Finance, and are stationed at the various government units to assist the government officials in handling their financial affairs, at the same time, to act as the Ministry's eyes in monitoring the activities of the government unit concerned.

In an interview with the budget expert at the Ministry of Finance he pointed out that in late 1977 and prior to the approval of the current budgetary law the Ministry tried to make official the attachment of these Public Officials but the Ministry was faced with strong objections from all government units, who threatened not to approve the new budgetary laws. The government units' objection was based on their experience with the representative of CSC who was responsible for overseeing and approving all personal orders such as recruiting, promoting, etc. For the time being, the Ministry has dropped its demand with regard to the attachment of the Public Officials.

In June 1979, the Ministry established within the Department of Public Accounts a Controller for Financial

and Accountancy Guidance and Directions to act as an intermediary between the Ministry on the one side and the government unit concerned and their Public Officials on the other. The aim of the Ministry in establishing the controller was to convince the government unit of the role of the Ministry as a coordinator primarily, rather than a controller. The Ministry hoped that this assurance would gradually lessen the objection to the idea of such attached officials.

The information gathered by the researcher in early 1985, shows that the Ministry has been working on a new law with regard to the role and attachment of Public Officials. In short, the role played by the Ministry is limited with regard to the pre-audit, (assuming that those Public Officials are attached to the Ministry) to the financial and compliance audit; otherwise its role is confined to advice and guidance to other government units.

The role of the Ministry of Finance with regard to the post audit is limited to reviewing and verifying the documents and accounts of the Audit Bureau. Consequently the Ministry will notify the Bureau of any comments or offences resulting from such a review in order that they may be submitted to the President of the Bureau initiating the necessary action. These comments and offences are presented in the Annual Report of the Bureau.

(6) The main role of the Civil Service Commission (CSC)

The commission was first established as a section within the Department of Finance but in 1960 an Amiri Decree Law separated the Commission from the Department of Finance. In 1963 the Commission became an independent body attached to the Council of Ministers.

The function of the Commission is described in Article (2) of the Article Amiri Decree Law Number (10) for the year 1960 which stated, among other things that:

- (i) The Commission shall recommend regulation and by-laws with regard to the personnel orders in the public sector.
- (ii) The Commission shall comment and express its opinion on the proposed plans and policies in this regard.
- (iii) The Commission shall oversee the execution of the regulations, by-laws and guidelines in the area of the personnel matters of the government.
- (iv) The Commission shall interpret those regulations, by-laws and guidelines pertaining to the personnel matters of the government.
- (v) Finally, the Commission shall review and check all personnel orders with regard to jobs and matters pertaining to the public servant (such as, extra payments or promotion ... etc.) and to comment on them.

The Amiri Decree Law Number (64) for the year 1976 was promulgated to alter Article (8) of the above-mentioned Decree Law. The new Decree-Law states

that "the Commission shall submit an annual report to the Minister of the State for the Legal and Administration Affairs. The Commission shall explain in its report at its observations and comments with regard to personnel matters of the State.

It is quite clear that the Law gives the Commission the upper hand in personnel matters and determines not only that it be responsible for proposing guidelines but also for monitoring the compliance and adherence to those guidelines. To fulfill the Commission's task the government units are asked prior to appointing any individual at the public office that they seek the approval of the Commission in the first place; this applies also in the case of promoting public employees.

In the past the representative of the Commission used to monitor the personnel matters of the government units where they were stationed but nowadays all personnel orders must be referred to the main office of the Commission and handled by the Commission itself.

The past experience of the researcher shows that a member of staff could rarely be recruited or promoted without the prior consent of the Commission. In short the Commission plays an effective role in monitoring the personnel orders but because of the lack of performance indicators and standards the Commission has never succeeded in measuring the performance of public-employees. Consequently, the Commission failed to compare the actual performance with pre-determined standards.

(7) The main role of the Central Tenders Committee (CTC)

In August 1964, Law Number (37) for that year was promulgated with regard to setting up the Central Tenders Committee (CTC). Before the formulation of the Committee the government units used to contract, purchase and initiate commitments directly without requiring permission or prior approval of an external authority, but with the promulgation of the above-mentioned law the government departments and ministries are prohibited from importing or commissioning contracts to carry out work of the unit except by means of public tender through the CTC. As an exception to this rule the government departments and ministries could independently import or commission works, directly or by means of tender which are not subject to the control of the CTC if the total amount involved does not exceed 1000 K.D.; in 1977 this amount was modified by Law number (81) of that year to an upper limit of 5000 K.D.

Law Number 37), in article one, specifies the role and the attachment of the CTC as following: "A Public tenders Committee shall be set up with a title 'Central Tenders Committee' and shall be attached to the Council of Minsters. This Committee shall receive and decide on public tender and shall award such tenders to the most suitable tenderer".

(8) The main role of the Department of Legal Advice and Legislation

After the State of Kuwait had become an independent State, the ambitious development programmes of the government led to rapid expansion and diversification of various government activities. This required the government to establish new relations with private individuals and companies through contract deals. There was a lack of the necessary knowledge and experience in handling these contracts. It was therefore important to analyse them for the purpose of determining the consequences of signing and executing these contracts. Secondly, it was important to advise the government unit concerned of foreseeable problems resulting from the signing of such contracts. In a case where a dispute is raised the Department shall represent the government in handling these disputes.

The Department was established according to Amiri Decree-Law Number (12) for the year 1960. Article five of the said law frames the role to be played by the Department: "The Department shall review all contract which are signed, or will be signed, by the government units with companies, contractors and individuals. The department shall be obliged to express an opinion on foreseeable problems or matters which might result from the execution of these contracts. Furthermore, the Law forbids the government departments, authorities and entities to sign or accept any contract, resolution, or agreement in any matter where the financial involvement

of the government is in excess of 75,000 K.D. without prior consultation with the Department.

(9) The main role of the National Assembly.

In the State of Kuwait, the Legislative branch of the government monitors the financial activities of the government which have direct or indirect effect on the State's revenue and expenditure.

The role of Assembly in monitoring government activities by exercising its power over legislation, or laws such as the budgetary Acts, was fully explained in the previous chapter, where the researcher described an alternative method of monitoring government activities exercised by the Assembly through one of its specialized committees.

A third means by which the Assembly could monitor the government's financial activities would involve delegating some of its powers to an agency or department independent of the executive branch of the government. Such an agency would be immune and protected from the menace of intimidation and/or punishment which would be imposed on the department or agency by the executive branch of the government, article (151) of the Constitution states that "A financial control and audit commission shall be established by a law, which shall ensure its independence. The Commission shall be attached to the National Assembly and shall assist the government and the National Assembly controlling the collection of the State revenues and the disbursement of its

expenditures within the limits of the budget". In implementation of the above-mentioned article, on the 7th of July, 1964, Law Number (30) for that year was promulgated. In its first article it states that "there shall be established an independent commission for financial control which shall be called 'The Audit Bureau' and shall be attached to the National Assembly". prior to the promulgation of Law Number (30), especially during the period of absolute rule by the Amir the tasks of auditing and monitoring the financial activities of the State used to be controlled by the ruler himself for two reasons; firstly because of the type of relationship which used to exist between the ruler and the staff employed by the State. This relationship could be described as a close and personal relationship. Secondly, the State used to play a limited role in upholding the laws and protecting the country from hostile powers.

In 1938 the financial affairs of the State were separated from the ruler's affairs and the State's services began to expand, including services other than policing and protecting the country, such as health and education. This led the Legislative Assembly to establish the Department of Finance in order to oversee the State's financial activities. On the Twenty-second of July, 1954, the State Executive Committee decided to establish the Public Audit Bureau to control the accounts of the government departments and to coordinate the financial tasks of those departments. in october 1954 the government invited an Egyptian Financial Expert to

prepare the needed studies for establishing the Public Audit Bureau and to help implement some basis for a financial system which was to include not only the State budgetary system but also all necessary forms, records and reports. In April 1955 the Financial Expert submitted his report to the ruler. Consequently in late 1955 the Head of Finance Department issued a departmental memorandum suggesting that a third department to be established, and called the Audit Bureau, alongside the existing Financial and Administrative departments forming the main body of the Finance Department. The Audit Bureau was attached to the Head of the Finance Department but was considered an independent department within the Department of Finance.

The financial expert was the first president of the Bureau, which was composed of two controllerships: one for monitoring revenue and the other for monitoring expenditure. A controller was, of course, assigned to each controllership. In addition to the two controllerships the Bureau had a general secretary to handle the archives.

The Bureau functioned until November 11th. 1962, when the Constitution was promulgated. Later in 1964 the Bureau was established in accordance with the above-mentioned law.

Law Number (30) is composed of eighty-nine articles which are spread over five chapters. In general, the first chapter is composed of these articles which deal with the establishment, aims and organisation of the

Audit Bureau. The second chapter deals with authorities subject to the control of the Bureau, the duties of the Bureau and the means whereby they exercise them. The third chapter describes the regulations concerning the staff of the Bureau, and procedures for appointing the president of the Bureau.

In the fourth chapter, the law-makers define financial offences and disciplinary actions in respect therefore. Furthermore, the chapter describes the procedures for disciplining the staff of the government unit held responsible for financial offences, lays down the constitution of the tribunal competent to try disciplinary cases arising out of financial offences, and delineates the penalties that may be imposed. The last chapter of the law covers some general provisions. These chapters shall be discussed in detail.

Aims and functions of the Bureau:

The aim of the Bureau, as specified in Article (2) of the law of its establishment, is "to realize effective control over public funds", where Article (1) of the law Number (30) for the year 1964 states "there shall be established an independent commission for financial control ..." while Article (151) of the Constitution not only specifies the type of control expected to be exerted by the Audit Bureau but also determines the area and activities to be subject to these controls, Article (151) states that "A financial control and audit commission ... shall assist the government and the National Assembly in

controlling the collection of the State revenues and the disbursement of its expenditures within the limits of the budget".

Article (2) of the Law Number (30) for the year 1964 states that the Bureau shall exercise "the function vested in it in accordance with, and in the manner laid down by this law". The law concerning the establishment of the Bureau devoted twenty-one entire articles to deal with and explain the functions of the Bureau. Article (5) specifies the authorities subject to the control of the Bureau: "The Audit Bureau shall assume its prerogatives with regard to the following authorities:

- I. Units performing the administrative organ of the State, such as Ministries, Departments and Public organisations.
- II. The Municipalities and all other local bodies which are public, legal entities.
- III. Public commissions, organisations, bodies, and establishments attached to the State, or affiliated to the municipalities or other local bodies, which are public, legal entities.
- IV. finally, companies or establishments in which the State or any other public, legal entity holds a share of not less than 50% of their capital or guarantees them a minimum profits.

The Bureau exercise control over the collection of State revenue and expenditure. However, this control is exercised through the procedures of evaluating, examining, checking and inspecting the documents, books,

registers, payment vouchers, public receipts, dues, and entitlements in order to ensure that financial dispositions, accounting entries and accounts restrictions concerning public receipts and expenditures are performed in a proper and regular manner in accordance with the provisions of the financial and accountancy by-laws, and the general rules of the Budget.

The role of the Bureau in respect of revenue includes:

- (a) To ascertain that the administrative systems entrusted with collection have in fact collected and deposited the state's revenue and dues in the Public Treasuries and entered them according to their items in their respective accounts.
- (b) To verify that the provisions of the financial laws, budgetary regulations and circulars are applied effectively and to draw attention to any deficiencies it may observe in them so that they may be rectified.
- (c) To ascertain that the administrative by-laws and regulations are being applied and to examine such by-laws and regulations in order to ascertain their adequacy for the control of the basis of various taxes, fees and charges and to ensure their collection in accordance with the laws.

The Bureau shall, in particular, verify the following matters:

- (i) That vouchers or other documents showing receipt of.

public revenues and entitlements have been examined by competent officials and that the sums shown therein have been paid over to the Public Treasuries and properly recorded in the books of account.

- (ii) That statements submitted by the various State organisations showing the amounts of public revenue and entitlements which have been collected, in addition to those that remain to be collected, are all that the state is entitled to in accordance with the laws, decrees, by-laws and orders, and that every effort has been made to collect those in arrears.
- (iii) That there has been no exemption from any tax, fee or charges in cases other than those laid down in the laws or without the approval of the competent authority.
- (iv) That the collection of taxes, fees and charges has been carried out in accordance with the laws.

Furthermore, the role of the Bureau in respect of government disbursement includes:

- (i) That the expenditure have been made, in accordance with the budget allocations and that disbursements have been in accordance with the financial laws, by-laws and circulars.
- (ii) That the documents submitted in support of disbursements are collected and the amounts paid in accordance with them correspond with the figured entered in the account books.

In this regard the Bureau shall, in particular, verify the following matters:

- (i) That the amounts disbursed against each items of the Budget correspond with the figures contained in the documents, that the respective payment orders have been correctly issued by the competent authorities in accordance with the law that they are accompanied by the required authorization and the valid documents and receipts, and that they have been charged against the respective chapter and item in the Budget.
- ii) That the allocations made for each chapter or item of the Budget have not exceeded except with the prior permission of the competent authority.
- (iii) That the amount disbursed as charges against the allocations made for development projects have been disbursed in the manner for which the allocations were earmarked and that no work without original allocation in the Budget has commenced before an additional allocation has been made.
- (iv) The validity of the reasons for not disbursing all or part of the allocations earmarked in the Budget for development projects, and for the surplus from the allocation earmarked for a certain work not being appropriated in order to exceed the allocation for another work in such a way as to lead to the increase of the final costs of that work over the allocation earmarked for it in the

Budget, without the permission of the authority which has the right to authorise additional expenditure.

- (v) That no commitment has been made by any Department in such a way as to lead to exceeding the allocated item in its Budget, even though the disbursement has not actually been incurred.
- (vi) That no posts are filled which have been granted in a personnel capacity [or whose cancellation or change has been decided when they first become vacant].
- (vii) The correct implementation of the provision of the laws in respect of the Budget.

Furthermore, the Bureau examines and checks the decrees and orders concerning the affairs of the personnel in the authorities referred to in paragraphs I, II and III of article (5), with regard to the validity of appointments, promotions, grant of increments settlements, allowances, additional salaries, travel allowances, transport expenses, and the like. In addition, the Bureau examines and audits the accounts of pension funds, bonuses and payments of benefits and social insurance, subsidies, social security and aid payments.

The purpose of such examination and inspections of the decrees, orders, and accounts is to verify their validity and conformity with the rules of the budget and other financial provisions, laws, by-laws and orders there-under. In compliance with the provisions of the law and to enable the Bureau to perform its role thoroughly

with regard to personnel orders and pension accounts, article (12) of law Number (30) for the year 1964 states that "the bodies referred to in the first three paragraphs of Article (5) of this [that] law shall submit to the Bureau, all their orders concerning appointment of staff, employees and workmen, their promotions, grant of increments, and the like, and orders concerning pensions and service benefits and the like, provided that the orders concerning pensions, service benefits and the like, shall be submitted within a period not exceeding ten days from the date of their issue, and the other orders within a period not exceeding thirty days. Consequently, the Bureau notifies the authority concerned of its comments, sufficiently before the lapse of the period specified for withdrawal or challenge; as a result the authority concerned acts immediately on the comments of the Bureau.

The Bureau is empowered by law to investigate the state of the State's stores and warehouses which include the inspection of the materials entrusted to, and operations concerning the public stores and warehouses, and their various branches, and to examine and check their books, registers, and the supply and dispensation documents. Furthermore, the Bureau is empowered to verify the safe keeping of various kinds of materials, the correctness of the accounts entries pertaining to them, and to investigate reasons for any damage or accumulation of materials, and to propose an appropriate solution thereto.

The Bureau shall ascertain the adequacy and sound application of the by-laws and regulations laid down for the stores and warehouses and draw to the attention of the authority concerned any deficiencies that the Bureau finds, in order to remedy such deficiencies. If the Bureau suspects the existence of malpractice in any of the public stores, warehouses, or treasuries, it may ask the authority concerned to take an immediate inventory, which the authority must carry out in the presence of a competent inspectors from the Bureau who may witness, but may not take part in the inventory check.

With regard to advances and loans granted by the State, or any establishment or body which is a public, legal entity, as well as such advances and loans granted thereto, the role of the Bureau (with regard to the former case) is to check the accounts pertaining to these advances and loans in order to verify that the principal, interest and supplement any sums are paid to the public treasury in accordance with the terms of the contract granting them. The role of the Bureau in the latter case is to verify that the State or the borrowing public body has paid back the capital, interest and supplement any sums on the day on which those accounts are due.

The Bureau, too, examines and verifies all settlement accounts in respect of material held in safekeeping, imprests, and current accounts to verify their figures as entered in the account books and to ensure that they are supported by legal documents. In addition, the Bureau uncovers cases of embezzlement,

negligence, and financial violations, and investigates their underlying causes, the system contributed to them, and suggests some practical measures to remedy the situation.

The Bureau has the right to examine the administrative, financial and accountancy by-laws in order to ascertain the adequacy thereof, and to suggest some means to avoid deficiencies in the law. Furthermore the Bureau may examine the ways in which the State's funds are invested, check the accounts of such investments and make any comment it deems necessary in this regard.

The Bureau is empowered to examine and verify the accounts of every company or establishment in which the State or any other public, legal entity holds not less than 50% share in its capital or guarantees it minimum profit. The same rules are applied to those companies which are licensed to utilize or manage any of the public utilities or which are granted a concession to utilize any of the natural resources in the State. With regard to the "share" companies which are subject to the Bureau's control, the Bureau checks the reports of their auditors and those of their boards of directors. The examination and verification of the accounts of the above-mentioned companies and establishments are carried out in accordance with the procedures and conditions adopted by such companies and establishments in the preparation of their accounts according to the nature of their business activities and within the limits of the provisions, by-laws and orders regulating their operations.

The Bureau examines and checks every account or other task which the National Assembly or the Council of Ministers entrust to it for examination and checking. In this function the role of the Bureau in assisting both the National Assembly and the Council of Ministers is clear.

Article (7) of Law Number (30) for the year 1964 states that the Bureau shall embody two different types of control, "before and after expenditure" while Articles (13 and 14) of the same law determine the role of the Bureau in monitoring activities through a precautionary control system. "Supply and public works tender, where the value of each is in excess of twenty thousand dinars (this has been increased by Decree-law Number (4) for the year 1977 to "one hundred thousand dinars"), are subject to the Bureau's prior controls." In this case the controls exerted by the Bureau may include verification that the allocation in the Budget allows commitment or contraction and that all necessary, prerequisite procedures have been observed, in accordance with the relevant established financial rules and regulations. Similar rules are applied to every proposed commitment, agreement, or contract the conclusion of which will entail financial rights for, or obligations against, the State or other public legal entities, where the value of such a commitment, agreement or contract is in excess of one hundred thousand dinars (this was formerly twenty thousand dinars but was increased as a result of Decree-law Number (4) for year 1977).

The Bureau has the right to examine and verify the final accounts at the financial year-end for State, and for each of the public bodies and establishments whose budgets are regulated by laws. In order to enable the Bureau to function in this area Article (4) of Decree-law Number (31) for the year 1978 makes it compulsory for the government units to submit a copy of their monthly and quarterly statements as well a copy of their final accounts. Furthermore, the Ministry of Finance sends a copy of the final account of the financial administration of the State.

The Bureau verifies the secret expenditures allocated in the budget for each Ministry. The Bureau verifies the operating, trading, and profit and loss accounts, and the General Budget, with regard to the State's administrative systems and their branches, the public bodies and establishments, and all other public, legal entities and their facilities, which engage in commercial or industrial activity. With regard to the secret expenditures, it is sufficient for the Minister concerned to sign a declaration, every three months, containing a statement of the amount disbursed during such period from the secret expenditures allocated in the budget for the Ministry and a certificate to the effect that the amount was spent within the limits of the allocation established and for the purposes to which they were allocated. With regard to the latter case the Bureau's checks are carried out in accordance with the accounting procedures and practice followed in commercial

an industrial operations.

Finally, the Bureau monitors the execution of government construction projects within their allocations in the Budget and shall ascertain whether their execution has achieved the results and objects for which the allocations and expenditure were made.

The technical staff of the Bureau are those who hold high qualifications in law or in commerce, or the equivalent, from a university recognized by the authority concerned in Kuwait, they perform the Bureau's functions through the means of inspection, examination, verification and surprise inspections. Those verifications and examinations are to be carried out at the office of the Bureau or that of the authorities where the registers, books, accounts, supporting documents and other papers are available. The Bureau may verify or examine any non-financial document, register, circulars or other papers that it deems necessary and essential for the exercise of its prerogative in the most thorough and appropriate manner. Furthermore, the Bureau may communicate directly with Heads, Controllers, Directors, Auditors of accounts, or whoever acts for them in the authorities and organisations which are subject to its financial control.

Financial Offences

According to Article (52) of law Number (30) for the year 1964 the following are listed as financial offences:

- (1) Contravention of the financial rules and provisions

laid down in the Constitution.

- (2) Contravention of the General Budget, or the budgets appended thereto or independent therefrom, and of the budgets of those bodies that are subjects to the control of the Audit Bureau, for which a civil servant is assigned to control or supervise them.
- (3) Contravention of the law of the Rules governing the drawing up of the General Budget, the Control over its execution and the final accounts.
- (4) Contravention of the provisions of the Tenders law and its by-laws, or of the by-laws of (Government) stores and purchases, and, in general, of the financial accounting and store rules, provisions, regulations, and circulars.
- (5) Failure to supply the Bureau with tender documents and proposed commitments, agreements and contracts which are subject to prior financial control, without justification.
- (6) Failure to supply the Bureau with the accounts and supporting documents on the predesignated dates, or failure to supply the requested papers and documents, or any other evidence necessary for the Bureau to perform its task in the most efficient manner, and which the Bureau has the right to examine, verify or request in accordance with the law.
- (7) Failure to reply to the Bureau's comments or correspondence in general, or delay in replying without justification. It is considered a failure

to reply if the object of a reply is procrastination.

- (8) Any wrongful act, negligence or omission which results, or could result in the spending of money from public funds without lawful right; or which results in the loss of, or in an adverse effect on, a financial right or interest of the State or of any other public, legal entity or body which is subject to the control of the Audit Bureau.
- (9) Delay without justification in notifying the Bureau within a period not exceeding fifteen days of the action taken by the administrative authority concerned in respect of the contraventions of which it is notified by the Bureau, or failure without an acceptable excuse to take the necessary actions in this regard.

