

**130th Advanced Course on Administration and Development
(ACAD)**

Module – 5: Research for Governance and Policy Analysis

Seminar Paper

On

**An assessment of the Effectiveness of Government Auditing: A case
study of Foreign Aided Projects Audit Directorate, Bangladesh**

Submitted To

Dr. Md. Mizanur Rahman

Module Director

Module Number: 5

Module Name: Research for Governance & Policy Analysis

Submitted By

Nazrul Islam Azad

Roll Number – 106



**Bangladesh Public Administration Training Centre
Savar, Dhaka-1343**

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Abstract

The purpose of this study is to assess the effectiveness of government auditing, especially the auditing of Foreign Aided Projects Audit Directorate of Bangladesh. Accountability is an essential element of democratic form of government. As a Least Developed Country with limited resources, Bangladesh is heavily dependent on foreign assistance for its development. All foreign loan, grant and aid are the part of consolidated fund of the republic. We should give importance to maintain financial discipline for optimum utilization of the borrowed money, which will also increase the burden of debt on the future generation. Accountability of foreign aided projects is ensured through various government organizations. Audit conducted by Foreign Aided Projects Audit Directorate (FAPAD) is one such mechanism, the prime responsibility of that is to audit the foreign aided projects and certify the accounts of the project and issue reports to the donor agencies and audited entities. The study area is FAPAD, which carries out the assigned work on behalf of Comptroller and Auditor General of Bangladesh. Comptroller and Auditor General of Bangladesh produce audit reports to the Parliament which are prepared by various audit directorates including FAPAD. Accountability in public sector can be ensured by the coordination among executive agency (auditee), auditor and parliament. Qualitative and quantitative data have collected through content analysis and interviews of representatives from auditors, auditees, development partners and members of PAC to record their views and opinions on the state of audit effectiveness of foreign aided projects in Bangladesh. The analytical framework is developed to inquire the factors which are assumed to ensure an effective audit. During research it was observed that there are some limitations that affect audit effectiveness of foreign aided projects. The present study is expected to leave scope for