In general, any attitude or act without justification that may hinder the Bureau in exercising its functions of financial control in the best manner is considered a financial offence.

Bureau's auditing policy and technique:

In the course of the collection of government revenue and disbursement of the approved funds, as has been mentioned earlier, the Bureau carries out post- and pre-audits. Law Number (30) permits the Bureau to carry out these activities "at the office of the Bureau or that of the authorities where the registers, books, accounts, their supporting documents and other papers are

available". Furthermore, as a result of interviewing some officials of the Bureau the researcher has found that the Bureau's policy is to assign five auditors to each ministry for the purpose of executing the Bureau's duties; these auditors are stationed at the Ministries. the auditors' assignment is to check, review and examine documents and books pertaining to certain chapter(s), which are assigned individually, i.e. in the Ministry of Public Health one auditor is assigned to review the first chapter of the expenditure side "wages and salaries", another auditor is assigned to review the second chapter of the Budget "goods and services" while the third reviews the expenditure dealing with transportation and equipment, as well as the chapter concerning construction projects and land acquisitions. The fourth auditor reviews the accounts pertaining to the chapter on general expenditure and transferred payments and finally, the fifth auditor reviews the Ministry's revenue accounts. Furthermore, the researcher learned from the interview that the Bureau's review, checks and examinations are carried out on a continuous basis during the financial year and these reviews, checks and examinations of documents of the Ministry are "one hundred percent", which means that the auditor assigned to review a certain type of accounts has to check, review and examine every single document and record of the Ministry. In some exceptional instances, out of extreme necessity or for considerations dictated by th public interest, the President of the Bureau may reduce the percentage of

checking required in respect of one or more types of documents pertaining to the authorities which are subject to the Bureau's control, whether for a single type of document or for the whole system, provided that the reduction of checking may not under any condition be reduced to less than 50% with respect to any type of documents belonging to the authority concerned.

The decision to reduce the percentage requires that the President of the Bureau issue an order in which he determines the type of documents and names the authorities to whom the reduction may apply. Such an order is considered strictly confidential, so that the authorities never find out the purport of such a decision.

When the prevailing circumstances, necessitating the reduction in the examination alter, the checking, reviewing and examination reverts to its original level of one hundred percent.

From the researcher's own observations it is apparent that on average, every Ministry assigns, three to four accountants with the responsibility of handling the activities pertaining to each chapter of their budgets, and based on interviews with some of the technical staff of the Bureau (auditors), the researcher found that most of the interviewed auditors, are not happy and satisfied with the present working conditions; especially since the work load of each auditor is so huge that he must work the whole day without a break if he wishes to match the work performed by the Ministry's accountants. In order to

overcome this obstacle the auditors suggested that the Bureau should decide either to reduce the percentage of work required by the Bureau, or alternatively, to increase the number of auditors working for the Bureau to meet the present and any future demands.

The researcher believes it is neither practical nor fair to assign one auditor to review and check the whole task of (100% review of documents) which has been performed by at least three different individuals. The consequences of such demands on the auditing force is that the auditors, under the pressure of a huge work load, may sacrifice the quality of their work, by not paying enough attention to each document, or by failing to evaluate thoroughly the books or their internal control system.

Although the performance of every individual auditor in the Bureau is equivalent to the performance of three accountants in the ministries, the salaries of the former are slightly higher than those earned by an accountant working for the Ministry; this not only discourages the auditors from performing a good job but also affects their morale which could result in some hitherto unknown consequences.

Reporting the findings of the Bureau:

The Bureau prepares different types of reports for the purpose of informing and satisfying the needs of those people who are concerned with the government's financial activities; reports prepared by the Bureau

include:

- (1) Regular reports
 - (a) Concerning the post-audit duties of the Bureau.
 - (b) pertaining to the pre-audit tasks of the Bureau.
 - (c) Other reports.
- (2) Special reports
- (3) Report pertaining to the state-owned companies and public enterprises, and
- (4) Annual reports.

Regular reports:

The first type of reports presented by the Bureau to the authority concerned arises out of the Bureau's role in exercising its post-audit function to review, check and examine the government disbursement and collection activities. The authorities concerned are informed, of the Bureau's findings, prior to the preparation of their final accounts.

The second type of regular report shows the findings of the Bureau which were discovered as a result of exercising the Bureau's prerogative to review, check and examine prior to any engagement (contracts or commitments which may entail financial rights for, or obligations against the government), where the value of such contracts or commitments is in excess of one hundred thousand Kuwaiti Dinars. This type of report is presented to the authorities concerned within one week of receiving the necessary information and documents by the Bureau from the authority concerned.

The third type of regular report is that which is prepared and submitted by the President of the Bureau during the year concerning matters which, in his opinion, are of such importance and seriousness that they should be promptly considered.

Special Reports:

The constitution of the State states that the Bureau "shall assist the Government and the National Assembly ". The means by which the Bureau could assist the government and the National Assembly is through examining, checking and reviewing every account or other task which the government or the National Assembly entrusts to the Bureau for examination and checking, and by reporting its finding to the authorities concerned.

Report pertaining to the state-owned companies and public enterprises:

The Bureau prepares reports which present the Bureau's comments, observations and the results of its inspections, examinations and checks of the operating, trading, profit and loss accounts, financial statements and balance sheets; the external auditors' report for these entities; and the board of directors' of the above-mentioned entities and public bodies which are subject to the Bureau's financial control.

Annual report:

In accordance with the Constitution, the Bureau

prepares and submits to the authorities concerned an annual report on its activities and its observations. Article twenty-two of law Number (30) for the year 1964 specifies that the above-mentioned report is prepared by the President of the Bureau and is concerned with the final accounts of the financial year ended for each of the government authorities whose budgets are regulated by laws, setting forth the comments and differences which may occur between the Bureau and the authorities subject to the Bureau's financial control.

According to the Bureau's officials, "the Bureau follows a moderate procedure for presenting its financial findings through adopting a technique of presenting a number of diverse issues rather than concentrating solely on a single financial issue concerning one function of the Bureau's activities; for example; the report not only describes the financial violations or offences committed by government units or any dispute that may arise between the Bureau and any of the government units, but also offers the Bureau's suggestions concerning certain deficiencies or obstacles facing the existing financial laws or budgetary regulations or by-laws. Furthermore, the Bureau's policy is not to present complete lists of the financial offences but rather some examples of the financial offences discovered during the year".

The policy of the Bureau to present some examples of the financial violations and irregularities discovered by the Bureau could be considered a logical and practical policy with regard to the minor violations. Where the

violations are considered to be major offences and involve large sums of money, the Bureau should present the complete list of the offences discovered and the effects of those offences on government activities for the purpose of allowing the readers of the Bureau's report, (such as the decision-makers), a complete picture of the situation in order that these readers may assess and comprehend the real financial situations of the government, and foresee the consequences of the present situation regarding government operations and activities.

Follow-up System:

The role of the KAB in checking on its findings is broadly shown in articles 31, 32, 33 and 52 of law number 30 for the year 1964. According to this law, the Bureau is required to notify the government unit within which financial offences were found of the findings of its inspection. Thereafter, the said government unit is obligated to reply to the Bureau's comments within a specific period, which is determined according to the nature of the offence committed, but generally speaking does not exceed one month from the date of such notification.

The Bureau reports its comments and proposes a course of action deemed necessary to remedy the situation. However, the government unit concerned does not always agree to accept the Bureau's finding or its corrective action, which could lead to a dispute between the Bureau and the respective government unit. Where such

a dispute arises the Bureau is required by law to refer the whole matter to the council of Ministers for a decision. This decision is final and binding on both the Bureau and the government unit.

This follow-up system is carried out during the normal course of audit work during any financial year but the Bureau's annual report to the National Assembly is followed-up differently. On receipt of the Bureau's annual report, the National Assembly refers it to the Finance and Economy Committee for consideration. The Committee studies these reports with special reference to irregularities and offences discovered during the normal course, of the audit and submits its comments to the Assembly with a request that the final accounts of the state and the annual audit report on these accounts be endorsed.

Unfortunately neither the National Assembly nor the government pays proper attention to this report. The researcher asked an under-secretary at two different ministries in Kuwait about the benefit and uses of the annual audit report. It transpires that these reports are consulted only when Ministries are indoubt about the interpretation of a law or an action, to find out whether the intended action is considered an offence or not. If it is, then the Bureau's reactions and how the situation was settled are considered. Looking back at the Bureau's reports, since its establishment in 1964, very often the same offences are repeated in different government units, and they are also repeated year after year in the same

government unit. Furthermore the reports do not mention if any offences have been referred to the Council of Ministers for proper course of action.

The media and press play no role in presenting the facts in the annual audit reports because these are classified as highly confidential. Consequently, these reports cannot be used for accountability purposes by the general public because it is not easy to get access to them.

Accountability and audit in the State of Kuwait and the role of the KAB:

The audit reports prepared by the KAB are intended to inform the recipient of existing conditions in the government units and in particular of their financial administrative system. Consequently these reports could be used for accountability purposes. The importance of the audit report in strengthening the accountability relationship mechanism, is outlined by Mortimer A. Dittenhofer:

"Accountability and audit are so inextricably wound together that without one there generally cannot be the other. Audit normally is not effective unless someone or some organisation is accountable for resources of some sort. On the other hand, accountability cannot be fully discharged without an affirmation that the report of the discharge of accountability are credible." ¹

How effective the KAB's audit report is in strengthening the accountability mechanism in the state of Kuwait shall be the main subject for the remaining

part of this section. The researcher will quote some examples which could assist in assessing the KAB's role and its reporting system.

(A) Feedback on the effectiveness of government planning:

Kuwait University and the Kuwait International Airport are two examples of poor planning. The government did not pay enough attention to the expectations of demand in the future when these two projects were started. Consequently another airport was built to replace the older one but in order to cope with demand, both airports are still in use at the present time. The Kuwaiti government is about to announce its approval of a project for a second University. The KAB's report failed to give the decision-makers any feedback which could have helped them determine whether these projects would be capable of meeting demand.

(B) Assessing the effectiveness of government objectives:

For the purpose of reducing rent costs, and to make it easier for the public to complete their business with the government, the Kuwaiti government decided in the early eighties, to establish a complex which would house all government offices (ministries and departments). In the fiscal year 1983/84, the government ministries and departments started to move to their new location and then was it realised that the new facilities would be inadequate to house all its offices. The new complex does not have enough parking space for staff cars, let alone

for those of the public who may visit these ministries to finish their business. Furthermore, the location of the complex, in the centre of Kuwait city, is likely to add to the considerable problems caused by heavy traffic. Again in this case, the KAB's report failed to warn the decision-makers of the likelihood of failure to achieve the government objectives.

(C) The KAB's report failed to identify waste and areas of inefficiency in the government activities and operations. The misuse of government cars and photocopier machines are just two very common examples of such waste. Without going into details, the following areas have emerged where the KAB's reports have failed:

- (1) In helping government units, or different divisions within one government unit, to co-ordinate their efforts (Mubarak AL-KABEER Hospital is well equipped with advanced apparata but the Ministry of Public Health has no specialist to operate these new machines).
- (2) In assisting the decision-makers to select the most appropriate alternative from those available.
- (3) In measuring and reporting on the performance of public servants.

However, as has been mentioned in chapter two, the KAB's report has succeeded in reporting financial irregularities and cases of non-compliance with laws and regulations. It can be said that the KAB's audit report cover up more than they reveal. The President of the

Bureau recently commented on the government's policy of renting accommodation for its staff in the Kuwaiti newspapers. He said that the Bureau is fully aware of the fact that the government is paying rent for empty accommodation, but the Bureau's responsibility, in accordance with Law No. 30 for 1964, is only confined to checking that the rents paid by the government accord with the budgetary regulations and that such rent does not exceed the amount appropriated by the budget for this purpose.

It is clear that under Law No. 30 for 1964 the KAB's role, and its reports in particular, does not serve the accountability relationship, except in the financial type, and even in this case the Bureau's reports are not fully exploited. Consequently the KAB is not alone to blame for failure to assist decision-makers in circumstances like those mentioned above, as both the National Assembly and the current audit act, Law No. 30 for 1964, share the blame, being the two main contributors to the ineffectiveness of the KAB, as shall be shown in the next section.

Law No. 30 and the performance of operational auditing by the KAB:

The present audit act does not directly empower the KAB to investigate government activities other than financial ones, however a careful review of the audit act reveals that if certain articles are broadly interpreted, the KAB could perform this type of audit.

Under a liberal reading of the second paragraph of Article No. (22) KAB could, through self initiation, start performing operational auditing review on limited exercises. The Article states,

"The President of the Bureau may submit other reports during the year on matters which in his opinion are of such importance and seriousness that they should be promptly considered" (emphasis has been added by the researcher).

Similarly, the KAB could conduct operational auditing investigations as a response to requests made by either the government or the National Assembly. The first paragraph of Article No. (25) of the present audit act states that

"The Bureau shall examine and check every account or other work which the National Assembly or the council of Ministers entrusts to it for examination and checking".

There is an urgent need for the amending or promulgation of a new audit act to enable the KAB to perform operational auditing review on a regular basis, and until such promulgation or amendment takes place the KAB's role will be confined to the financial and regularity audit.

The National Assembly's role as contributor to the ineffectiveness of the Bureau can be seen in the lack of attention paid to the KAB's reports, whose discussion, in the Assembly, never lasts for more than half an hour per session. This treatment adversely affects the morale of the KAB's staff and consequently does not encourage them to pay full attention to their duties. On the other hand, according to Simon McInnes, such behaviour on behalf of

the National Assembly could result in very bad consequences which could have more affects on the effectiveness of the Legislative assembly's activities than on the Bureau itself. McInnes states that,

"The audit function does depend on an equal but conjoint role of PPAC [Provincial Public Accounts Committee] and PAG [Provincial Auditor General]. While it may be possible for a strong auditor general to do his or her job without an equally strong Public Accounts Committee (though it will not be easy), it is almost impossible for the committee to do a good job if the auditor is ineffectual or non-existent".²

This is the situation in the financial monitoring and auditing systems in the State of Kuwait. In order to find out what changes need to be made in the present systems, the researcher plans to review the theoretical background to operational auditing in the next chapter, which will be followed by practical experiance of some of the selected western developed countries.

REFERENCES

1. Dittenhofer, Mortimer A. "Accountability in Government", The internal Auditor, September/October 1974, p. 67.
2. McInnes, Simon. "Public Auditing in the Province", CA Magazine, December 1976, p. 35.

CHAPTER FOUR

THEORETICAL BACKGROUND TO OPERATIONAL AUDITING

CHAPTER FOUR

THEORETICAL BACKGROUND TO OPERATIONAL AUDITING

Current Practice In Auditing Non-Financial Activities

Audit Objectives

Exploring Different Terminologies

Reasons for Selecting Operational Auditing as the
Title For This Thesis

Different Terminologies

Main Components of the Audit Terminologies

The General Guideline of Operational Auditing Review

First Stage

Familiarization
Survey
Planning

Second Stage

In-depth Operational Audit Investigation
Reporting the Findings
Follow-up The Operational Audit Findings

CHAPTER FOUR

THEORETICAL BACKGROUND TO OPERATIONAL AUDITING

Current Practice in Auditing Non-financial Activities:

In the previous two chapters the researcher described and assessed the financial systems of the Kuwaiti government, as a typical example of a mixed developed and underdeveloped country [see Chapter One].

As has been mentioned in Chapter One, one of the objectives of this research project is to review different terminologies used to describe this type of audit and ascertain the nature of any relationship there may be among them. In order to achieve this objective the researcher will review the published and unpublished internal literature of audit institutions in the selected developed countries.

The main objective of this chapter is to gain an understanding of theoretical basis underlying the audit of non-financial activities, by investigations under the following main sections.

- (1) Identifying the objectives of auditing of non-financial activities.
- (2) Exploring the different terminologies used by practitioners as well academics to describe this type of audit, and thereafter adopting one terminology to be used in this research project.
- (3) Examining the main components of the adopted audit terminology.
- (4) Identifying ways in which the main components of the

adopted terminology are interrelated, and then concluding the chapter by explaining the general guidelines on procedures followed in performing the auditing of non-financial activities.

Audit Objectives

The objective of any audit examination not only varies with the scope of the audit but also depends on the statutory rights and duties of the auditors involved. From operational auditing [OA] perspectives, the audit review of government activities is mainly directed to one or more of the following objectives:

1 - Promoting effectiveness:

Operational auditing ensures that the agency's objectives are consistent with the objectives of the organisation as a whole, and that the agency's stated objectives are its actual objectives. By doing this, OA not only raises the awareness of the agency's management but also provides ideas for making its activities more effective. According to Berggren, "The ultimate goal of the audit is to promote effectiveness in public administration".¹

2 - Promoting economy and efficiency

Another objective of OA investigation is to check that government activities are carried out in an economic and efficient manner and to determine "where the lack of economy, efficiency and effectiveness exists and to recommend some practical solutions".²

3 - Strengthening the Accountability relationship

The major activities of any financial or other type

of audit, in either the public or private sector, are mainly concerned with collecting and analysing factual information so as to form opinions on the activities or performance of the agencies audited, and to report back to the audit recipients. In the public sector, these reports are an important source of information for decision-makers. In addition, the audit reports "serve as a basis for questioning those responsible and establishing future priorities and direction of activities".³ These reports assist the decision-makers i.e. parliament, government and the management of the audited agency by providing "information and recommendations that can lead to better internal and public accountability".⁴

4 - Focusing attention and dissemination of new ideas:

The auditor's competence and knowledge gives the audited organisation an opportunity to discuss any problems with him, while his access to top management allows him to bring up those problems or activities which are not receiving sufficient attention. Furthermore, the auditor's experience with other organisations helps the auditor to spread new ideas among the agencies that are reviewed.

5 - Stimulating improvements:

Operational auditing can be directed towards identifying major deficiencies in management systems and control practices. Having identified the deficiencies the OA assesses the consequences and root causes, and recommends corrective measures designed to help stimulate

improvements in operations and to obtain better value for money in the future.

6 - Cutting costs and increasing savings:

The auditor performing an OA review may come across areas where waste and inefficiency are apparent. It is his duty to identify those areas and to recommend that the management puts a halt to the inefficient and uneconomic activities and completely eliminates the ineffective ones. Where the auditor's recommendations are implemented, costs may be reduced and savings achieved, but this should not be the main aim of his investigations. This should not be used as a means to justify his fees or to convince management of the usefulness of this type of audit, as this tends to have negative consequences on the practice of OA by putting the audited agencies and their staffs on the defensive.

7 - Clean bill of health

It should not be expected that every OA review will lead to improved operations, reduced costs and substantial savings. An OA investigation based on an unbiased assessment of evidence gathered by the auditor may reveal that the systems and activities audited are perfectly sound, functioning in accordance with the predetermined plans and having no significant discrepancies between the plans and actions. Under these circumstances the auditor issues a clean bill of health where he "gives assurance that operational objectives are valid, that operational control information is reliable, and that operational activities

are effective and efficient".⁵

This type of audit report could stimulate new investment and encourage management to take more rapid, punctual and consistent decisions which indirectly could lead to an increase in revenues and to cuts in costs.

8 - Availability of appropriate systems

According to E & AD the purpose of value for money audit is

"to seek by regular examination, to ensure that management has systems for achieving VFM and for providing information on performance".⁶

9 - An assessment of training needs and status of apparatus:

According to Sayle, the auditing of non-financial activities "produces an unbiased assessment of each individual's training needs and each individual's effectiveness at his or her job",⁷ he adds that this type of audit also "assists in obtaining an unbiased assessment of the status of equipment....".⁸

10 - programme or project review

Operational auditing investigations could be directed to assess the whole activity of any given management programme or project. The US General Accounting Office identifies three objectives for the programme results review, and these are:

- "- assessing the adequacy of management's system for measuring effectiveness
- determining whether a program satisfactorily achieves a desired level of program results.
- identifying causes that inhibit satisfactory performance".⁹

In short, the objective of OA, therefore, is to

review and investigate government programmes and the performance of government agencies; to identify, explain and show the consequences of failure in government systems (including non-financial systems); and to recommend the action necessary to remedy the situations and stimulate improvements.

Terminology and General Guideline

The expanded scope of audit into non-financial activities has led practitioners and academics to introduce many new terms. Operational auditing is one of them.

Operational auditing has been chosen as the title of this research project because it is probably the oldest term used in the auditing of non-financial activities and one would expect therefore to find extensive literature on this topic. In addition, various terms have been employed by the auditing institutions of the selected developed western countries, such as value for money [VFM] in the UK, comprehensive auditing in Canada and effectiveness audit in Sweden. These terms inevitably have connotations and associations related to the country involved. Therefore, by using the term operational auditing, the researcher hopes to avoid associating this project with existing systems in particular countries.

Currently, a multiplicity of terms exist to describe the task of auditing non-financial activities and one wonders whether these terms, themselves promote or hinder progress in the field. The following are examples of the most common terms used in the literature.

Operational auditing, or as it is sometimes called, operation audit or operational controls reviews, has been defined by Allan S. Dayton in his article "Operational auditing answers questions beyond the scope of the financial report". He writes that

"operational auditing is a systematic examination of records and other sources of information conducted by competent, independent authorities for the purpose of obtaining evidence to support an evaluation and judgement concerning five matters: adequacy and reliability of information in the control system; the effectiveness of programs to accomplish their intended objectives; the efficiency of operations; the faithfulness of administrators and operating personnel in adhering to prescribed rules and policies and in complying with legislative directives, and the fairness of financial statements in performance reports issued by managers with the intent of disclosing present conditions or past results".¹⁰

Some writers define operational auditing as an extension of internal auditing. E.R.Evans states that "Operational auditing is basically nothing more than the application of internal auditing to an operational rather than a financial area".¹¹ In contrast Jong T.Choi considers operational auditing as a new control technique "Operational auditing is a comparatively new control technique which provides the internal auditor with a method of evaluating the effectiveness of operating procedures and internal controls".¹² These two definitions may mislead the reader to conclude that operational auditing [OA] cannot be applied to a section within a business or an activity within government department or Ministry. William P.Leonard in his book "Management Auditing", describes OA as:

"a comprehensive and constructive examination of the organization structure of a company, institution or branch of government, or of any component thereof, such as division or department and plans objectives, its means of operation and its use of human and physical facilities".¹³

The scope of, and activities covered by, OA are matters for debate. For example, Leo Herbert states that "Operational auditing has been more concerned with the economy and efficiency of management's operations than with the effectiveness of the programs management has been carrying out".¹⁴ While Choi considers "evaluating the effectiveness of operating procedures and internal controls"¹⁵ to be within the scope of OA. Furthermore, F.E.Mints considers business activities, without any conditions or restrictions, to be within the scope of OA, he sees

"Operational auditing as an analytical survey of a business activity, to determine and inform management whether that activity is being performed in such a way as to comply with management's policies and ensure that management's objectives will be met".¹⁶

An appropriate conclusion to this debate may be, to quote Arron Schneider's opinion, that "The most important thing to appreciate is that there is no such thing as an operational audit. It is a question of approach and scope".¹⁷ The idea is echoed in the Institute of Internal Auditors' definition of OA "as characterized by the approach and the state of mind of the auditor - not by distinctive methods".¹⁸

The researcher intends to define various terms briefly and to determine, at the end of this section, whether there is any similarity among them. One of these

terms is "management audit" which is defined by the British Institute of Management as

"a systematic, comprehensive, critical appraisal of the organisation structure, management practices and methods conducted normally by external independent persons its primary objective is to motivate management to take action which will lead to increased efficiency and profitability of the organisation".¹⁹

In addition, J.Santocki defines management audit as

"an objective, independent, informed and constructive appraisal of the effectiveness of managers or team of managers, in achieving company objectives and policies which will identify existing and potential weaknesses and strengths in all functions and operations within an organisation and recommend solutions".²⁰

Another term used is "Performance auditing". Lennis M.Kington defines performance auditing as "a positive and forceful program designed to build rather than destroy, to strengthen rather than to criticize, and to assist rather than hinder",²¹ furthermore, he recognises the scope to be very broad and that the performance audit

"includes an examination of the degree of faithfulness with which administrators have adhered to prescribed rules and policies, a review of operational procedures, policies, and practices to determine where improvements in efficiency can be made, and an evaluation of the reliability of information contained in financial and performance reports.....".²²

Value for money audit [VFM audit] is a term adopted not only by the UK National Audit Office but also by the Institutions in charge of auditing local government authorities in England, Scotland and Wales.

J.J.Glynn defines the VFM audit as "a blend of both conventional auditing and management consulting"²³ while Rowan Jones and Maurice Pendlebury, in their book "Public

Sector Accounting", define the term according to its components "The phrase 'value for money' is used to refer to economy efficiency and effectiveness".²⁴ Their definition combines at least two types of audit [Economy and Efficiency audit and Effectiveness audit], terms which have been defined in a Green Paper on the Role of the Comptroller and Auditor General [Cmnd 7845] as follows:

"Economy and Effectiveness Audit:

An examination of economy and efficiency, to bring to light examples of wasteful, extravagant or unrewarding expenditure, failure to maximize receipts or financial arrangements detrimental to the Exchequer, and weaknesses leading to them.

Effectiveness Audit:

An examination to assess whether programmes or projects undertaken to meet established policy goals or objectives have met these aims".²⁵ "Comprehensive auditing" is the term introduced and fostered by the US General Accounting Office [GAO] in auditing the federal government agencies. The GAO's standards for the Audit of Governmental Organizations, Programs, activities and functions identifies three basic components of the comprehensive audit. These are:

"(1) Financial and Compliance -
determines (a) whether financial operations are properly conducted, (b) whether the financial reports of an audited entity are presented fairly, and, (c) whether the entity has complied with applicable laws and regulations.

(2) Economy and Efficiency -
determines whether the entity is managing or

utilizing its resources [personnel, property, space and so forth] in an economical and efficient manner and the causes of any inefficiencies or uneconomical practices, including inadequacies in management information systems, administrative procedures, or organizational structure.

- (3) Program results - determines whether the desired results or benefits are being achieved. Whether the objectives established by the legislature or other authorizing body are being met, and whether the agency has considered alternatives which might yield desired results at a lower cost".²⁶

The term "Comprehensive auditing" is also used by the Office of the Auditor General of Canada.

It would appear, at first sight, that these terms pertain to different operations. Can any degree of synonymy, however, be established? If the answer is negative, then how are these differences to be reconciled?

In fact, a high degree of synonymy does exist among these terms. To illustrate, Ellsworth Morse uses performance auditing as an alternative to operational auditing.

"The terms performance auditing or operational auditing are usually used to establish a distinction between auditing of accounting and related records for the purpose of expressing opinion on financial statements and auditing which examines the operating, managerial or administrative performance beyond that required of the audit of the accounts".²⁷

In addition, Alfred Cancellieri and Darry Enstrom see management auditing as synonymous with operational auditing "operational controls review is our [their] term for what is commonly referred to as "'operational' or 'management' auditing".²⁸ John Smike makes a distinction

between operational audit and management audit, holding that operation audit applies to the entity's operating systems rather than the management systems.²⁹ Furthermore, he includes both terms, along with financial auditing, under the umbrella of comprehensive auditing "comprehensive auditing is an integration of the various elements of management, operational and traditional auditing".³⁰ Flint, in his article "Economy, Efficiency and Effectiveness - the 'value-for-money'" expresses the opinion that operational auditing should be treated as equal to the comprehensive and the value for money audits while in the US term, operational auditing is equal to "economy and efficiency audit" and the "Program results" combined together".³¹

Hopwood uses management audit as an alternative term for value for money. "There have been some calls for what have been called in the public sector 'management' audits or 'value-for-money' audits".³² While Sir Douglas Henley uses efficiency audit as an alternative term, again for value-for-money audit" the public audit services of most advanced countries set out to provide a financial audit of accounts and an efficiency or value-for-money audit of activities....".³³ Cyril Tomkins writes that "Comprehensive auditing is an expanded concept of governmental audit responsibility that has been advocated under a variety of different names. Alternative names are operational, performance, full accountability and management auditing".³⁴

In summing up, the researcher believes that the

above-mentioned terms are nothing more than optional names for the same process of differentiating the auditing of financial activities from those which extend beyond; but which also include financial and compliance aspects. However, misunderstanding may arise. "Unfortunately, such labels as performance auditing, operational auditing and financial auditing can cause confusion. The boundaries between them even on a conceptual basis, are not sharp and clear".³⁵ Without control or monitoring in this field any writer may add to the problem by introducing his own term. In this regard Lawrence Swayer, tired of the existing terms, has decided "to toss the term management auditing into my [His] personal wastebasket, along with the terms operational auditing, performance auditing, functional auditing, comprehensive auditing and the like".³⁶ Swayer then indicates that he is more comfortable with the term "Modern Internal Auditing" which he defines as "doing what the company President would do if he had the time and if he knew how".³⁷

For the purpose of this research all terms previously mentioned shall be understood as alternatives to each other. Furthermore, the chosen term OA shall cover all aspects of operational auditing including "Economy, Efficiency and Effectiveness" [3Es].

What do the 3Es stand for?

Peat, Marwick, Mitchell & Co. in their one-day seminar and in association with the Royal Institute of Public Administration define the 3Es as follows:

"Economy = doing things for low cost.

Efficiency = doing things right.

Effectiveness = doing the right things."³⁸

but this definition does not tell the whole story. Perhaps the best way to approach this question is to consider each "E" separately before describing any aspects they may possibly share.

Firstly, Economy:

Sir Douglas Henley defines economy as "... the achievement of a given result with the least expenditure of money, manpower or other resources".³⁹ This definition, along with that of Peat, Marwick, Mitchell & Co., quoted above, is a very concise definition which pre-suppose that many related issues have been solved. These issues concern the policy and objectives of the organisation and they consequently set the standard by which the activities of the organisation are measured in order to determine the degree of success. Furthermore, both definitions, and many others, presume that all the activities of the organisation could be easily measured for this purpose.

Economy should be discussed and understood in the context of long-term planning "from the Operational auditing point of view, economy should be a long-term consideration. Operations can be effective and efficient but uneconomical in the long run".⁴⁰

Secondly, Efficiency:

According to Rowan Jones and Maurice Pendlebury efficiency "is the most important and all-embracing of

the three [Efficiency, Economy, and Effectiveness]".⁴¹ The term is defined more comprehensively by Sir Douglas Henley, who describes efficiency as a matter of "..... converting resources into a desired product in the most advantageous ratios".⁴² Some writers define efficiency as a ratio of outputs to inputs. According to Rowan Jones and Maurice Pendlebury "The greater the ratio the more efficient the organisation is".⁴³ Since efficiency is defined in terms of ratios, the improving efficiency may be achieved in various different ways dictated by policy decisions. According to Les Metcalfe and Sue Richards,

"Policy choices are involved in deciding whether to seek improvements by reducing resource inputs, by improving resource utilisation and hence outputs, or even by investing greater resources now in order to create conditions for substantially improved efficiency in the future".⁴⁴

Again, in their article "Raynerism and Efficiency in Government", Les Metcalfe and Sue Richards detail the inadequacy of defining efficiency as a ratio. They state that

"this restricted concept implies a purely instrumental definition of efficiency, concerned with means but not ends Defining efficiency as the ratio of outputs to inputs presupposes the resolution of policy issues and the definition of a framework of policy aims and objectives".⁴⁵

Furthermore, Cyril Tomkins directed attention to the fact that "one must be able to measure outputs in fairly tangible form, otherwise one simply cannot tell whether alternative input mixes actually achieve the same output".⁴⁶ In addition, defining efficiency as a ratio

might mislead some to limit their efforts to those measurable factors. As Mitzberg points out,

"efficiency gets a bad name because practitioners clutch at readily available indicators and efficiency comes to mean measurable efficiency. The only things that count are things that can be counted".⁴⁷

The danger is compounded when the quantification process is premature. In this respect Mitzberg identifies three major ways in which premature quantification distorts efforts to improve efficiency.

"First, cost are more easily measured than benefits, and the pursuit of efficiency reduces to a search for economies. Second, economic costs are more easily quantified than social costs which are treated as externalities. Third, on the output side, proximit short-term results are more amenable to measure, and performance criteria are distorted by giving them too much weight".⁴⁸

In a way for distinguishing efficiency from productivity, the Auditor General of Canada suggests that efficiency should not be considered as an absolute figure but should be related to some predetermined standards:

"- Productivity is the arithmetical ratio between the amount of goods or services produced and the amount of resources used in the course of production - the ratio between output and input. - Efficiency is the relationship of actual output/input [productivity] to a performance standard. This relationship is usually expressed as a percentage".⁴⁹

Examples of predetermined standards include the Previous Year's figures, Planned figures for the current year and the published figures by the government for the industry. For further details on the available standards, "Performance Measurement, A Guide for Local Elected Officials" Published by the Urban Institute in Cooperation with the National League of cities and

National Association of counties should be consulted.

Finally, James Crockett sees the role of auditor with regard to efficiency issues to be one limited by the fact that "if an aspect of the auditee's [organisation's] operation appears to be inefficient, auditors analyze the operation to identify specific inefficiencies and then develop recommendations to correct them".⁵⁰

Thirdly, Effectiveness

"Evaluating the effectiveness of programs in meeting public sector objectives is an essential component of state and local government management".⁵¹ A United Nations Publication entitled "Public Auditing techniques for Performance Improvement" defines effectiveness as "The extent to which programme or project meets its predetermined objectives in accordance with acceptable standards of quality and cost".⁵² According to Rowan Jones and Maurice Pendlebury effectiveness "is concerned only with outputs".⁵³ While James Crockett adds that effectiveness reviews of the auditee's operations are "the starting point for an operational audit".⁵⁴ Consequently, operational auditing should not stop when the effectiveness of a programme or project has been measured, but should continue to pursue the other "2Es" in order to avoid a partial evaluation based solely on effectiveness. "The most important thing to note, however, is that the degree of effectiveness says nothing about how much was spent to achieve it".⁵⁵ Effectiveness is the most controversial of the three terms, the first "2Es" are common terms and well understood by both

writers and practitioners. Both groups agree that the auditor must review and assess the government activities for the purpose of determining the degree of success in achieving the first "2Es". However, measuring effectiveness is the most difficult area in an operation audit assignment. It provokes controversy when any government considers empowering its audit institution to undertake an OA. The UK case is a very recent one where the government and the House of Commons through the Public Accounts Committee spent most of their time discussing "Policy issues". The key issues behind the difficulty in measuring effectiveness are:

Firstly, assuming that all government programmes and projects have a stated objective, "The analysis of effectiveness as part of performance auditing [our term is operational auditing] may lead to questioning the validity of the original objectives"⁵⁶ which may lead to a misunderstanding by others that the auditor is trying to "second guess" the decision taken by the elected officials.

Secondly, in real life it is rare to find a government programme or project with a single objective "Rarely do major programmes and projects have but one objective the identification and sorting out of the multiple objectives and the analysis of their priority status, complementarity or irreconcilability become an integral part of the performance audit"⁵⁷ and can consume a high percentage of the resources available for the audit purposes.

Thirdly, government programmes or projects are commonly either without stated objectives or their objectives are stated in ambiguous terms "of course it is rare for a public sector programme to have a simple and clear cut objective"⁵⁸ so it is difficult, if not impossible, to measure any progress made by a government in achieving effectiveness.

Fourthly, investigating the effectiveness of an organisation or an activity can involve another difficulty related to measuring performance and results - that of the lack of an appropriate yardstick "unfortunately, for many services measures that do capture the level of service provided are notoriously difficult to obtain".⁵⁹

Finally, auditor's competence is another point which the government officials and programme managers raise against the adoption of OA. As a result of the above-mentioned arguments some writers and practitioners suggest that auditors should not get involved in effectiveness issues. "He [VFM auditor] is not in the business to study policy options, nor to write academic studies".⁶⁰ Another writer states that the "Auditors should not be involved in or comment on policy making and this will include setting objectives".⁶¹ This opinion is not restricted to individual writers and practitioners but also held by some audit institutions including that embodied by the Australian Auditor General. He is empowered to review the efficiency and economy of government programmes and projects, while the reviewing

of the effectiveness of those programmes is the duty of the Office of the Prime Minister and Cabinet.⁶² This probably led Sir Douglas Henley to present his formidable list of activities in which the auditor should not get involved.

- "(a) to question whether the goals which the policy decisions are meant to serve have been established;
- (b) to examine whether managements have themselves established adequate procedures to assess the effectiveness of their policies;
- (d)[sic] to quantify the cost of the decisions taken;
- (e) to report on whether the goals have in fact been achieved,
- (f) to suggest alternative ways in which the goals might have been more effectively met".⁶³

On the other hand, some writers and practitioners are in favour of the auditor's right to review and assess the effectiveness of an organisation or an activity. For example, James Crockett states that when he discovers that the government objective has not been met the auditor must analyze the situation, identify specific causes, and develop recommendations to correct problems identified.⁶⁴ The US GAO not only entitles its auditors to examine the policy issues (and consequently to question the objectives of the Federal Government organisations and programmes) but also empowers auditors to determine the intended objectives of government programmes through examining government documents and interviewing government officials. The Key reasons behind these beliefs are as follows:

- (1) Henry Butt and Bob Palmer both argue that

"In today's social and economic climate it is necessary for politicians [and administrators] to have timely and accurate performance measurement of output to ensure that programmes are not only economic and efficient but effective as well".⁶⁵

- (2) Usually government programmes and projects start in a small way and are allowed to grow into a large organisation without a review of this type. These programmes may operate even where their priority has been over taken by other needs. The United Nations publication "Public Auditing Techniques for Performance Improvement", gives another reason for undertaking such evaluation in government programmes and that is that "..... there may be a wide gulf between the official objectives and the operational objectives that may not be apparent to policy-makers".⁶⁶ This type of situation may well exist but this does not mean that government officials are wasting government resources. As Peat, Marwick, Mitchell & Co. say

"A social welfare activity may be failing to achieve its pre-set qualified objective, but it could nonetheless be meeting sincerely-felt local needs and fulfilling some policy obligation of the authority member in power".⁶⁷

The researcher believes that the elected officials and public at large, i.e rate-payers and tax-payers, should be fully informed of this fact for the purpose of enabling this group of people to hold the government officials accountable for their deeds. Furthermore, the selection of ideas for policy review should be organised and the source of

prompting such ideas, the main sources are:

- "(a) by elected members;
- (b) in response to pressure from the general public;
- (c) by the officers, arising from the following circumstances:-
 - (i) where additional resources may be required to make up past deficiencies,
 - (ii) where present policies were adopted without extensive analysis of alternatives and these now appear to be worth studying;
 - (iii) where present policies have remained unchanged for a long period,
 - (iv) where there is a change of government policy;
 - (v) where there is a surplus of resources e.g. unused or underused facilities;
 - (vi) where there are demographic changes e.g. falling pupils numbers, rising number of over 70's." ⁶⁸

Furthermore, in New Zealand two more reasons help the auditor to initiate VFM review, these reasons are:

"When the auditor:

- (a) wishes to confirm initial suspicions on any efficiency in management system, or
 - (b) wishes to consider the internal controls in operation that purport to demonstrate the level of effectiveness and/or efficiency of expenditure programmes or resource use" ⁶⁹
- (3) John Smike in his article "Management, Operational and Comprehensive auditing" states another reason for having the auditor review the policy and objective issues. He advises the auditor to check and see whether the organization's

"objectives are not congruent with the total organization or if the auditee's formally stated objectives are not its real

objectives, their finding must be spelled out in the audit report".⁷⁰

(4) A programme evaluator in general and the auditor in particular assesses and reviews with the intention of determining whether a government programme or project is achieving its objectives and he considers both the programme's positive and negative impacts. As a consequence the policy-makers are able to determine whether the programme should be continued as is, expanded, modified, reduced or eliminated.⁷¹ On the other hand "programme managers often need to demonstrate their program's overall effectiveness to funders and other groups who have a stake in the (organization)".⁷²

(5) In the Australian State of victoria a recent discussion paper, Review of the Audit Act 1958, argues in favour of reviewing effectiveness:

"..... it may be argued that:

- Permanent heads have significant 'Policy' responsibilities in term of being responsible for many decisions concerning the choice of particular programmes or strategies, quite apart from their important role as policy advisers to ministers;
- in any case it is quite appropriate for policy decisions made by ministers to be publicly reviewed;
- such objectives do not necessarily involve questioning Government objectives, only the methods chosen to achieved them, and
- in determing its view on the effectiveness of Government programmes Parliament should use independent evaluations such as those of the Auditor General".⁷³

This discussion paper continues (on page 37), to

state that ".... efficiency and effectiveness are not really different concepts, but are concerned with evaluation at different levels of responsibilities"⁷⁴ To clarify this statement the paper goes on to say that

"Generally, efficiency can be seen as measuring the effectiveness of lower level management's objectives and effectiveness with top management's objectives. This is what is meant by the common statement that effectiveness is concerned with policy issues and efficiency with issues of administration. Efficiency measurement takes the policy objectives as given".⁷⁵

The researcher concludes from this that if the auditor restricts his examination to the performance of the staff and administrator from the efficiency and effectiveness point of view he does an injustice to the administrator, who, as a member of staff, is merely the recipient of orders from top management. In addition, if the auditor concentrates on issues of efficiency and economy he may duplicate the work of some specialized internal units which may exist for the purpose of measuring the "2Es".

From the above-mentioned arguments, it would seem that the question of whether or not to permit the public auditor to review and assess the effectiveness of government organisation or programmes would be easily answered. A question of whether to allow him to carry on the effectiveness review or alternatively keep him away from this area.

In between the two extreme opinions another emerges whose philosophy is centered around the previously quoted

point number (3) in the discussion paper from Victoria State. It is worth reiterating here that "such objectives do not necessarily involve questioning Government objectives, only the methods chosen to achieve them"⁷⁶ (the emphasis has been added by the researcher).

Within this group the researcher found that:

- (a) Some see the auditor's role as one of comparing the actual with the ideal. Taking this analogy into account, the Chief Inspector for Audit [Local Authorities] said in 1981 that

"It is the function of testing data or a situation which exists with that which might be expected to exist. If the auditor compares the effects of a policy with the declared intentions, he is not questioning policy but rather monitoring the results. This enables the auditor to remain independent".⁷⁷

- (b) On the other hand, some see the decision to evaluate goals and objectives as one that should be left to the individual auditor to decide. They say

"the problem lies in the precise definition of policy objectives. They are often not cohesive or compatible with each other

Many different views are held and decisions are political rather than audit If goals are established for certain activities then it is proper for the auditor to test the effectiveness of the policy and action taken. If goals are not stated then the general VFM test to apply is by cost comparisons."⁷⁸

Their justifications are that "it is not the job of auditors to formulate political judgements or prescribe policy-making procedures".⁷⁹

At this stage it is too early for the researcher to decide with which of the three opinions he feels most in accord.

In the next section the researcher shall discuss the ways in which the "3Es" are connected.

Firstly; efficiency and economy are related as both concentrate on the inputs to any programme. However, the relationship can be one of complement or of conflict. Sir Douglas Henley states that "what is more efficient is also more economical, it would be surprising if it were not. And it is hardly economical to be less efficient than you might be."⁸⁰ This could be said to mean that both indicators work in the same direction and consequently when one of these indicators is used, the direction of the other could be easily predicted. This, however need not always be correct. The following example illustrates the point that the researcher is making. Two hospitals, (A) and (B), have two separate purchasing departments. Hospital (A) purchases food at the right price and quantities. This exhibits a high degree of economy, but if most of the purchased food is wasted during the handling and processing stages, hospital (A) functions inefficiently. On the other hand, hospital (B) purchases its food supplies at high prices and in inappropriate quantities, exhibiting a low level of economy. However, if the food is carefully handled and processed, hospital (B) could be said to be highly efficient in this respect. As mentioned earlier, improving and achieving economy should be a long term concern of government officials.

Secondly; effectiveness and economy are also related but need not always be so. Economy may be in conflict

with effectiveness when performing activities at a low cost means not doing the right thing [effectiveness]. For example, a university's bookshop could purchase a book at very low cost. However, if this book is not required by students it will not sell. The bookshop has satisfied its objective of economy, yet has failed to achieve effectiveness in providing students with the right book and in selling its stock.

Deciding to pursue economy or effectiveness depends on each individual case, but in some cases the pursuit of effectiveness is more important than that of achieving economy. In the case of a hospital, the necessary drugs, emergency facilities and the like, should take precedence over cutting costs.

Thirdly, effectiveness and efficiency.

J. Cutt states that "efficiency and effectiveness are clearly related but need not always coincide efficiency may be either complementary to, or in conflict with effectiveness".⁸¹ Two factors contribute to a state where efficiency may be in conflict with effectiveness. These factors are "(1) whether the programme is in a sensitive area; (2) the expectations of all those involved in either the provision or receipt of the service".⁸² Again, in a case of conflict the choice of which one to pursue depends on the results of assessing each case individually. The discussion Paper from the state of Victoria states that "..... efficiency and effectiveness are not really different concepts It also follows that it is quite possible for an

organization to efficiently carry out ineffective tasks."⁸³ Furthermore, Henry Butt and Bob Palmer state that "Efficiency is clearly important but for some programmes effectiveness is the paramount consideration".⁸⁴ Earlier in this section it was suggested that reviewing for the purpose of assessing one, or even two components of the three, may not necessarily enable the decision-makers or auditor to thoroughly understand and diagnose the organisation's shortcomings. It is recommended, therefore, that all three components be investigated, but not necessarily performed by the same individual or examined simultaneously.

This leads to an examination of the procedures or techniques involved in reviewing the "3Es" in any government department or organisation.

The published literature giving general guidelines to be followed by government auditors mainly reflects American Philosophy and techniques. These are, to some extent, similar to those followed by the government auditors and audit institutions around the world.

The American Philosophy differs from that of the UK and Commonwealth Countries in two ways.

The first, is related to the methods applied in reviewing the achievement of stated government policies and objectives.

The second, relates to measurement criteria and the methods of assessing government performance.

The following general guideline is a summary of extensive reading in this field. The researcher depended

on four sources for its development:

- (1) "Value for Money Auditing Manual, the investigation of Economy, Efficiency and Effectiveness in Local Government", prepared by Price WaterHouse, Published by Gee & Co. [Publisher] Ltd. 1983.
- (2) The US GAO publications, received directly from the GAO.
- (3) "Modelling the Operational Audit" an article written by James R. Crockett, and
- (4) "Operational Auditing, Readings from the Internal Auditors.

This summary can be divided into two complementary stages. To a large extent, the outcome of the first stage determines the degree of comprehensiveness of the second stage; the main auditing operation.

The first stage could be considered as a preliminary stage where the auditor collects evidence in order to understand the organisation and to formulate a better audit plan.

Planning in general, is an important issue for the successful completion of any task, but as a technique preceding the OA review of government organisation it plays a Key role. The planning process is central to the whole field of activities of OA "an auditor with no plan is like a train without tracks."⁸⁵ Furthermore, "so complex are performance audits and so heavy are they in their demands on staff time and capacity that they cannot be left to ad hoc scheduling as the experience of many countries suggests".⁸⁶ Planning the audit activities

"will save the auditor from meandering without direction and objective" ⁸⁷ which consequently could lead to a substantial reduction in time and resources consumed by the audit activities.

The preliminary stage, or as the UN Handbook on "Public Auditing Techniques for Performance Improvement" calls it "Pre-Project Studies", includes:

A - Familiarization.

The purpose of this step is to acquaint the auditor with the necessary information with regard to the organisation's activities, functions, organisational structure, staff composition, objectives and policies, authorisation procedures along with control systems and procedures, resources needed and used and all legislation and regulations governing the organisation's activities.

B - Survey:

Based on the auditor's understanding and analyses of the data previously collected he starts to interview the operating management. In addition, he reviews reports and the output of the organisation's monitoring systems and observes the operations and activities of the organisation. The outcome of this step should be a determining of specific problem areas, sensitive activities and operations which are crucial to the success of the audited organisation "when the survey is completed, auditors should have pinpointed specific aspects of the auditee's operation for indepth audit analysis".⁸⁸

The auditor is advised to hold meetings with the top

and middle management for the following reasons:

- (1) To keep the officials informed of his work and progress.
- (2) To discuss his findings, and later to agree on:
 - (i) activities and issues for an in-depth investigation.
 - (ii) measurement methods and criteria which could be used in assessing performance.
 - (iii) The means for communicating future findings and the ways of solving any future obstacle.
- (3) To ensure the necessary support from both top and middle managements.

C. Planning:

The auditor plans the various steps of the second phase of the in-depth audit, the review of the selected activities of the audited organisation. The plan should be comprehensive and should, include human as well non-human resources, such as time and available technology. To illustrate, auditors at Peat Warwick are advised to consider the following factors when planning for the year:

- "- advice and guidance from the Audit Commission.
- Wishes and preference of members and officers,
- Findings from previous audits.
- Statistical indicators or trends causing concern".⁸⁹

Having completed the plan, the second stage of the operational audit examination [main auditing operation] commences. This phase includes an in-depth review of activities and issues disclosed by the previous phase as being potential sources for audit findings. This type of

review requires applying audit techniques for collecting evidence and perform a comprehensive analysis of that evidence. J.S.R. Venables and K.W. Impey suggest a list of the key areas which the operational auditor should include in his examinations. They state that "VFM examination should include as many as possible of the following points:

- (1) Identifying the Key policy objectives;
- (2) Establishing that the organisation structure is appropriate;
- (3) Establishing that line managers fully understand and implement policy as defined as intended by senior management;
- (4) Validating performance indicators [i.e. cost per patient per bed per week];
- (5) Examining the activities of each section of the organisation as a measure against the objectives adopted;
- (6) Ensuring that the information reaching the decision-makers is reliable and adequate for all options to be reasonably appraised".⁹⁰

Again, it was suggested in the literature that the auditor having completed this stage, should seek a meeting with the operating management before submitting his final report on his findings. The purpose of such a meeting is to discuss his findings with the manager concerned and to seek his opinion and comment. It is probable that differences in opinion concerning the observations and recommendations could occur. In order to promote a good relationship any differences or misunderstandings should be clarified. This should not lead the auditor to compromise his position nor to sacrifice his finding for the sake of a good

relationship. The auditor is neither in business to make friends nor enemies, but should behave prudently. After discussion, the auditor formulates his report, to be submitted to the top officials.

The reporting stage is a crucial step in the conducting of an operational audit. The entire process of operational audit depends on how carefully the audit findings are presented, how soundly they are supported by facts and how clear and self-explanatory the report is. The timing of the report and language in which the report is written are two additional factors which contribute to the successful completion of the audit. J.J.Glynn suggests that "VFM reports should be fairly detailed, with individual sections that refer to the responsibilities of particular line managers together with an overall summary for senior officials, elected representatives etc".⁹¹ Furthermore, Paragraph (808) of the New Zealand Office Manual States that the VFM audit reports should:

- "(i) disclose the policies under which the entity operates those activities which are subject to audit;
- (ii) give an opinion as to whether [and to what degree] funds under the control of the entity are being administered in a manner which is consistent with identified policies;
- (iii) give an opinion on the adequacy of systems [if any] in operation for assessing relative effectiveness and/or efficiency;
- (iv) give an opinion if possible as to whether funds under the control of the entity are being considered in a manner which results in the effective and/or efficient use of resources;

- (v) identify the areas where improvements in organizational systems and procedures could result in a more effective or efficient use of resources;
- (vi) identify the area where improvement in data collection and reporting processes could lead to better performance measures".⁹²

J.J.Glynn sees the VFM audit report as serving two purposes;

- "(a) to provide Parliament, government and the public with an independent analysis which can serve as a basis for questioning those responsible and establishing future priorities and direction of activities.
- (b) to provide decision-makers in the activity examined with ideas on how they could promote effectiveness." ⁹³

For a successful audit which could lead to a full implementation of the auditor's report, paragraph (808) of the New Zealand Audit Office Manual advises that

"Reports should be at two levels:

- (i) a synopsis report to the elective body in such manner that information disclosed therein will be publicly reported;
- (ii) a detailed report to appropriate levels of management indicating the specific improvements which could be made to administrative and organizational systems, controls and procedures".⁹⁴

Many writers, including J.J.Glynn, suggest that proposing any VFM project for an audit should be considered in terms of the cost effectiveness of the VFM. Otherwise carrying out the audit itself would not be financially feasible. This means that the audit itself should give value for money. The benefits and return received on investment [resources needed for the audit task] must exceed the associated total costs of the audit project itself.

The researcher believes the audit task should not be solely evaluated in monetary terms, such as the amount of reduction of total costs. It should be remembered that VFM as well as the OA will not necessarily always lead to savings. What is certain is that this type of audit will either prove the efficacy of the organisation's performance or lead to its improvement.

Hatherly sees accountability to be a justification for carrying VFM projects. He says that VFM audit should not be associated merely with identifying cost saving and auditor's fees should not be justified in terms of cost cutting but it should be justified in terms "of its contribution to public accountability".⁹⁵

An accurate and highly reliable criterion for measuring the success of any audit task is very hard to find but the Canadian Public Service Board report states on page (ii) that "virtually all departments considered that they received value for money from their internal audit service in 1982. For the service as a whole only 4% of audit recommendations were rejected".⁹⁶ Therefore, the percentages of audit recommendations implemented could help to determine whether or not an audit task is successful.

In the public sector, the auditor's role does not finish after the submission of his report, but continues to the next step, where he tries to find out what action has been taken by the officials of the organisation. In a case where no action has been taken, the auditor's role is to seek an explanation from the top officials. This

process is called "follow-up" and is where the audit cycle finishes for the purposes of starting a new audit cycle again.

Operational auditing could be performed by external auditors or internal staff. According to John Fielden

"in most organisations there could be four levels of value-for-money, [our term is OA] scrutiny:

- Firstly, and most importantly, by each manager himself, whose ultimate responsibility it is to achieve value-for-money with the resources at his disposal;
- Secondly, by internal agencies or groups [whether within internal audit, management services or a specific efficiency studies unit does not greatly matter], which will undertake internal value-for-money studies;
- Thirdly, by the external auditors as part of their routine annual scrutiny; and
- Fourthly, on a more ad hoc basis by occasional external reviewers such as the Monopolies & Mergers Commission and management consultants".⁹⁷

Having discussed the general and theoretical aspects of operational auditing, the researcher believes that more specific cases should now be examined to encourage a better understanding of the practical experience in the field of auditing non-financial activities. These cases include investigations of current auditing practices in selected western developed countries like the United Kingdom, Canada, Sweden and the United States.

REFERENCES

1. Glynn; J.J., "Value For Money Auditing in the Public sector" Prentic-Hall International/in Association with the Institute of Chartered Accountants in England and Wales, London 1985, P 140.
2. Snodgrass, Richard E.(Ed), "Auditing what isn't" CA Magazine, November 1984, P 66.
3. Glynn, J.J., "Value For Money Auditing in the Public Sector" P 61.
4. Canadian Comprehensive Auditing Foundation, "Comprehensive Auditing Concepts, Components and Characteristic. Canadian Comprehensive Auditing Foundation, Ottawa, Canada, P 15
5. Venables, J.S.R and and Impey, K.W., "Internal Audit", Butterworths, London 1985, P 194.
6. Department of Health and Social Security, "Report of the DHSS/NHS Audit Working Group" Chairman: Partrick Salmon, 1983, Para 3.37 P 16.
7. Sayle, Allan J., "Management Audits, "The assessment of quality management systems", McGraw-Hill Book Company (UK) Limited, London, 1981, P 2.
8. Ibid P 2.
9. General Accounting Office, "Exposure Draft. Comprehensive approach for Planning and Conducting Program results review" Found in "Value for Money in the Public Sector" by J.J.Glynn. PP 135-36.
10. Dayton, Allan S., "Operational auditing answers questions beyond The scope of financial reports" Management Controls, Vol. 24, September/October 1977. P 22.
11. Evans, E.R., "Some Benefits of Operational Auditing "The Internal Auditor, March/April 1969, P 48. Found in "What Operational Auditing Is - And isn't" by Schneider, Arron, The Internal Auditor, September/October 1973. P 10.
12. Choi, Jong T., "Operational Auditing, Part I" The Internal Auditor, March/April 1971. P 7.
13. Leonard, W.P., "The Management Audit, An Appraisal of Management Methods and Performance", 1962, P 18, Quoted by Jong T . Choi in "Operational Auditing: Part 1", The Internal Auditor March/April 1971, P15.

14. Leo Herbert, "Auditing The Performance of Management", Lifetime Learning Publications, Belmont, California, A Division of Wadsworth, Inc., 1979, P 4.
15. Choi, Jong T., "Operational Auditing, Part I. P 7.
16. Mints, F.E., "Operational Auditing", The Internal Auditor, June 1954, P 32 was Quoted by Choi, Jong T. in his article "Operational Auditing, Part I" P 15.
17. Evans, E.R., "Some Benefits of Operational Auditing" P 47.
18. Cadmus, Bradford, "Operational Auditing Handbook", The Institute of Internal Auditors, New York 1964. P 5.
19. Quoted in "Internal Audit" by venables. J.S.R. and Impey, K.W. published by Butterworth, London 1985, P 193.
20. Goater, Hugh, "The Management Audit" Management Accounting, October 1976, P 348.
21. Kington, Lennis M., "Performance auditing in better Prespective" The Internal Auditor, March/April 1973, P 44.
22. Ibid, PP 41-2
23. Glynn, J.J., "Value for Money Auditing in The Public Sector" P 21.
24. Jones, Rowan and Pendlebury, Maurice, "Public Sector Accounting" Pitman Publishing Limited, London 1984, P 10.
25. The Chancellor of The Exchequer, The Role of the Comptroller And Auditor General HMSO London [Cmnd 7845] March 1980.
26. The US General accounting Office, "Standards for The Audit of Governmental Organisations, Programs, Activities and Functions" found in "Performance Auditing: Where Do We Begin?" Government Finance, November, 1976, P 7.
27. Hara, Lloyd F., "Performance Auditing: Where Do We Begin?" Government Finance, November, 1976, P 6.
28. Cancellieri, Alfred and Enstrom, Darry, "The Expanded Scope of Government Auditing". The Government Accountants Journal Vol. 26, Spring 1977, P 28.

29. Smike, John. "Management, Operational and Comprehensive Auditing", CA Magazine. June 1982. P 52.
30. Ibid, P 52.
31. Flint, David, "Economy, Efficiency and Effectiveness - 'The Value for Money' Audit" The Accountant Magazine, June 1978, P 245.
32. Henley, Douglas. "Current issues in Public Sector Auditing" found in "Auditing Research issues and Opportunities" edited by Anthony G. Hopwood, Michael Bromwich and Jack Shaw. Pitman Books in association with Deloitte Haskins & Sells, Chartered Accountants. London. October 1982. P 17.
33. Henley, Douglas, Likierman, Andrew, Holtham, Clive and Perrin, John. "Public Sector Accounting and Financial Control" P 206.
34. Tomkins, Cyril. "The Expanded Nature of Public Sector Audits and Audit Skills" a paper presented to the First International Conference of Accounting in Kuwait. December 18-20, 1982. P 17.
35. Hara, Lloyd F., "Performance Auditing: Where Do We Begin?". P 6.
36. Sawyer, Lawrence B., "Just What is Management Auditing?". The internal Auditor, March/April 1973. P 10.
37. Ibid, P 10.
38. Peat, Marwick, Mitchell & Co., "Value For Money Audits" One day seminar and in association with the Royal Institute of Public Administration. P 15.
39. Henley, Douglas, Likierman, Andrew, Holtham, Clive, and Perrin, John. "Public Sector Accounting and Financial Control" P 15.
40. Crockett, James R., "Modelling The Operational Audit", The Internal Auditor June 1980. P 71.
41. Jones, Rowan and Pendlebury, Maurice, "Public Sector Accounting" P 5.
42. Henley, Douglas, Likierman, Andrew, Holtham, Clive and Perrin, John. "Public Sector Accounting and Financial Control". P 215.
43. Jones, Rowan and Pendlebury, Maurice, "Public Sector Accounting" P 5.

44. Metcalfe, les and Richards, Sue. "Raynerism and efficiency in Government" found in "issues in Public Sector Accounting" Edited by Cyril Tomkins and Anthony Hopwood. Philip Allan Publisher Limited. Oxford 1984. P 191.
45. Ibid P 191.
46. Tomkins, Cyril "Developing a public sector audit Paradigm" in Auditing Research: issues and opportunities "Edited by Anthony Hopwood, Michael Bromwich and Jack Shaw. P 179.
47. Metcalfe, les and Richards, Sue. "Raynerism and efficiency in Government". P 191.
48. Ibid. P 192.
49. Quoted in "Value For Money in The Public Sector" by J.J. Glynn, P 35.
50. Crockett, James R. "Modeling The Operational Audit" P 71.
51. Hatry, Harry P., Winnie, Richard E. and Fisk, Donald M. "Practical Program Evaluation for State and Local Government Officials" The Urban Institute, Washington D.C. 1973. P 1.
52. United Nations, "Public Auditing Techniques for Performance Improvements" Report of The United Nations/INTOSAI. Seminar on Government Auditing, Vienna, 14-25 May 1979. United Nations, New York 1980. P 6.
53. Jones, Rowans and Pendlebury, Maurice, "Public Sector Accounting" P 6.
54. Crockett, James R., "Modelling The Operational Audit" P 71.
55. Jones, Rowans and Pendlebury, Maurice, "Public Sector Accounting" P 6.
56. United Nations, "Public Auditing Techniques for Performance Improvements". P 72.
57. Ibid P 72.
58. Hardcastle, Alan "Objective of The Seminar" Found in "Value for Money Audits". One day Seminar by Peat, Marwick, Mitchell & Co. and in association with the Royal Institute of Public Administration. P 14.
59. Pendlebury, Maurice, "Management Accounting in Local Government a Research Study", Occasional Papers Series. The Insitute of Cost and

Management Accounts, London 1985. P 37.

60. Henley, Douglas, Likierman, Andrew, Holtham, Clive and Perrin, John, "Public Sector Accounting and Financial Control" P 217.
61. Venables, J.S.R. and Impey, K.W., "Internal Audit". P 273.
62. See Glynn, J.J. "Value for Money Auditing in The Public Sector".
63. Henley, Douglas, Likierman, Andrew, Holtham, Clive and Perrin, John, "Public Sector Accounting and Financial Control" P 216.
64. Crockett, James R. "Modelling The Operational Audit" P 69.
65. Butt, Henry and Palmer, Bob. "Value For Money in The Public Sector The Decision-Maker's Guide". Price Waterhouse, Oxford, U.K. 1985. P 6.
66. United Nations, "Public Auditing Techniques for Performance Improvements" P 72.
67. Peat, Marwick, Mitchell & Co., "Value For Money Audits" P 14.
68. Marsdon, Brian and Leeland, Chris. "Value For Money in The Public Sector (or The Waste-Watcher's Guide" The Chartered Institute of Public Finance and Accountancy 1980. PP 14 - 15.
69. Glynn, J.J. "Value For Money Auditing in The Public Sector" P 130.
70. Smike, John. "Management, Operational and Comprehensive auditing" P 53.
71. See "Practical Program Evaluation For State and Local Government Officials" by Harry P. Hatry, Richard E. Winnie and Donald M. Fisk. P 12.
72. Quoted in "Cost-outcome and cost-effectiveness Analysis: Emerging Nonprofit Performance Evaluation Techniques". by Hugh D. Grove and James E. Sorensen. The Accounting Review. Vol. LII. No. 3. July 1977. P 666.
73. Quoted in "Value for Money Auditing in The Public Sector" by J.J. Glynn. PP 125-6
74. Ibid P 124.
75. Ibid P 125.

76. Quoted in "Value For Money Auditing in The Public Sector" by J.J Glynn. PP 125-6.
77. Quoted in "Internal Auditor", by J.S.R. Venables and K.W. Impey P273
78. Barrett, David. "Current Practice in The U.K: Local Government". Found in "Value for Money" One day Seminar. Organised by Peat, Marwick, Mitchell & Co. and in association with the Institute of Public Administration. P 29.
79. Ibid P 29.
80. Henley, Douglas, Likierman, Andrew, Holtham, Clive and Perrin, John "Public Sector Accounting and Financial Control" P 216.
81. Cutt, J. "Accountability, Efficiency and the Role of Accountants". International Journal of Government Auditing. January 1978. P 3.
82. Butt, Henry and Palmer, Bob. "Value For Money in the Public Sector: The Decision-maker's Guide" price waterhouse. Oxford, U.K. 1985. P 19.
83. Quoted in "Value For Money Auditing in The Public Sector" P 124.
84. Butt, Henry and Palmer, Bob. "Value for Money in The Public Sector. The Decision-makers Guide" P 19.
85. Morris, Norman. "Operational Auditing In Financial Environment" The Internal Auditor. April 1976. P 23.
86. United Nations "Public Auditing Techniques For Performance Improvement". P 64.
87. Morris, Norman. "Operational Auditing In a Financial Environment" P 23.
88. Crockett, John. "Modelling The Operational Audit" P.69.
89. Fielden, John. "A consultants Experience in undertaking Value for Money Review". Found in Strathclyde Papers on Government And Politics No 30: "Value For Money and Effectiveness Auditing in the Public Sector: a Symposium" Edited by J.J Richardson. University of Strathclyde 1984. P.40.
90. Venables, J.S.R. and Impey, K.W. "Internal Audit" . PP 269-270.
91. Quoted in "Value For Money Auditing in The Public Sector" by J.J. Glynn. P 35.

92. Ibid PP 130 -131.
93. Glynn, J.J. "Value For Money Auditing In The Public Sector" P 61.
94. Quoted in "Value For Money Auditing in The Public Sector" by J.J. Glynn. P 131.
95. Hatherly, David. "All aboard the Value For Money bandwagon" The accountant's Magazine June 1981. P 178.
96. Quoted in "Value For Money Auditing in The Public Sector" by J.J. Glynn. P 127.
97. Fielden, John. "The Audit Commission" Paper presented to Third Accounting And Auditing Research Symposium Sponsored by Deloittee Haskins & Sells in conjunction with The Social Sience Research Council. 11&12 April 1983 Edinburgh. P 74.

CHAPTER FIVE

**THE BRITISH AND CANADIAN APPROACHES TO
OPERATIONAL AUDITING**

CHAPTER FIVE

THE BRITISH AND CANADIAN APPROACHES TO OPERATIONAL AUDITING

I Introduction

II UK

The National Audit Office

Auditing National Health Authorities

DHSS

Private Auditing Firms

NAO

Internal Audit

Auditing Local Authorities

The Audit Commission in England and Wales

The Commission For Local Authority Accounts
in Scotland

The UK VFM Audit Terminology and Philosophy

III Canada

Main Principles of the Canadian Audit Approach

The Canadian Acronym

The Main Characters of the Comprehensive Auditing

The Canadian Audit Approach and Methodology.

IV Similarities and Differences Between The Canadian and British Approaches

CHAPTER FIVE

The British and Canadian Approaches To Operational Auditing

Introduction

In the last chapter the researcher described the theoretical and general approach followed in performing operational auditing. In order to find out how operational auditing is performed in practice, the researcher plans to examine the approaches of four different countries. In this chapter only the British and Canadian approaches shall be discussed, leaving the approaches of the other two countries to the next chapter.

The main purpose of this chapter is to study the basic differences between the approaches of Britain and Canada.

The researcher plans to divide this chapter into three main sections. The first section will cover auditing practice in UK Central Government Departments and local authorities. According to Sir Douglas Henley, former Comptroller and Auditor General, "There are two important parts of central government sector, namely the National Health Service and the Universities",¹ the researcher has chosen audit practice in the National Health Service as an example of UK central government departments.

There will also be an examination of the approach to the audit of non-financial activities taken by the audit institutions selected from the UK public sector.

The second section will briefly describe Canadian terminology and approaches, while the last section will provide a comparison of the British and Canadian approaches.

I United Kingdom

The auditing of public organisations is shared by several independent institutions. The discussion here shall be limited to the role of the National Audit Office, the auditing of local authorities and auditing in the public health sector.

1. The National Audit Office

The historical background of auditing practices in the UK central government goes back to the reforms of the nineteenth century. In 1866 the first Audit Act was promulgated to establish the Office of Comptroller & Auditor General. This Act was slightly modified by the 1921 Act. Auditing practices remained unchanged until the late seventies and early eighties, which saw comments such as "The Control of public expenditure is near to the top of the charts recording popular interest"² and pinpointing areas which required direct and immediate attention,

"Over the last 100 years honorable members have eulogised over the system of audit It does a very useful job within its limitations, but these limitations are now so scandalously great that they constitute a major constitutional weakness It is time for change"³

This led the government, through the Chancellor of the Exchequer, to present the government's 1980 Green Paper on "The Role of the Comptroller and Auditor General"

[Cmnd 7845] as the first stage of the Government's review the Exchequer and Audit Department's Acts. This was followed by a report from the Public Accounts Committee, "The Role of Comptroller and Auditor General, Session 1980-81 "[HC 115], which appears in three volumes. An explanation by the government of its observations and views with regard to the status of the Exchequer and Audit Departments Acts followed, [Cmnd 8323]. Then the whole debate was successfully concluded by the promulgation of the 1983 National Audit Act.

In January 1984 the Exchequer and Audit Department merged into a newly established office to undertake the responsibility of auditing Central Government departments on behalf of Parliament. The new office is called "National Audit Office" [NAO] and was established under the 1983 National Audit Act.

Prior to the promulgation of the 1983 Audit Act the Exchequer was mainly concerned with the accuracy of the figures and the legality and regularity of the government transactions. Venables and Impey list types of audit which were performed by the Exchequer and Audit Department [E & AD] prior to 1983, as:

- "(a) Appropriation Accounts - approximately 166 departments.
- (b) Trading Accounts e.g. Royal Ordnance Factories.
- (c) As directed by Treasury or statute, e.g. church of England Commissioners.
- (d) International Organisations e.g. UNESCO, WHO.
- (e) Public bodies where more than 50% of income is from public funds, e.g. BBC, Institute of Cancer Research".⁴

This should not lead any reader to conclude that performing a VFM audit is a new experience for the NAO and its predecessor the E & AD. The chairman of the Public Accounts Committee, Joel Barnett, said to the Public Accounts Committee that "At present, the C&AG reports annually on the Appropriation Accounts.... the majority of the C&AG's reports on these accounts are concerned more with his value for money audit..... than with his formal certification responsibilities".⁵ The roots of VFM audit practices go back to the late nineteenth century, according to Sir Douglas Henley,

"Value-for-money audit has been commonly used in the UK as a convenient description of evolving interests and work of E&AD over many decades, with its origin sometimes pinpointed in the year 1888 when there was an interesting confrontation between the C&AG and the Army Council over a little matter of contracts for Army ribbon, from which the former emerged the winner".⁶

In the following century, where the Government's activities diversified, the C&AG extended his VFM audit to new areas of the Government's activities

".....over the succeeding century the C&AG has developed the application of value for money audit into many aspects of the financial management of government departments with a marked acceleration in scale and coverage from the early 1950s, as the great post-war surge in government activity and the corresponding expenditure programmes gathered weight".⁷

During that period, the scope of the E&AD's review was

"directed toward combatting inefficient operations which could result in Loss, to eliminate waste or extravagance and to initiate enquiries into Central Government operations, including the development and production of military equipment, the building of hospitals, factories and offices, the application of agricultural and industrial assistance; the design and installation of

computer systems; charging policies for Government services; use and disposal of Land, control of Civil Service manpower".⁸

Furthermore, prior to the promulgation of the 1983 Audit Act ".... the concern with efficiency does extend to an examination of an organisation and methods' type, aiming to check the direct productivity of administrative activity ..." ⁹ therefore it seems that the audit practice, with regard to VFM audit, was limited in scope and size.

There was no direct and explicit prerogative in the 1866 and 1921 Audit Acts which empowered the E&Ad to perform VFM audit. The lack of such a prerogative did not hinder the E&Ad in performing VFM audit ¹⁰

"The C&AG and his department the E&AD, have been conducting value for money audit for a considerable time in all UK central government departments, without being specifically required to do so by statute..."¹¹

This was highly encouraged by the Public Accounts Committee [PAC].¹² Another factor was the freedom of the E&AD to report to parliament "fortunately, however, the discretion of the comptroller, and the subject matter of his report was gradually broadened with the approval and support of the PAC". Nowadays, the role of the NAO, with regard to VFM audit, is framed in Part II of the National Audit Act 1983. Section six of the Act states that:

"The Comptroller and the Auditor General may carry out examination into the economy, efficiency and effectiveness with which any department, authority or other body to which this section applies has used its resources in discharging its functions".¹³

This may imply that the NAO has, to some extent, limited duties when auditing central government departments.

Subsection (2) of section six states that

"Subsection (1) above shall not be construed as entitling the comptroller and Auditor General to question the merits of policy objective of any department, authority or body in respect of which an examination is carried out".¹⁴

The NAO's rights to carry out VFM audit review on bodies and authorities other than the central government departments are further restricted. Departments, authorities and public bodies which may be subject to NAO's VFM audit are listed in section 6-3 of the Act. The NAO's VFM audit is mainly directed to review the central government departments and the individual health authorities, but the NAO's task is to audit other public bodies and those entities receiving public money. Section 7-1 states that

"if the Comptroller and Auditor General has reasonable cause to believe that any authority or body to which this section applies has in any of its financial years received more than half its income from public funds he may carry out an examination into the economy, efficiency and effectiveness with which it has in that year used its resources in discharging its functions".

To some, the 1983 Audit Act still needs to be more specific, "there is no specific duty laid upon the comptroller and Auditor General in respect of value for money but the National Audit Act does not permit him to carry out examinations into the economy, efficiency....." ¹⁵ while others like Jones and Pendlebury hold opposite views, "The 1983 Act has now included specific provision for these audits, calling them economy, efficiency and effectiveness examinations".¹⁶ The researcher's own point of view is that, as

comparison with the 1866 and 1921 Audit Acts shows, the 1983 Audit Act contains a clear statement, [subsection (1) of the section six], which specifies the NAO's role with regard to performing VFM audit. However the Act needs to be more specific still in many issues, such as the auditor's role with regard to reviewing policy issues and the line between economy and efficiency and effectiveness. Furthermore, the researcher believes that, in societies where separation of powers exists, acts and laws, in order to be approved by all parties, have to be general and broadly based, while specific details are left to be worked out by the authority concerned.

The NAO's general approach to VFM audit is similar to that adopted by the audit institution in charge of auditing local government authorities, Sir Douglas Henley states that the NAO's

"..... general approach to its value-for-money work is broadly similar; much of the discussion about the nature and special features of that work therefore applies in the audit of local government as it does in the audit of central government".¹⁷

Consequently, the NAO's approach shall be discussed later in this section.

The independence of the Comptroller and Auditor General, allows the free-running of the NAO's operation, without interference from any external pressure or parties. Furthermore, the NAO has full authority to decide which activities or organisations (within the boundaries of the Act) are to be subject to its VFM audit. The C&AG is completely free to decide on the content of his report to Parliament, which mean that it

need not necessarily contain all findings of the year, but only those which the C&AG deem relevant.

The resources available to NAO are distributed among different types of audit at certain percentages which are determined by the C&AG. Henley's best estimate, in 1981, was "about 60 percent of our (NAO's) resources"¹⁸ being allocated to the financial and regularity audit. This leaves NAO with 40% of its resources to be directed toward performing VFM audit.

The C&AG, upon completion of his audit task, does not submit his report to PAC but reports directly to Parliament".¹⁹ Once the report is submitted, it is up to Parliament to check what action has been taken, by the central government departments, on the C&AG's findings, but normally this task is delegated to the PAC. The starting point for the PAC's review is the NAO's reports, which means that issues selected for further investigation and follow-up review are selected from those cases presented in the NAO's report. The selection process is carried out in consultation with the NAO.²⁰ Very little is known about the content and the way in which audit evidence is presented in the NAO's report. But an interesting point was raised when Mr Horden, a member of Parliament, asked "Is there not, therefore, a gap at the moment, where there is no outside, overseeing body which can suggest to departments that what they are doing may be unnecessary or may even be counter-productive, such a role as is played by your opposite number in the United States in the GAO?".²¹

The C&AG's report does not include any suggestions

or recommendations and therefore it can be seen to be no more than a picture of what is going on in the government departments and bodies, but some auditees expect more from their auditors. John Davison, Scottish Director, CBI in November 1984 in his presentation "An Industrialist's view of Audit and value for money in the Public Sector" acknowledges the difficulties in certain areas of the CBI. He does not want these difficulties compounded "by saying 'this is wrong. Fix it before I come back'. But what we want from our auditor is to say, 'This is wrong and here is how to correct the situation'".²²

A significant point was raised during the discussion of the role of the C&AG by the PAC, that of whether Parliament and its individual members should have the right to direct the NAO to undertake certain types of examination on behalf of those members of Parliament as a whole. At that time the decision was to forbid either Parliament or its individual members the right of requesting such reviews. The justification was the *limited resources available to the E&AD* and the possible threat to the E&AD's independence. The researcher believes that, in order to reach the right decision, parliament as a whole, or its individual members, must have the right to request a review by the NAO. The case of BL, Bathgate Plant ²³ which was presented in the Committee's minutes is proof of this need. Fortunately in January 1984, the situation was corrected when a private member's Bill came into force. The new bill gives the PAC an intermediary role.

"The St.John Stevas Bill..... provides for more

specific requests - not decisions - to the C&AG on individual areas for examination. These are to be channelled through the Public Accounts Committee rather than coming from Parliament as a whole, or other selected Committees".²⁴

According to John Fielden, the effectiveness of NAO's auditing approach, generally and the follow-up procedures, specifically are more effective than any other procedures "The impact of my work is much greater because my reports are followed up by the Committee, and the impact of the Committee's work is much greater because it has my report as a starting point".²⁵

2. Auditing National Health Authorities

The NHS is under the full control of the Secretary of State for Social Service and his department, the Department of Health and Social Security [DHSS]. The Permanent Secretary (The Accounting Officer), is responsible to Parliament through the Secretary of State for efficient use of the resources voted to the DHSS.²⁶

Reason for Selecting NHS

In addition to the reason given at the beginning of this chapter, there are three other reasons for selecting the NHS as a subject for this research project. These reasons are:-

1. The size of staff and budget

"The NHS is the largest of our [UK's] public services. It employs a million people and spends £13 billion a year. We [The Secretary of state Norman Fowler] Plan to spend £14 billion in 1985/86".²⁷

2. The recent changes and the reorganisation of the system and its effect on the VFM practices. They include,

"..... changes to the structure of the NHS, a new machinery for reviewing health authority performance, new arrangements in audit and information for both Central and Local monitoring, a new scrutiny procedure for administrative and managerial functions, measures to improve efficiency in specific area such as purchasing goods and services".²⁸

3. The fact that these changes may create a greater awareness among officials of economy, efficiency and effectiveness which gives VFM audit a better chance of being applied in the NHS than in other central department.

According to the DHSS Annual Report of 1984 "The Health Service is the Country's largest public service and possibly its most complex. The challenge of making it run more efficiently and effectively is a massive one".²⁹ It is this which makes the NHS an interesting subject for study.

Intentions behind the introduction of VFM review:

The government's intention in introducing VFM review to the NHS is to ensure that:-

"The structure of health authorities is right; the management within authorities is right, managers have the information they need to do the job, and the training to use it; national policies are translated into effective, appropriate action by local management; the accountability of the Service is improved, management gives the systematic search for better value for money much higher priority than previously".³⁰

VFM reviews in the NHS:

Reviewing economy, efficiency and effectiveness [VFM] of the health authorities in the UK takes various forms, such as internal or external reviews, or special or regular reviews, consisting of competitive tendering, purchasing, store management, Rayner scrutinies,

Management Advisory Services and VFM audit review. The last three types of review are the most important ones and merit explanation:

A. Rayner Scrutinies:

These reviews were undertaken under the direction of Lord Rayner and with the government's blessing. This scrutinies start with the examination of a particular activity to determine whether this activity is needed at all, should the answer be positive, then the next step is to determine how the activity could be made more efficient and effective. Examples of topics covered in these reviews are aspects of new hospital planning, staff recruitment, the ambulance service, collection of revenue, catering and storage supplies.³¹

B. Management Advisory Services:

This is a review of systems in several health regions to develop comprehensive standards, disseminate good practice and compare performance.³²

C. VFM audit reviews:

Any National Health Authority in the UK could be the subject of audit review by three auditors, DHSS, NAO and internal audit. The role and duties of these audit organisations are:-

I DHSS:

The NHS Act of 1980 empowers the Secretary of State to appoint external statutory auditor [s] to review the accounts of health authorities. Usually the Secretary of State appoints the DHSS for this purpose. The accounts of the individual regional and district health authorities are almost entirely audited by the DHSS internal audit

staff.

Under the NHS Act of 1980, the statutory external auditor reviews the accounts of

"Regional Health authorities
District Health authorities
Special Trustees Board
Prescription Pricing Authority
Welsh Health Technical Services organisation" ³³

According to the DHSS/NHS Audit Working Group, the external auditor appointed to the NHS, has the following main functions. ³⁴

- A. The statutory audit of accounts
 - B. Efficiency and effective use of the NHS resources;
 - C. Communication of information,
 - D. To act as an Internal Audit,
 - E. Performance Review.
- A. The statutory audit of accounts:
- The prime responsibility of the DHSS auditors is to audit the accounts of health authorities, which includes:
- (i) reviewing and testing the system of financial control
 - (ii) ensuring that systems operated by health authorities afford a good financial security and are working efficiently with adequate supervision for fraud.

The DHSS, in discharging its duties, seeks to give assurance to the Secretary of State and the Department's Accounting Officer that the NHS authorities are spending voted funds for the purpose intended by Parliament, safeguarding their assets and accounting in the prescribed

manner. Consequently, the DHSS auditor is required to satisfy himself that the health authorities are not only complying with statute, Regulations etc but also they are adhering to the Department Directions and health policies.

B. Efficiency and effective use of the NHS resources:

DHSS audit activities are mainly directed to review the NHS systems and consequently "only a small amount of time can be devoted to efficiency and effectiveness"³⁵ review.

C. Communication of information:

By communicating information, the DHSS renders two services to the individual health authorities.

Firstly, the DHSS aims to direct the attention of top officials within the health authorities towards weaknesses and any potential areas of waste or extravagance in their system, and alert these officials to any failure in implementation of the departmental or other policies and of any misinterpretations of instructions.

In pursuing this objective, the DHSS reports findings or any matters of concern by means of an official report or a report in confidence to the Secretary of State.

Secondly, the DHSS monitors and gathers informations on topics of special interest and concern.

D. To act as an internal Audit:

An additional functions of DHSS audit is to act as internal auditors for the Special Hospital, Artificial Limb and Appliance centres, Youth Treatment centres and

other minor bodies directly administered by the DHSS.

Since the establishment of the NHS in 1948, the DHSS and its auditors' main function has been to ensure that funds have been disbursed on the purposes and services intended by Parliament. In recent years the DHSS auditors have started to review the effectiveness of management and its use of resources.³⁶

According to the DHSS/NHS Working Group, DHSS operates the following systems for promoting and reviewing efficiency and effectiveness:-

- "a. Financial information system to collect information on expenditure on all headings including drugs costs.
- b. Planning system to balance needs with resources.
- c. Performance Review, on an annual basis, to monitor the way in which Regions are using resources and testing the use against Government policies.
- d. Performance Indicators which enables comparisons to be made on a national basis on expenditure for most aspects of NHS activities.
- e. The application of efficiency savings in 1983 and onwards.
- f. The annual audit carried out by the Department's Statutory Auditors.³⁷

Jointly, with the Northern Regional Health Authority, The Department has succeeded, as part of its role in VFM audit review and performance measurement, to develop and test performance indicators in four major areas of the NHS, the areas are:-

- (i) Clinical activity
- (ii) Manpower
- (iii) Finance, and

(iv) state management

These performance indicators could be applied to any regional or district authorities in reviewing their performance in the areas mentioned above.

The overall objectives of the DHSS audit review are:

- "(i) financial/regularity audit of Health Authorities' accounts, covering all related financial and management control systems on an appropriate cyclical basis;
- (ii) This should include, in particular, a competent and comprehensive audit of computer systems,
- (iii) a value for money audit containing a component organised on a countrywide basis capable of carrying out the national studies which it would undertake in conjunction with the work of the new central VFM unit recommended [by the working Audit Group].
- (iv) providing assurance to DHSS and NHS management that all systems are sound and effective".³⁸

II Private Audit Firms:

Prior to March of 1983 the DHSS was the only appointed external statutory auditor for the health authorities but since that date private audit firms have taken over some of this responsibility. Now fourteen district health authorities are audited by these firms and "the audit of District Health authorities require those [these] firms to spend about forty percent of their time on value for money work".³⁹

The government privatization scheme in the NHS is not limited to the role of external auditor but was extended to the internal audit departments of several health authorities.⁴⁰

III NAO:

The NAO's VFM audit review of health authorities is directed towards findings out whether the management of these authorities has appropriate systems for achieving VFM and for providing information on the performance of the health authority.

The C&AG examines, certifies and reports on the annual summarised accounts of the health authorities. He also has the right to examine the individual authority's accounts and records, and the DHSS auditor's reports on them. Furthermore, having complete freedom to pursue their enquiries at all NHS locations, the NAO can examine, or direct its auditors to examine, the departmental appropriation accounts.

In order to fulfill the NAO's role, the NHS Act of 1977 requires that a summary of these accounts, (the accounts of the individual health authority and the auditor's report on them), has to be submitted to the C&AG by 30 November of each year. C&AG then may direct the NAO to examine any financial matters and any report, be it of the individual health authorities or of the DHSS itself.

In pursuance of his statutory responsibility the C&AG's review of the accounts of the health authorities is selectively based. He examines and reports on many aspects of the NHS activities, i.e administration and control of capital and current operations, efficiency of catering, hospital planning and construction, computer developments, and cost control of drugs.⁴¹

According to the report "Management of Financial resources in the National Health Service." Prepared by the Royal Commission on the National Health Service, most of the C&AG's audit investigations are "on issues concerning, or representative of, the NHS as a whole, and those which therefore directly involve the responsibilities of the DHSS and its Permanent Secretary/Accounting Officer".⁴²

NAO employs about 36 audit staff on NHS aspects, two-third of the audit staff review the accounts of health authorities while the remainder are responsible for auditing the accounts of the DHSS's Head Quarters and the family practitioner service. Overall about 75% of staff time is devoted to VFM audit review.⁴³

IV Internal Audit:

The accounts of the health authorities are subject to a third type of audit which is performed by the internal audit staff.

The basic objective of the health authority's internal audit department is

"to assist the various levels of management in discharging their duties and responsibilities by carrying out independent appraisals and making the necessary and appropriate recommendations to management for operations under its control"⁴⁴

The internal audit department is empowered to review the following activities :

1. The regionally - managed services.
2. The capital programme: pre-contract monitoring, current contract audit and transactions and procedures for selecting and appointment of

technical consultant and other staff.

3. The financial system: the financial activities of the health authorities are reviewed to verify the adequacy of the internal control system.
4. The operation of Regional Bank Accounts and any other duties placed upon the Regional Treasurer i.e. cash handling, salaries and wages, stores, purchasing etc.

The internal audit department has the responsibility for the appraisal of the efficiency of procedures and systems that management has implemented with regard to cost-effectiveness studies and the attainment of value for money. Specifically, the Regional internal audit department has the following responsibilities:-

1. to prepare and maintain the audit plan and complete set of Audit programmes;
2. to implement the plan and programmes, making the best use of the available staff;
3. to continuously review standing financial instructions and all financial procedures and to advise the Regional Treasurer on all aspects of internal financial control;
4. to investigate cases of fraud, misappropriation or other irregularities, in co-operation with the police and External Auditors as appropriate;
5. to ensure the provision of an adequate level of computer audits to the Region as a whole;
6. to report on the findings of audit checks and investigations to the Regional Treasurer, unless

there are exceptional circumstances which make that line of communication in appropriate;

7. to investigate, if the regional treasurer so requires, matters arising from External Audit Reports on District Health Authorities;
8. to advise District Health Authorities on audit aspects of services where Regional Health authorities experience is significant (particularly capital projects, regional contracts and computer services),
9. to co-ordinate audit training arrangements within the Region,
10. to take a leading role on disseminating confidential audit information and in making arrangements for the setting and monitoring of mutually acceptable audit standards throughout the Region;
11. to appraise the adequacy and operation of management system designed to secure improvement in efficiency and value for money;
12. to undertake such other duties as the Regional Treasurer may from time to time require, for further details, see the "Report of the DHSS/NHS Audit Working Group".

The role of internal audit department is to review, appraise and report to management upon:-

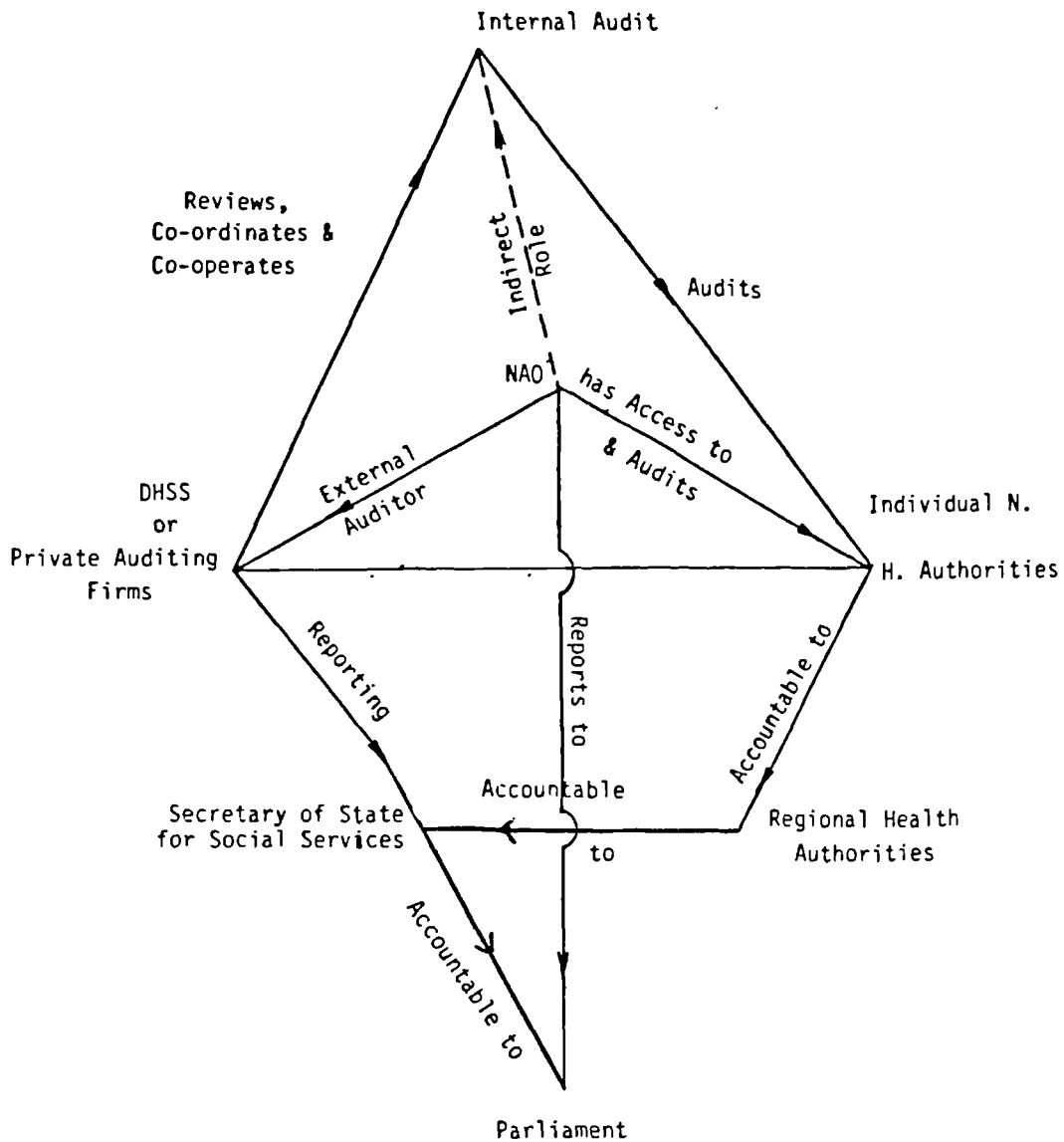
- "(a) The soundness, adequacy and application of financial and other management control,
- (b) the extent of compliance with, relevance and financial effects of, established policies, plans and procedures
- (c) The extent to which the organisation's assets

and interests are accounted for and safeguarded from losses of all kinds arising from:-

- (i) fraud and other offences;
- (ii) waste, extravagance and inefficient administration, poor value for money or other causes;

(d) the suitability and reliability of financial and other management data developed in that organisation".⁴⁵

The interrelation of these various audit bodies responsible for auditing the national health authorities and the accountability relationship within the national health sector can be illustrated in the following diagram.



The activities of these different audit bodies are co-ordinated through the district liaison section within the Regional internal audit of health authorities. The main responsibility of the liaison section is to:

1. advise the auditors of the district health authority,
2. prepare and maintain the Regional Audit Manuals to ensure that adequate audit standards are maintained throughout the region,
3. monitor the external audit reports on the district health authorities to ensure adequacy of response and timeliness of corrective action.⁴⁶

There is some evidence available which could indicate that VFM audit in the national health authorities is directed towards economy and efficiency rather than effectiveness review.

1. The government asked health authorities to reduce the proportion of their total resources spent on management by 10% by March 1985, to make the best use of manpower, and to ensure that their total number of staff is kept under effective control.⁴⁷
2. Health authorities set for themselves a short-term saving plan of a round £100 million or about 1% of their current expenditure.⁴⁸
3. According to Norman Fowler, the Secretary of State, the future - challenge for the Health Service is

"to use our [DHSS's] resources better, to cut out waste, to drive for better value for money and to put the focus of all spending on improving direct patient care".⁴⁹

Follow-up system in the NHS:

NAO reports are submitted to parliament, after which it is up to PAC to decide how to follow-up the NAO's findings. But matters of significance noted by the Department's Statutory Auditors are sent by the DHSS Audit Branch to the Principal in the Department's appropriate Policy Division. Copies of these audit reports are sent, within a specific time after their receipt, to the regional health authorities and also to the district health authority should the matter relate to the district. Comments from the regional health authority, and proposals for remedial action are expected within two months. Where the district is involved, it has one month to present its report to the region, which can then spend two months putting together its own report for DHSS.

Such comments and proposals are monitored and followed up by the Policy Division until the issues raised in the audit report are satisfactorily resolved. If for any reason, difficulty remains in clearing significant issues the Department may pursue the problem at the Annual Regional Review.

3. Auditing Local Authorities:

The legal basis for the local authority auditing system is found in the 1844. Poor Law Amendment Act. The Act established the office of district auditor and charged the Office with the responsibility for examining local authorities accounts.

Many charges were made to the auditing practices of local government accounts by consecutive acts. The two most recent are the Local Government Act 1972 and the Local Government Finance Act 1982.

In recent years many voices have been raised in favour of more scrutiny of local authorities' accounts. Among those who demanded changes was the Treasury, which sent, in 1971, a memorandum to the Expenditure Committee drawing their attention to "the need to ensure that public authorities give value for money, and that expenditures are made with proper efficiency and economy".⁵⁰ Another of those voices was the Layfield Committee on Local Government Finance [1976]. The Committee stressed the concern of the taxpayers about poor performance and inefficient financial administration. The Committee stated that

"Taxpayers have the right to expect public service to be provided efficiently: that is, the standard of service desired should be provided at minimum reasonable costs..... special care should be taken to ensure that financial arrangements promote efficiency".⁵¹

The main reason behind such moves and demands for changes was the huge increase in local government expenditure and the diversity of the government's operations. For example "The estimated gross expenditure on the rate fund accounts for the year 1975/76 was £13,000 million for local authorities in England, Scotland and Wales",⁵² out of that "Local authorities in Scotland spend in the region of £4,000 M each year".⁵³

Before 1973, the district auditor's role was

confined to checking the legality of the authority's expenditure and to ensuring the honesty of public officials.

"The auditors of Local authority accounts..... are concerned with accountability for public money and with ensuring that there is Legal authority for all expenditure. Local authorities are closely circumscribed by Law. They can spend money only on purposes for which Parliament has given them express authority or on incidental matters that are necessary to the exercise of a statutory function and which authority can therefore be inferred At all times they are subject to the doctrine of 'Ultra Vires', that is to say, they must be able to show specific legal authority for all spending".⁵⁴

In 1973 the Department of the Environment set guidelines for external auditors appointed to audit local authority's accounts in England and Wales. The guide drew attention to some issues to which auditors in England and Wales should pay particular heed. The auditor "must be concerned not only with the form and regularity of the accounts but also with issues of substance arising therefrom, such as the possibility of loss due to waste, extravagance, inefficient financial administration, Poor Value for Money, mistakes or other causes".⁵⁵ The 1982 Local Government Finance Act, requires the auditor to satisfy himself by examination of the accounts and otherwise that the authority has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources".⁵⁶

Since there may be more than one method by which such a requirement may be brought about, the Local Government Finance Report of the Committee of Enquiry has

determined the way in which VFM could be achieved

".....the best way of promoting efficiency and securing value for money by external means is through the dissemination of comprehensive but intelligible information on the methods employed by local authorities and the results they achieved".⁵⁷

In defining the auditor's role in England and Wales the Audit Commission went one step further than the above-mentioned report of Enquiry when it published "The Code of Local Government Audit Practice". The Code states that the auditor:

- (1) Must satisfy himself as to the legality of items of account, and that in compiling the accounts different sections of the public whose interests may be affected by them have been fairly treated'- the accounts must be prepared in accordance with the Accounts and Audit Regulations 1974 and 1983,
- (2) Must be concerned with the form and regularity of accounts and with arrangements for securing value for money in the use of public funds.
- (3) Must take an analytical approach to his work - "A commonsense general application of the subject matter is essential before any detailed checks are undertaken;
- (4) Must be concerned for action. The auditor's work must be characterised by a constructive attitude; he must see his role as being to assist members of authorities and their officers, but he must not hesitate to pursue his conclusions even to the point of qualification or report where he regards that as necessary in the public interest".⁵⁸

The responsibility for auditing local government in the UK is shared between two institutions, the Audit Commission is responsible for reviewing and examining local authorities in England and Wales while the Commission for Local Authority Accounts is responsible for the Scottish Local Authorities.

A - The Audit Commission

The Local Government Finance Act 1982, section II, provides for the establishment of the Audit Commission, which was established and assumed responsibility in April 1983. Under section (12) of the Act, the Commission is responsible for the audit of all local authorities. It can either..... allocate an audit to a private auditing firm or it can undertake it through its own staff.

The Commission is composed of 15 members. Members are appointed jointly by the Secretary of State for the Environment and the Secretary of State for Wales, for a three year term. The organisational structure of the Commission is appended to this chapter.

The Commission meets monthly and is a self-financing body [apart from an initial grant of working capital from the Department of the Environment]. Its income comes mainly from fees from local authorities for audit work.

The Commission's main responsibilities include:

- "(1) To secure continued integrity of Local Government, so that confidence in the institutions of government is not eroded by concerns over fraud and corruption.
- (2) To help authorities improve the returns on the £25 billion + [amount] invested in goods and services, as required by section 15".⁵⁹

According to the Commission's booklet, "Auditing Local Government, A guide to the work of the Audit Commission", the Commission and its auditors have two major roles,

"First they must ensure that local authorities are spending money and reporting their financial situation in accordance with the Law and that there are safeguards against fraud

and corruption, and secondly they seek to help the authorities help themselves by showing services can be provided as cost effectively as possible".⁶⁰

Venables and Impey see the Audit Commission and its auditors as playing a broader role than that quoted above. According to them the Commission's role is to undertake the following:

- "(1) Independent appraisal functions,
- (2) Pursuance of VFM,
- (3) Ensuring legality of income expenditure,
- (4) Evaluation of management performance,
- (5) Encouragement of exchange of ideas,
- (6) Evaluation of internal audit,
- (7) Report directly to the Public".⁶¹

The Commission Press Release "Mission and Priorities"

Explains its role and defines its aims, which include:-

- "(1) To identify specific local opportunities to improve value for money, in the course of the annual audit effort by reference to other steps that already have been taken successfully in other authorities facing similar problems.
- (2) To promote good management practice, by documenting achievements and training auditors to spot potential improvements, and publishing the results of special studies.
- (3) To encourage - even promote - action through [auditors'] reports to officers and members, management letters to the authority and [if necessary] reports in the public interest.
- (4) To monitor implementation performance during annual audits, drawing attention as required to any shortfall.
- (5) To co-ordinate the efforts of related organisations....." ⁶²

The Commission has adopted four different ways to pursue its aims. These ways are:

- "- By appointing auditors to audit the accounts of all local authorities in England and Wales.....

- By undertaking studies which make recommendations for improving economy, efficiency and effectiveness of services;
- By encouraging authorities to learn from one another and thus to apply good management practice which has proved effective elsewhere, and
- By carrying out studies to investigate the impact on Local authorities of Legislation or central government action or advice".⁶³

Additionally, the Commission renders valuable services to its auditors, by way of producing handbooks on VFM which contain "..... general advice for both the authority and its external auditor and how to recognise well managed authorities. This guidance draws on the experience of the best of local government and the private sector".⁶⁴ As an example, the Commission has developed a handbook on "Economy, Efficiency and Effectiveness" in which six inter-related elements of organisation effectiveness are identified as necessary to reinforce each other and to reflect political priorities, these elements are:

- (1) Vision: what the authority is seeking to be or to achieve.
- (2) Strategy: how this vision is to be translated into reality.
- (3) Structure: the way the authority is organised to implement the strategy (members, officials and staff).
- (4) System: the way in which the people in the organisation plan, decide, control and monitor day to day actions as well as longer term progress.
- (5) Staffing and skills: The way in which the critical resource in every authority - people - is acquired, trained, deployed, motivated and rewarded.
- (6) Style: the 'way we do things' and the way members, officers and employees relate to each other and to those they are there to serve".⁶⁵

The Commission's help extends to providing its auditors with a "Profile" for each local authority which gives the statistical details of the individual authorities and highlights areas which might be worth examining in more detail.

It also undertakes "Special Studies". The Commission annually identifies specific areas within Local authorities and then endeavours to convince the authorities to take part in the Commission's exercises. When an adequate number of authorities agree to participate in these special studies, the Commission sets up a team to perform the necessary checks and examinations. The composition of these teams differs from one project to another, but they include specialists in each proposed area, seconded from the Local authorities. Once these special study reviews are completed, the Commission produces "Reports" summarizing the procedures followed, the data needed, and the ways data were collected. The report also includes the performance measurement criteria, both that available and that specially developed by the team.⁶⁶

The Commission annually identifies specific areas within authorities for investigation by its auditors, areas which the commission believes have a high potential for savings and improvement, or are in need of special attention. The term used by the Commission for each of these areas is, "Flavour of the year" and according to Mr Wilkinson, the Director of Accounting Practice, Audit Commission, the Commission's auditors "are expected to

include some of these 'Flavours' in their Plans".⁶⁷ Examples of the 1986-87 "flavours" are Secondary Schools' Teaching Costs, Highways Maintenance and Council Housing Maintenance.⁶⁸ An overview of the proposed VFM projects for the years 1986 to 1989 is appended to this chapter.

The handbook, "profile" and the "flavour" of the year is continuously updated as the results of the "special studies" emerge.

Auditors appointed to audit local government accounts in England and Wales not only use the services provided by the Commission when they are drawing up their annual plans but also utilise the results of projects undertaken locally, in which particular costs or services are examined.

The auditor's Duties:

The auditor's duties in England and Wales are spelled out in section (15) of the local Government Finance Act 1982. This section states that "the auditor should satisfy himself that the audited body has made adequate arrangements for securing economy, efficiency and effectiveness in its use of resources".⁶⁹ The Commission in complying with the Act, has issued a "Code of Local Government Audit Practice" which states that "the achievement of economy, efficiency and effectiveness depends upon the existence of sound arrangements for planning, appraisal, authorisation and control of the resources".⁷⁰ Furthermore, the Commission's views with regard to its VFM duties are that

"Neither the Commission nor its auditors can force Local authorities to save money - Local

authorities are responsible to their local electors for how money is spent and for assessing Local needs and priorities".⁷¹

Therefore, the Code continues, "It is management's responsibility to establish these arrangements and to ensure that they are working properly",⁷² while the commission's role is to "Point the way to savings".⁷³

Resources available to the Commission are scarce, and therefore, they must be used with a view to yielding the maximum return [where needed most]. The options are either to concentrate on one type of audit or to split the resources among all types of audit performed by the Commission. The percentage of resources allocated to each type is common ground for dispute. One writer stated that "auditors have for many years devoted some 20% of their efforts to value for money studies" while others, like John Fielden, raise some doubts and questions about the degree of accuracy of these figures. Fielden says, ".....the audit Commission seems to inflate almost weekly, the proportion of audit time to be devoted to VFM within a local authority context. I last heard 50% quoted".⁷⁴

B - The Commission for Local Authority Accounts in Scotland:

In Scotland, prior to 1973, the Audit practice of local authorities was performed by private auditing firms, approved by the Secretary of State.⁷⁵ But with the promulgation of the local Government (Scotland) Act 1973, this tradition has to some extent been changed. The number of authorities and associated joint committees,

boards and like bodies was substantially reduced by this Act. "Thus instead of over 400 accounts to be audited there are now only about 80, and a change in the audit arrangements was required for that reason." ⁷⁶

One of the new changes proposed by subsection (1), of section (97) was to establish a new "..... body, to be known as the Commission for Local Authority Accounts in Scotland.....". This Commission assumed its responsibilities in 1975. The Commission consists of not less than nine members and not more than twelve, who are appointed by the Secretary of State.

Under the 1973 Act, the Commission may incur any expenditure deemed necessary for performing the duties given by the Act. ⁷⁷ The Commission is financed mainly through contributions from Local authorities and partially by government grants. In the year 1984/85 the Commission's income was £2,221,277, distributed as £2,021,151 contributions, £153,186 from government grants and £64,940 from interest. These figures constitute 91%, 7% and 2% of the total income of the Commission, respectively.

Functions of the Commission include:

- "(a) Securing the audit of all accounts of all local authorities in accordance with the provisions of this Part of this Act [1973 Act];
- (b) Considering all reports made in accordance with the said provisions and investigating all matters raised by any such report;
- (c) Making recommendations to the Secretary of State and

to local authorities with the said provisions, and
(d) advising the Secretary of State on any matter relating to the accounting of local authorities which he may refer to them for advice".⁷⁸
Furthermore "the Secretary of State may..... give to the Commission directions of a general character as to the discharge of their functions, and the Commission shall give effect to any direction, so given".⁷⁹

The Commission sees its tasks as to ensure that local authorities exercise proper stewardship over the money they spend on behalf of the public and that they account properly for the disbursement. Furthermore, the Commission ensures that information and advice, based upon various reports and hearings, is brought to the attention of those concerned.⁸⁰

In order to discharge its duties under the 1973 Act, the Commission is empowered either to undertake the audit job using staff directly employed by the Commission or to appoint private firms of accountants, (Approved Auditors), to carry out the audit of the local authorities in Scotland on its behalf. In Scotland approximately "75 percent of audits are performed by private firms appointed by the Commission".⁸¹ While less emphasis is put on the use of approved auditors in England and Wales. Nearly 10% of local authorities there are audited by approved auditors⁸² and the remaining 90% of the audit work is carried out by the District auditors (DAS).

The 1973 Act defines an approved auditor as "an auditor who qualified under subsection (7) of the Act." That subsection lists five accounting bodies in the UK in addition to any other accounting body established in the United Kingdom which receives the approval of the Secretary of State.

The auditor's statutory duties with regard to VFM audit review is "to satisfy himself by examination of the accounts and otherwise that the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.....".⁸³

J.W.Troman distinguishes the auditor's role under the VFM audit from the management's. He states that

"The auditor's duty on value for money as part of his audit is limited to establish that prima Facie there is a failure to achieve value for money..... it is not sufficient merely to point to a comparative statistic as being satisfactory evidence. He must carry out an examination and produce such data as will convince management that there is sufficient evidence to merit further investigation. That is where the auditor's duty ends.... the responsible management will take over at this stage".⁸⁴

When the management takes over, in-depth investigations undertaken "to establish that there is indeed a failure to achieve value for money and then to determine what effective remedial action needs to be taken....."⁸⁵

Reporting Procedures

Normally, auditors in charge of auditing local accounts in Scotland report to the Controller of audit as

well as to the authority concerned. The controller of audit may then report to the Commission on any matter arising from the auditor's report.⁸⁶

The Commission has no direct relationship with either the NAO or Parliament. However, there is an indirect relationship in that the Commission prepares its statement of accounts for each financial year and submits certain copies to the Secretary of State. The Secretary of State then forwards the statement of accounts to the Comptroller and Auditor General. The Comptroller, having completed his examinations, certifies the Statement and lays it, together with his report, before Parliament.

The UK VFM audit methodology and philosophy

The 1983 National Audit Act on one hand provides for the NAO to examine the accounts of the central government departments for the purpose of assessing their performance and the state of their programmes with regard to the three "Es", unlike some other national audit officers, such as Australia. On the other hand the Act does not permit the C&AG to question the merits of particular policy objectives, especially believed to be based on political rather than financial judgement. The former C&AG, Sir Douglas Henley, justifies this philosophy by explaining that the responsibility for such policies is a responsibility

"squarely and solely for the executive departments themselves It is not always possible to foresee accurately the impact which particular measures will have on industrial, structure, agricultural development, social behaviour or whatever else

they are designed to affect. There may be political imperatives which largely determine action of a particular kind from time to time, and it is for ministers to take and explain these decisions in the light of the best advice their department can give them".⁸⁷.

This philosophy is not new in the UK public sector auditing arena but has been the norm for audit practice ever since the establishment of the Exchequer and Audit Department. Sir Douglas Henley in his response to a question put to him by the Chairman of the Public Accounts Committee stated that "I [C&AG] think it is not good for the C&AG to get into current policy and I think that traditionally he has not done that".⁸⁸

The NAO requires the auditor to:-

(1) ".....inform himself about all aspects of policy and to establish as clearly as he can what the approved policy objectives are".⁸⁹

(2) Inform himself about the effects, outcome and any financial or non-financial consequences of those policies. The auditor is not there to question policies..... This does not mean that he should not bring to the attention of members the financial consequences of their policy decisions, particularly if these vary markedly from estimates and they have not already been brought to their attention by officers".⁹⁰ The purpose of such a policy review is not to assess the policy itself but to ensure "whether such effect correspond with the intention of the policy".⁹¹

Observe and ensure that planned activities do exist;

a proper planning system is not only a prerequisite for setting policies but is also necessary for the realisation of these policies.

- (4) Get involved in reviewing the effectiveness of a particular programme or project. The external auditor should "assess and if necessary criticise schemes which have been put into operation"⁹² where "there should be solid evidence of their effectiveness".⁹³

The NAO and its auditors are not only forbidden to question the merit of a particular policy but also they should not challenge government decisions or even question the government's motives.⁹⁴ The following quotation suggests that the public sector auditor in the UK should not propose alternative methods for being more effective. Sir Douglas Henley, the then C&AG, states that "I do not think, it would normally be appropriate for the C&AG himself to make suggestions about alternative ways of securing policy objectives".⁹⁵

The 1983 National Audit Act and the 1982 Local Government Finance Act, [Audit Acts], do not contain any clue to enable auditors to draw a line distinguishing policy issues from other issues. This is one factor contributing to the difficulty of drawing such a line, while the other, is the Auditor General's reluctance to do so "I [C&AG] would not therefore want to draw any rigid line between what are regarded as matters of policy and those that are not, so far as the Auditor General's field of action is concerned".⁹⁶ Tomkins believes that

the Auditor General's reluctance, the ambiguity of the terms of VFM audit itself and the absence of a clear definition of the auditor's role under the Audit Acts may have some advantages which might assist the NAO in fulfilling its VFM audit role. Tomkins states that

".....the lack of precise definition helps him to avoid being drawn into the auditor role conflict which is likely to exist in the Swedish system while still indirectly being able to raise points, often under the notion of efficiency auditing, which 'spill over' on enquiry into wider questions of policy. The suspected deliberate ambiguity in the phrase 'value for money' gives the UK public auditor freedom to manoeuvre and address areas, albeit indirectly, which if precise definitions were adopted might either for political reasons be construed to be beyond the E & AD remit or imply wider auditor responsibilities over all services audited" 97

According to Tomkins the Auditor General's reluctance helped him to overcome problems associated with objectives "it appears that C&AG is, to some extent a reluctant effectiveness auditor and, in pleading reluctance, he avoids the necessity of having a clear statement of objectives of how effectiveness audits should be conducted".⁹⁸

It is evidence from the above discussion of the scope of the auditor's examination under the policy issues that the Audit Acts contain some ambiguous issues which need to be clarified, especially in the following two circumstances:-

- (1) The auditor's role is not clear in cases where the policy is out of date, where the need for a particular project or programme has disappeared.
- (2) The auditor's role is not determined where the policy

of a particular project or programme is wrong especially if that policy has minimal, or no, financial variations from the planned expenditure.

The importance of information relating to policy issues under the above mentioned circumstances is compounded where the politicians possess inadequate knowledge and are not fully familiar with aspects of the public sector programmes, projects and activities. Further, most politicians, assuming that they overcome the knowledge barriers, do not have enough time to examine each policy thoroughly before approving it, nor to reexamine it at intervals in order to find out how well the policy is interpreted and carried out.

The Auditor General of Canada describes the existing situation in the government departments and agencies as follows: "many program managers do not know what the programs are supposed to accomplish. In addition, there is an 'understandable temptation' to avoid evaluating effectiveness because it might be 'unfavourable to the program'",⁹⁹ if so, the review of policy should become the core of any effectiveness review.

Where public sector bodies are audited or could be audited by private auditing firms, as in the case of UK local authorities and national health authorities, the researcher believes that the vast variety of experience and knowledge possessed by those firms should not be wasted by forbidding these auditors to comment on the policies of the public sector bodies. J.W. Troman believes that the auditor is in a good position to make a

positive contribution to the economic, efficient and effective use of resources because of "his professional experience, his experience of practice in other similar bodies, and the dissemination of information on value for money audit exercises conducted in other authorities".¹⁰⁰

The UK VFM Audit Approach

1. Premises of the UK VFM Audit.

In the UK public bodies the onus for establishing a proper information and monitoring systems is on the management but the auditor's function is to assess and complement the management's role by independently reviewing and reporting to the management. Another premise is that "if efficiency and effectiveness targets are based on sound information the final results resemble closely those predicted".¹⁰¹

2. The Audit Approach

Auditing institutions in the UK such as NAO, Audit Commission, and Local Authorities Accounts Commission start their audit programmes with long term planning which covers a 3 to 5 years span. The purpose of such planning is not only to achieve better results but also to overcome the problem of scarce resources which affect adversely activities of governments in general and the audit institutions in particular. In addition, Planning by audit institutions in the UK serves another purpose by providing a comprehensive planned coverage of the public body's activities and programmes. "There are themes or programmes which have been pursued over several years

..... so each year's planning exercise may have to carry such work another stage forward. There are always more potential VFM inquiries than there are resources to carry them out".¹⁰²

The NAO's review starts with identifying and selecting areas for VFM examination, the basis for selecting areas are:

In selecting areas for major investigation "the Comptroller and Audit General, (C&AG), acts entirely independently. Though he may listen to suggestions from the Public Accounts Committee".¹⁰³ Another factor for

selecting issues for VFM audit review is determined on the basis of results obtained by analysing major expenditure programmes and larger government projects.¹⁰⁴

While the third and final basis for selection is the NAO's judgement on materiality and risk which is associated with each programme or project. This includes judging where there is a likelihood of things going wrong, while the degree of risk to be put on each public sector programme or project depends on "the inherent nature or circumstances of the programme or project or on our [NAO's] previous audit experience".¹⁰⁵

These factors could indicate that NAO neither follows a straightforward strategy of reviewing one government department or programme, [Top-To-Bottom or vertical approach], nor bases its examination on a single issue of a programme or activity across several government departments or programmes [middle-out or horizontal approach]. It could be concluded that the selected topics

and issues for VFM audit investigations are not necessarily related.

Once the areas or issue for VFM audit examination are selected the NAO auditors carry out the audit work as they think best, by reviewing programmes, documents and collecting information through interviewing the programme officials and observing operations. J.J.Glynn suggests that "The approach of the VFM audit should be essentially 'top-down'¹⁰⁶ this means that VFM audit should be a comprehensive examination of all aspects of a given programme or project. Another suggestion is that it should commence with an investigation of the audited department's own information systems, which includes among other things, financial statistics and performance measurement indicators. It is believed to be easier for the auditor to concentrate his attention on examining such systems in order to identify trends and weakness in them. When the auditor locates gaps in the systems, or deficiencies in the performance indicators, he undertakes an in-depth investigation of these irregularities to identify their sources. As a normal procedure, examinations of these irregularities are performed by line audit divisions and supplemented by "special studies" of a more advance or evaluative nature, using specialist staff in appropriate areas.¹⁰⁷ The specialist staff needed for VFM audit review are either seconded from an appropriate public body where activities are similar to that under audit review or drawn from major private professional auditing firms. The NAO's approach

in using these specialist staff is to "incorporate them into teams with experienced E&AD staff".¹⁰⁸ Having finished his audit examination, The C&AG submits his report to Parliament for consideration. Parliament's role in pursuing audit findings begins with this submission. In most cases the NAO reports are considered by the PAC which is empowered to review any accounts presented to Parliament. The PAC "concentrates on those accounts on which the Comptroller and Auditor General has reported"¹⁰⁹ and occasionally "initiates enquiries, e.g. the 1972/73 examination into the arrangements for the exploitation of North Sea oil and gas".¹¹⁰

The PAC used to be mainly concerned with accounting regularity and honesty but nowadays the Committee pays more "attention to problems of elimination of waste and extravagance, to the encouragement of sound practices in estimating, contracting and financial administration generally, and to the need for government departments to obtain 'Value-for-money'".¹¹¹

Having completed its review of the NAO's report the Committee "reports its findings to the House of Commons".¹¹² The Committee's report comprises three major parts. Firstly, it gives factual summaries of the subjects considered. The data for this part of the report is obtained and extracted from the C&AG's report and the evidence taken at the hearings.

Secondly, the Committee presents an analysis of and comments on the deficiencies in their causes.

Finally, the 'Lessons to be learned' are drawn up,

together with plans for remedial actions which might be taken to improve the systems.¹¹³ The Committee's suggestions and recommendations are then considered by the Treasury and the department concerned. Thereafter the Treasury publishes its "Minutes" showing its comments and the actions or steps taken on the Committee's recommendations. the follow-up cycle on the implementation steps taken by the department and the Treasury shall be discussed in the following new Parliamentary session.

II CANADA

In 1878 Canada's first audit act was passed by Parliament. Under this Act the First Auditor General was appointed. In 1931, the Consolidated Revenue and Audit Act created the Office of the Comptroller of the Treasury, relieving the Office of the Auditor General of Canada [OAG] of the responsibility for the control of cheque issues. It was not until the second half of 1977 that the auditing of non-financial activities was introduced.¹¹⁴

The Office of the Auditor General of Canada has adopted the term "Comprehensive Auditing" to describe their approach to the audit of non-financial activities.

".... Comprehensive auditing is a uniquely Canadian concept, developed in the Office of the Auditor General of Canada" ¹¹⁵

According to Boisclair, comprehensive auditing [CA] is a combination of all facets of the Auditor General's

work in one integrated process.¹¹⁶ Furthermore, the Canadian Comprehensive Auditing Foundation [CCAF] defines CA as an examination which

"Provides an objective and constructive assessment of the extent to which (1) financial, human and physical resources are managed with due regard to economy, efficiency and effectiveness, and (2) accountability relationships are reasonably served."¹¹⁷

Comprehensive auditing embraces four areas, these are:

- "- financial planning, budgeting, accounting and financial reporting,
- human resource planning, development, appraisal and utilization,
- planning, acquisition and utilization of property, equipment, plant, inventories and other assets.
- development and production of information necessary to plan, operate and control an organization and to fulfill accountability obligations".¹¹⁸

Furthermore, according to the OAG, an examination is carried out "to determine whether management has established systems and evaluation procedures to ensure achievement of value for money."¹¹⁹ According to the CCAF comprehensive auditing is based on two principles of management in the public sector. Firstly, government business should not only be legal and honest but also, public officials must ensure that their "decisions result in economical, efficient and effective public service in other words ... reflect due regard for value for money".¹²⁰

The second principle is that embodied in the notion that public officials "should be accountable for the prudent and effective management of the resources

entrusted to them".¹²¹

The legal base for the CA is the Auditor General's Act 1977. The Act empowers the OAG to report on the following matters:

- "- that accounts have not been properly maintained,
- public money not fully accounted for or paid into CRF [Consolidated Revenue Fund],
- essential records have not been maintained,
- rules and procedures insufficient to safeguard public property,
- money spent other than for purposes for which it was intended,
- money spent without due regard to economy or efficiency,
- satisfactory procedures have not been established to measure and report the effectiveness of programmes." I22

Preceding events and circumstances leading to the introduction of the auditing of non-financial activities in Canada are, to some extent similar to those existing prior to the introduction of VFM in the UK Central Government but the similarity ends there. In the UK, as has been explained earlier, the government took the initiative, while in Canada the new auditing concept was introduced to the Canadian public sector by James J. MacDonell, the auditor general of Canada. Upon his appointment, the Auditor General launched several innovative studies, covering a wide range of government activities. These aimed to rectify the grossly inadequate system of financial management and control in the government of Canada,¹²³ and to direct the attention of

the decision-makers to the existing state of the accountability relationship at that time. The Auditor General states in his annual report to Parliament for the year 1976 that he is "..... deeply concerned that Parliament - indeed the government - has lost, or is close to losing, effective control of the public purse".¹²⁴

The direct and immediate results of these studies was the expansion of the Auditor general's role and scope of his audit. The scope of the Auditor General's audit is farmed in section (7) of the Auditor General Act of 1977. Subsection (2) of section (7) states that

"Each report of the auditor general.....shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons, including any cases in which he has observed that (d) money has been expended without due regard to economy or efficiency or (e) satisfactory procedures have not been established to measure and report the effectiveness of programmes, where such procedures could appropriately and reasonably be implemented".¹²⁵

The Auditor General's role under the 1977 Act, with regard to the economy and efficiency audit "..... is a direct one. The Auditor General's Department is itself responsible for appraising the adequacy of government operations in relations to these" ¹²⁶two components of comprehensive auditing.

His role with regard to effectiveness review, however, is indirect.

"The Audit office does not question the appropriateness of programs, goals or the values underlying them, nor is it part of our [A.G.'s Department's] mandate to measure effectiveness as such. our mandate is to report if 'satisfactory procedures have not been established to ensure and report

effectiveness of programs, where such procedures could appropriately and reasonably be implemented'." 127

The OAG has adopted an acronym "FRAME" for their CA plan. FRAME is composed of five different but closely interrelated components, these are:

1 - Financial Control:

The OAG continues performing an examination and appraisal of financial management of the government bodies. The Canadian approach to these examination is systems-based rather than transactions-based. The transaction based examination is still carried out by the OAG but for a different purpose and that is to support the OAG's report that the government systems are not only bad in theory but also do not function properly in practice.

2 - Reporting:

Under the 1977 Act, the auditor may file three different reports to Parliament during a given financial year. The first type of report deals with appropriation requests made by the government. While the annual report is considered to be the second type of report prepared by the OAG. According to Glynn this report to parliament includes chapters dealing with:

- "(a) results of comprehensive audits within Government departments and agencies,
- (b) results of Government-wide studies,
- (c) other significant matters, such as those arising out of audit work carried out in departments and agencies in non-comprehensive audit reporting years,
- (d) follow-up on previously reported matters, and

(e) certain qualifications and other matters included in audit report on the financial statement of agencies and crown corporation".¹²⁸

The present Act empowers the Auditor General [AG] to "make a special report on any matter which he considers should not be deferred until the next annual report".¹²⁹ This "special report" is the third type of report which the OAG may prepare. The Act, taking into consideration the AG's knowledge of the real situation in government departments and agencies, knowledge which might be needed by the decision-makers, puts no restrictions on the appearance of the AG "as a witness before PAC"¹³⁰ to give evidence which might be helpful to the members of the committee.

3 - Attest - authority

The third component of a CA examines the financial authority of government expenditure and actual disbursements. The purpose of this component is to assist the auditor to express an opinion on the financial position of the audited government body. Examinations are performed according to generally accepted auditing standards as promulgated by CICA, [Canadian Institute of Chartered Accountants].

4 - Management Control:

Management Control is one of the main components of CA, and deals with evaluating the government bodies for the purpose of determining how efficient, economic and effective the government services are.

5 - EDP auditing

This feature of CA assesses the adequacy and

effectiveness of computer auditing controls throughout the federal government's computerised financial operations.

According to MacDonell, the methodology needed for applying these audit techniques is now well developed but the Canadians face a shortage of the necessary qualified staff to perform this type of audit.¹³¹

In addition, CA according to Allard, has three other key characteristics:

1 - Coordinated:

In order to reduce both the costs of conducting CA and the demands on management's time, different groups [i.e. external auditor, internal auditor and any specialised unit within the organisation] conducting the CA coordinate their efforts to avoid any duplication. This requires the external auditor to know for example, the quality of internal staff, the degree of independence given to them ... etc. before determining the degree of reliance on personal performing CA examination and employed by the organisation under audit.

2 - Cyclical

The major activities, programmes or systems are audited once over a period of four to five years.¹³² The length of each audit cycle depends on the size, complexity, quality and effectiveness of the system of the government body under review, and also on the amount of resources devoted to performing CA. Cyclical audit approach could result in a cost-effective audit by allowing the management enough time to review its systems

and activities and consequently to take appropriate remedial action.

3 - Constructive:

Adhering to this element means that the auditor's responsibility is not only to identify weaknesses in the management systems but also to suggest some broad and practical solutions.

The Canadian Comprehensive Auditing Foundation adds two further key characteristics - Comprehensive and cooperative.¹³³

Comprehensive does not mean that CA examines all activities, controls and systems of the audited agency or department; nor does it mean a review of the entire structure of programmes and units need be carried out simultaneously. The CCAF holds that the breadth of scope of the audit is not confined to those activities of financial management, but covers all major activities, controls and systems of the unit audited, from which the auditor makes his selection. This means that the audit is conducted on a selective, piece-by-piece basis over a designated period of time.

The cooperation of all interested parties i.e. management, legislators and auditors is essential for a successful conclusion of the audit project.

The Canadian Audit Approach and Methodology¹³⁴

According to the CCAF no two comprehensive audits will be the same, because no two organisations are the same. Similarly, no two auditors are identical. Each

audit must be tailored to the situation and needs of the people involved.¹³⁵ Consequently there is no one specific and fully accepted series of procedures applicable to all organisations and under all circumstances. But the appropriate approach(es) applicable under a given circumstance depends on several factors, which include:

- "- The nature of the client - whether it is a legislative or governing body or the management of an organization.
- The history and state of development of the organization's management practices and control
- External and internal environmental influences
- The nature of the organization's activities
- The organizational structure
- Legislation governing the auditor and the audited organization."¹³⁶

The details of the Canadian approach, described below, is a summary of three sources of information. These are:

- (1) "Comprehensive Auditing concepts, components and characteristics" by the CCAF.
- (2) "Auditing in Federal Crown Corporations: A Director's Introduction to the Audit and Special Examination" by the CCAF, and
- (3) "Comprehensive auditing in Crown Corporations, A stronger Handle on the public Purse" by J. Claude Allard.

The Canadian approach consists of several steps or stages, these include:

planning
familiarization, or understanding the organisation
modelling
establishing and selecting criteria
preliminary review
detailed review
Report and final reports issued

The OAG puts great emphasis on the planning phase

after reviewing the results of previous CA projects where inadequate planning led to the pursuit of ill-conceived or inconclusive audit projects.

Audit planning involves determining objectives and resources to ensure that the audit itself will produce the best value for money for the audited government body. Having completed his plans, the auditor gathers information on, for example, the statutory mission of the unit under review, the environmental factors that influence the pursuit of the organisation's mission, organisational structure, functions and activities etc., in order to familiarize himself with the organisation and its activities. Then the modelling techniques are applied to these pieces of information to identify and document the Key elements and their interrelationships. Once the documentation process is completed the auditor analyzes the information to determine its potential impact on his CA mandate.

Selecting an appropriate approach requires the establishment of criteria for assessment. The auditor must determine the area(s) for his attest and authority review on one hand and those activities for VFM review on the other. Having selected a line(s) of enquiry, the auditor prepares his plan for preliminary survey. The plan describes the areas selected, states why these areas have been chosen, gives the survey methodology proposed and the estimated budget in terms of human and other resources required for the review.

The OAG requires its auditors to submit a memorandum

to Advisory Committee before launching their preliminary survey. In this memorandum the auditor explains his findings in the previous stages of his work and proposes some course of action. The Committee reviews and challenges the auditor's findings and proposed course of action. Once his memorandum is approved by the Committee, the auditor starts his preliminary review by detailing what appears to him to be appropriate criteria. He discusses these criteria with the management and makes his decision about them. Then the auditor examines the documents and the activities selected and passes judgement on the degree to which these activities meet the criteria established.

Having completed this stage the auditor submits another memorandum to the Committee explaining his findings and plans for the detailed review. On completion of the detailed examination, which is characterized by in-depth investigations, the auditor submits his draft report to the Committee. The draft report includes, among other things, an overall assessment of the area or activity examined, the auditor's findings, conclusions and recommendations. The process, of submitting a draft report, is repeated with the management of the audited agency and eventually a final report is issued.

The auditor's written report contains:

- "- relevant and important background information, including a description of the corporation's accountability relationships.
- a description of the examination scope
- the criteria used to judge findings

- an overall assessment
- important findings including a discussion of the root causes and potential effects of any significant weaknesses observed
- conclusions and, where appropriate, recommendations
- management's response(s)."¹³⁷

The publication of these reports and the use of the local media are "consistent with council's wishes. Similarly the degree to which any officials of civic unions are to be involved or consulted will be determined by council".¹³⁸

Although the AG's mandate empowers OAG to review all government accounts and most crown corporations,¹³⁹ according to Allard, the Canadian experience in performing CA to date has been limited: "to date, comprehensive auditing has been applied primarily to Canadian government departments and agencies".¹⁴⁰

The approach described above is a system-based review which means that

"it focuses on management system - the decision-making execution and control processes - rather than on transactions or events. Transactions or events may well be highlighted to illustrate the consequences of a weakness observed in a management system, but the focus is on the system and on ways it could be improved".¹⁴¹

Similarities and Differences Between the Canadian and the UK Approaches:

Both systems share a common base, where "judgements on the effectiveness and desirability of programs are appropriately reserved for the political domain".¹⁴²

Consequently, the audit institutions in both countries have a system based review rather than a transactions based system.

It is evident from the literature reviewed that the field of auditing non-financial activities in both countries lacks standards which identify elements of effective management, and enable the agency management to determine and select the appropriate processes and procedures for their entities. Berggren states that the needs for standards are necessary "if the behaviour and judgements of the auditors are to conform to the same pattern".¹⁴³ Furthermore, "standards serve the important purpose of enlightening the audited agencies as to the grounds on which the auditors form their judgements and their methods of auditing."¹⁴⁴

The degree of usefulness of these standards, if these standards have been established, is not only ambiguous but provokes further concern, as Hopwood says,

"It is too early to judge whether such an emphasis on ensuring that the use of the standard routines of efficient and effective management will result in the realization of greater efficiency and effectiveness Evidence from elsewhere suggests that the relationship between such routines and organizational performance is far more equivocal than is being presumed."¹⁴⁵

He goes on to state that he is not only concerned over the development of these standards or their future prospects but also his concern is over the effectiveness of those which

"..... depend on the existence of far more subtle organizational processes than can be encapsulated in organizational manuals and reports, but also such procedures invariably

have consequences that are unanticipated as well as anticipated, particularly in times of political and environmental changes" ¹⁴⁶

Hopwood states several factors, which influence the development of such standards, such as the distribution of power in the organisation, the perception of risk and uncertainty and the degree of responsiveness of the organisation to any changes. These factors not only reduce the chances of developing these standards but could also lead to their developing separately for each organisation. He thinks that there is a better chance of success if the standards are tailored to fit a given organisation.

Furthermore, what could be concluded is that both countries use a system-based review carried out on an ad hoc basis. According to Hopwood the ad hoc basis "hardly appears appropriate" ¹⁴⁷ where the auditor is involved in reviewing systems effectiveness rather than in a transactions or events examination.

Another point which could be raised is that auditing in both countries is mainly concerned with evaluating systems and procedures as an indirect means of evaluating policy issues, reflecting beliefs that good management systems and procedures are more apt to breed good, strong management decisions; but this is not necessarily correct under all circumstances. The "management decision may be good or bad irrespective of processes". ¹⁴⁸

The UK approach for reviewing effectiveness is broader than the Canadian system which is restricted to those cases "where satisfactory procedures for evaluating

and reporting the effectiveness of programs have not been established, where such procedures could appropriately and reasonably be implemented". 149

However, the Canadian approach is clearer than the British one, which generally does not permit the C&AG to comment directly on the policy issues but in certain instances, not clearly defined, the C&AG passes judgement on a particular policy.

The systems of both countries differ again in that the enabling Act of 1977 gives the OAG authority to review most of the Crown Corporations while the UK C&AG is denied this right, which is given instead to the Monopolies and Mergers Commission.

The Canadian approach alone, keeps an open channel of communication, throughout the entire comprehensive auditing process, between the auditor and the entity's management. The purpose of this channel is to keep the management "informed of their [auditor's] plans, progress and findings, and continually solicit reactions from it".¹⁵⁰ The literature neither approves nor censures the existence of such a communication channel.

The systems of both countries still perform financial or traditional audits and the audit institutions of these countries consider this type of audit to be the starting point for their audit of non-financial activities.

Both countries encourage the management of government agencies to establish self-appraising units within themselves to assess their own performance. The

audit institutions in Canada and the UK put great emphasis on coordination and cooperation with these specialised units as a means of encouraging them to continue performing this type of audit and to reduce the cost of the audit.

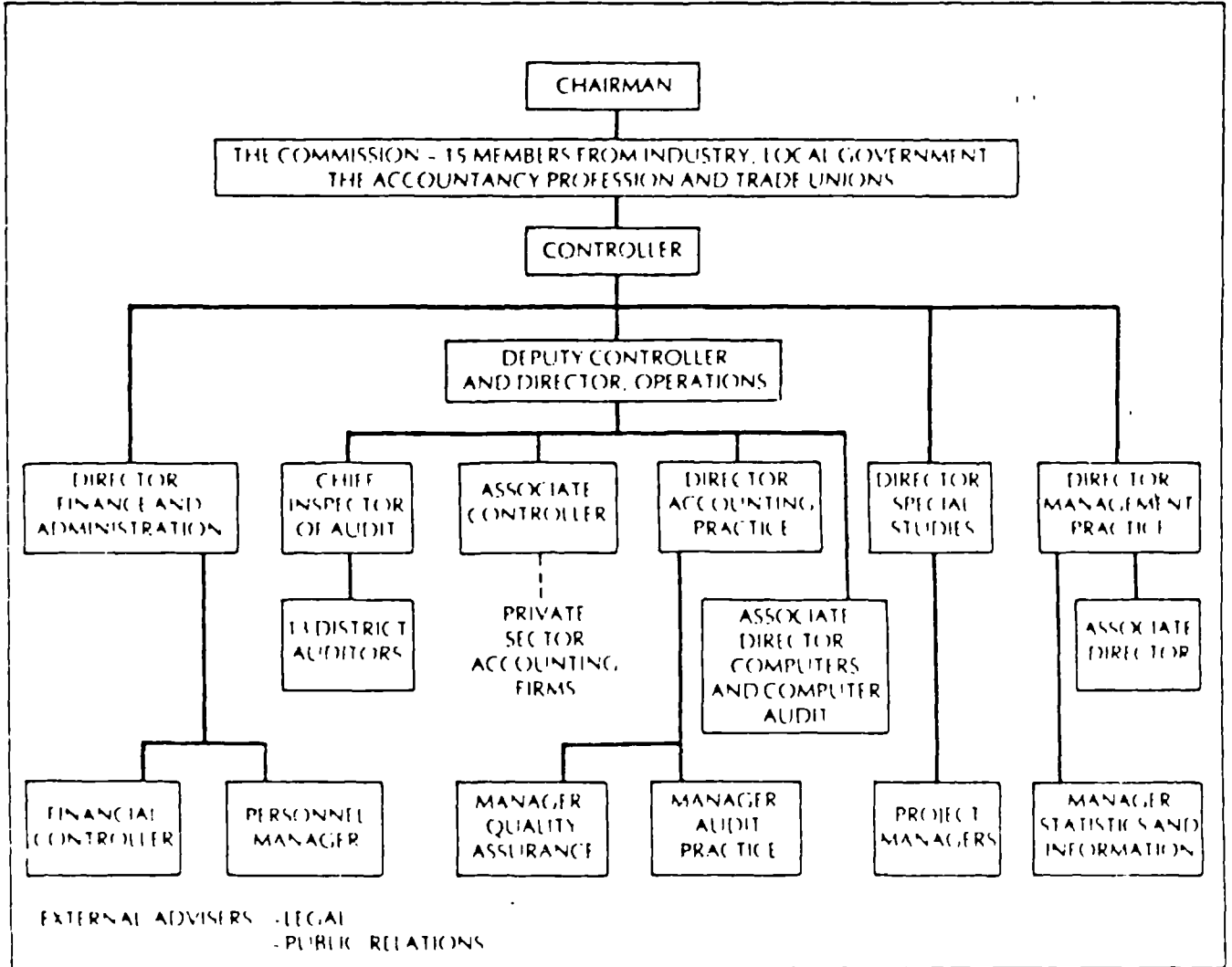
Recruitment through secondment from major private auditing firms, or from agencies with similar activities to those under examination, constitutes the main staffing policy of the audit institutions in both countries. This overcomes the need for specialised skills and has the advantage of being cost effective in reducing the cost of staff, while providing a practical and economical training exercise for the auditors in those areas selected for audit.

The overall auditing systems for non-financial activities in both countries show great similarities in their structure, apart from the area of the follow-up to the audit findings. In the UK it is left to PAC to check on the steps and actions taken by the government department on the NAO's recommendations, while in Canada this responsibility rests with the OAG.

Having described the British and Canadian approaches in this chapter, and having identified the major differences between the two approaches, the researcher will now examine the approaches of the Swedish and American audit institutions.

APPENDIX

Organisation structure of the Audit Commission



Source: The Audit Commission for Local Authority in England and Wales. "Auditing Local Government: A Guide to the work of the Audit Commission". p. 5.

REFERENCES

1. Henley, Douglas, Likierman, Andrew, Haltham, Clive and Perrin, John "Public Sector Accounting and Financial control" sponsored by: The Chartered Institute of Public Finance and Accountancy, Published by VAN Naostrand Reinhold (UK) Co. Ltd., England 1983, P 218.
2. Quoted in "Reform in The Field of Public Accountability and Audit: A progress Report" by E. Leslie Normanton in "State Audit Developments in Public Accountability": Edited by B. Geist. Published by The Mac Millan Press Ltd. London, 1981. P 33.
3. Ibid P 33.
4. Venables, J.S.R and and Impey, K.W., "Internal Audit", Butterworths, London 1985, P 25.
5. House of Commons, First Special Report from the Committee of Public Accounts, Session 1980-81. "The Role of the Comptroller And Auditor General" Vol. III Appendices to The Minutes of Evidence. [HC115] Evidence Taken on July 1980.
6. Henley, Douglas, Likierman, Andrew, Holtham, Clive and Perrin, John. "Public Sector Accounting and Financial Control", P 215.
7. Ibid P 215.
8. Ibid P 217.
9. Normanton, E. Leslie. "Reform in The Field of Public Accountability Audit: A progress Report". Found in State Audit Developments in Public Accountability. edited by B. geist. Published by The Mac Millan Press Ltd., London 1981. P 32.
10. Ibid P 32.
11. Troman, J.W. "Efficiency Auditing, The Scottish Experience" Found in Strathclyde Paper on Government And Politics No. 30, "Value For Money and Effectiveness Auditing in The Public Sector; A symposium "Edited by J.J. Richardson. University of Strathclyde, Politics Department 1984. P 32.
12. Normanton, E. Leslie. "Reform in The Field of PUBLIC Accountability Audit: A Progress Report" P 32.
13. The National Audit Act 1983. Chapter 44. HMSO, London 1983. Part II. Section 6-1.

14. Ibid section 6-2.
15. Troman, J.W. "Efficiency Auditing, The Scottish Experience" P 25.
16. Jones, Rowan and Pendlebury, Maurice, "Public Sector Accounting" Pitman Publishing Limited, London 1984, P 79.
17. Henley, Douglas, Likierman, Andrew, Holtham, Clive and Perrin John. "Public Sector Accounting and Financial Control" P 225.
18. House of Commons, First Special Report From The Committee of Public accounts. Session 1980-81. "The Role of The Comptroller And Auditor General" Para 543.
19. Downey, Gordon S., "The Exchequer and Audit Department" Found in "Public Sector Accounting and Auditing Research Symposium. Sponsored by Deloitte Haskins & Sells in conjunction with the Social Science Council. 11 and 12 April 1983 Edinburgh. public Money, London 1984. P 50.
20. See House of Commons, First Special Report From The Committee of Public Accounts. Session 1980-81. "The Role of The Comptroller And Auditor General. Para 544.
21. Ibid Para 552.
22. Davison, John, "An Industrialist's view of Audit And Value For Money in The Public Sector" CIPFA - "Audit And Value For Money" 1 and 2 November 1984 Edinburgh.
23. Richardson, J.J. "Value For Money and Effectiveness Auditing in The Public Sector: A Symposium. Strathclyde Papers on Government And Politics No 30. University of Strathclyde 29 September 1983. P 16.
24. Fielden, John. "The Audit Commission" Paper presented to Third Accounting And Auditing Research Symposium Sponsored by Deloitte Haskins & Sells in conjunction with The Social Science Research Council. 11&12 April 1983 Edinburgh. P 55.
25. Ibid P 56.
26. See the "Report of the DHSS/NHS Audit Working Group" Chairman: Patrick Salmon. By The Department of Health and Social Security 1983. P 13.
27. The Department of Health and Social Security, "The Health Service in England: Helping more patients

today, Planning for the patients of tomorrow"
January 1985.

28. The Department of Health and Social Security, "Health care and its Costs: The Development of The National Health Service in England" HMSO, London 1983. P 29.
29. The Department of Health and Social Security, "The Health Service in England, Annual Report 1984" HMSO, London 1984. P 69.
30. Ibid P 69.
31. The Department of Health and Social Security, "Health Care and its Costs: The Development of the National Service in England". P 33.
32. See the "Report of The DHSS/NHS Audit Working Group" Para 3.28 P 14.
33. Venables, J.S.R. and Impey, K.W. "Internal Audit" P 19.
34. See the "Report of the DHSS/NHS Audit Working Group" Para 3.9 and 3.10 PP 9-10.
35. Ibid Para 3.9(b) P 9.
36. The Royal Commission of The National Health Service, "Management of Financial resources in The National Health Service" HMSO, London 1978. Para 3.5 P 20.
37. The Department of Health and Social Security, "Report of the DHSS/NHS Audit Working Group: Para 3.26 P 14.
38. Ibid Para 4.28 P 26.
39. Glynn J.J. "Value For Money - An International Review and Comparison" Financial Accountability and Management in government, Public Services and Charities, Winter Vol. I, No. 2, P 115.
40. An Interview with The Chief Internal Auditor of The Greater Glasgow Health Board.
41. Henley, Douglas, Likierman, Andrew, Holtham, Clive and Perrin, John, "Public Sector Accounting and Financial Control" P 218.
42. The Royal Commission of The National Health Service "Management of Financial resources in The National Health Service" Para B. 3.5, P 20.
43. See The "Report of the DHSS/NHS Audit Working Group" Para 3.38. P 17.

44. The Department of Health and Social Security, Report of the DHSS/NHS Audit Working Group" Para 3.3, P.5.
45. Ibid Para 3.2, P 25.
46. Ibid Appendix 3, P 69.
47. The Department of Health and Social Security. "The Health Service in England, Annual Report 1984" P.74.
48. Ibid P 73.
49. The Department of Health and Social Security, "The Health Service in England. Helping more patients today, Planning for the patients of tomorrow".
50. Third Report From The Expenditure Committee. Session 1970-71 Cmnd 549. Found in "Economy, Efficiency and Effectiveness The 'Value For Money' Audit" by David Flint, the Accountant. Magazine June 1978 P 245.
51. Local Government Finance [Layfield Committee Cmnd 6453] chapter six para 8 Found in "Economy, Efficiency and Effectiveness The 'value For Money' Audit" by David Flint, The Accountant Magazine June 1978 P 245.
52. Local Government Finance [Cmnd 6453] Chapter Six, Para (1) page 90.
53. Audit Commission, "Auditing Local Government: A guide to the work of The Audit Commission" The Audit Commission London, P 5.
54. Local Government Finance [Cmnd 6453] chapter six para 15, PP 93-94.
55. Barrett, David. "Current Practice in The UK Local Government". Found in "Value for Money" One day Seminar. Organised by Peat, Marwick, Mitchell & Co. and in association with the Institute of Public Administration. P 23.
56. Accounts Commission of Scotland. "Auditing Guidelines; Economy, Efficiency and Effectiveness" Accounts Commission. P 27.
57. Local Government Finance [Cmnd 6453] chapter six para 20. P 95.
58. Quoted by J.S.R. venables and K.W. Impey in "Internal Audit". P 22.
59. Glynn, J.J. "Value for Money Auditing - An

60. Audit Commission, "Auditing Local Government: A guide to The Work of The Audit Commission". P 6.
61. Venables, J.S.R. and Impey, K.W. "Internal Audit" P.24.
62. Glynn, J.J., "Value For Money Auditing in the Public sector" Prentic-Hall International/in Association with the Institute of Chartered Accountants in England and Wales, London 1985, P.164.
63. Audit Commission, "Auditing Local Government: A guide to the work of The Audit Commission". P 6.
64. Ibid P 8.
65. Quoted by J.S.R. Venables and K.W. Impey, "Internal Audit". P 268.
66. An Interview with The Director of Accounting Practice, Audit Commission.
67. An Interview with The Director of Accounting Practice, Audit Commission.
68. Audit Commission, Internal Document on Proposal Special Studies Programme Para 27.
69. Fielden, John, "A Consultants Experience in Undertaking Value for Money Review". Found in "Value for Money and Effective Auditing in the Public Sector: A Symposium" Edited by J.J. Richardson Strathclyde Papers on Government and Politics. No. 30 University of Strathclyde 1984, P 39.
70. Venables, J.S.R. and Impey, K.W., "Internal Audit" P.268.
71. Audit Commission, "Auditing Local Government: A guide to the work of The Audit Commission", P 6.
72. Venables, J.S.R. and Impey, K.W. "Internal Audit", P.268.
73. Audit Commission, "Auditing Local Government: A guide to the work of The Audit Commission", P 6.
74. Fielden, John. "A Consultants Experience in Undertaking Value for Money Review". Found in Strathclyde Papers on Government And Politics No 30: "Value For Money and Effectiveness Auditing in the Public Sector: a Symposium" Edited by J.J Richardson. University of Strathclyde 1984. P.39.

75. See Local Government Finance [6453]. Chapter Six Para.100.
76. The Accounts Commission of Scotland. A leaflet. Answer to Question No. 4.
77. See The Local Government Finance (Scotland) Act 1973, Section 98.
78. The Local Government Finance (Scotland) Act 1973, Section 97-(2)
79. Ibid section 97-(3)
80. The Accounts Commission, "Tenth Report of The Commission for Local Authority Accounts in Scotland - 1985. The Accounts Commission. P 5.
81. Fielden, John. "Pressures for Change in Public Sector Audit" Found in "Issues in Public Sector Accounting" edited by Cyril Tomkins and Anthony Hopwood. Philip Allan Publisher Limited, Oxford 1984. P 215.
82. Venables, J.S.R. and Impey, K.W. "Internal Audit". P 21.
83. Glynn, J.J. "Value for Money Auditing - Can The Auditor Deliver?" The Fourth Tom Robertson memorial Lecture. 24 February 1986. University of Edinburgh. Edinburgh.
84. Troman, J.W. "Efficiency Auditing, The Scottish Experience". P 28.
85. Ibid P 28.
86. See The Local Government Finance (Scotland) Act 1973, Section 102-(2).
87. Henley, D. "Current issues in Public Sector Auditing" Found in "Auditing Research: Issues and Opportunities" Edited by: Anthony G. Hopwood, Michael Bromwich and Jack Shaw. Pitman Book in association with Deloitte Haskins & Sells, Chartered Accountants London, October 1982. PP.173-174.
88. House of Commons, First Special Report from The Committee of Public Accounts. Session 1980-81 "The Role of The Comptroller And Auditor General" Para 125.
89. Downey, Gordon S., "The Exchequer and Audit Department" P 53.
90. Troman, J.W. "Efficiency Auditing, The Scottish

- Experience". P 31.
91. Glynn, J.J. "Value for Money Auditing in The Public Sector" P 28.
 92. Henley, D. "Current issues in Public Sector Auditing" P 173.
 93. Ibid P 173.
 94. See "The Exchequer and Audit Department" by Gordon S. Downey P 53.
 95. Henley, D. "Current Issues in Public Sector Auditing" P 173.
 96. Ibid P 173.
 97. Tomkins, Cyril "Developing a Public Sector Audit Paradigm" in Auditing Research: issues and opportunities "Edited by Anthony Hopwood, Michael Bromwich and Jack Shaw. P 202.
 98. Glynn, J.J. "Value for Money Auditing in The Public Sector" P 8.
 99. Ottawa Report: AG's report stress economy and efficiency" CA Magazine, Vol. 112, January 1979. P 24.
 100. Troman, J.W. "Efficiency Auditing: The Scottish Experience" P 32.
 101. Glynn, J.J. "Value for Money Auditing in The Public Sector" P 25.
 102. Dewar, David. "Current Practice in The UK" Central Government" P 17.
 103. Fielden, John "Pressure for Change in The Public Sector Audit". P 214.
 104. Ibid 214.
 105. Dewar, David. "Current Practice in The UK: Central Government" P 20.
 106. Glynn, J.J. "Value for Money Auditing in The Public Sector". P 24.
 107. See "Pressure for change in The Public Sector Audit" by John Fielden. P 214.
 108. Dewar, David. "Current Practice in The UK: Central Government" P 19.
 109. Exchequer and Audit Department, UK. "Role of the

Committee of Public Accounts in The United Kingdom" International Journal of Government Auditing. January 1975. P 3.

110. Ibid P 3.
111. Ibid P 2
112. Fielden, John. "Pressures for Change in the Public Sector Audit", P 214.
113. See "Role of The Committee of Public Accounts in The United Kingdom" by The Exchequer and Audit Department, U.K. P 4.
114. MacDonell, James J. "Auditing The Government of Canada: A Centennial Conspectus", CA Magazine, December 1978. P 22.
115. Glynn J.J. "Value for Money Auditing in The Public Sector" P 38.
116. Boisclair, Jean-pierre. "The Challenge of Comprehensive Auditing" CA Magazine, January, 1984. P 28.
117. Snodgrass, Richard E.(Ed), "Auditing what isn't" CA Magazine, November 1984, P 66.
118. Canadian Comprehensive Auditing Foundation. "Comprehensive Auditing: Concepts, Components and characteristics" PP 7-8.
119. Snodgrass, Richard E. (Ed) "Auditing What isn't" P.66.
120. Canadian Comprehensive Auditing Foundation. "Comprehensive Auditing: Concepts, Components and Characteristics". P 7.
121. House of Commons, First Special Report from the Committee of Public Accounts. Sessions 1980-81 "The role of Comptroller and Auditor General Appendix XXVIII
122. See "Auditing the Government of Canada: A Centennial Conspectus" P 24.
123. Ibid P 24.
124. Ibid P 24.
125. Quoted in "Auditing the Government of Canada: A Centennial Conspectus" P 26.
126. Hapwood, Anthony G. "Value For Money: Practice in Other Countries" Found in "Value For Money" One day seminar organised by Peat, Marwick, Mitchell

& Co. In association with the Royal Institute of Public Administration. London 1982. P 41.

127. MacDonell, James J. "Auditing the Government of Canada: A Centennial Conspectus" P 27.
128. Glynn, J.J. "Value for Money Auditing in the Public Sector" PP 120-121.
129. House of Commons, First Special Report From The Committee of Public Accounts. Session 1980-81. "The Role of Comptroller and Auditor General Appendix. XXVIII.
130. Ibid Appendix XXVIII.
131. See "Auditing The Government of Canada: A Centennial conspectus" by James MacDonell.
132. See "Comprehensive Auditing: in Crown Corporations: A Strong Handle on the Public Purse, by Claude J. Allard. CA Magazine, February, 1981, P 39.
133. See "Comprehensive Auditing: Concepts, Components and Characteristics" by The Canadian Comprehensive Auditing Foundation.
134. See "Comprehensive Auditing in Crown Corporations: A Stronger Handle on The The Public Purse" by Claude J. Allard.
135. Canadian Comprehensive Auditing Foundation, "Value for Money in Municipalities: A Coumcillor's Introduction to Comprehensive Auditing". The Canadian Comprehensive Auditing Foundation 1984. P 7.
136. Canadian Comprehensive Auditing Foundation, "Comprehensive Auditing: Concepts, components and characteristics" P 17.
137. Canadian Comprehensive Auditing Foundation, "Auditing in Federal Crown Corporations: A Director's Introduction to the Audit and Special Examination Provisions of The Financial Administration Act". The Canadian Comprehensive Auditing Foundation, 1984. P 35.
138. Canadian Comprehensive Auditing Foundation, "value for Money in Municipalities: A Councillor's Introduction to Comprehensive Auditing". P 10.
139. Found in First Special report from The Committee of Public Accounts. Session 1980-81 "The Role of Comptroller and Auditor General" Appendix XXVIII.
140. Allard, Claude J. "Comprehensive Auditing in

Crown Corporations: A Stronger Handle on The Public Purse" CA Magazine, February 1981. P 40.

141. Ibid P 39.
142. Ibid P 39.
143. Berggren, G. Rune "Effectiveness Auditing in Swedish National Administration" Part I - Framework and Methods - International Journal of Government Auditing April 1978. P 3.
144. Ibid P 3.
145. Hopwood, Anthony G. "value for Money: Practice in Other Countries" P 42.
146. Ibid P 42.
147. Ibid P 42.
148. Allard, Claude J. "Comprehensive Auditing in Crown Corporations: A Stronger Handle on The Public Purse" P 41.
149. MacDonell, James J. "Auditing The Government of Canada: A Centennial Conspectus". P 26.
150. Allard, Claude J. "Comprehensive Auditing in Crown Corporations: A Stronger Handle on The Public Purse" P 43.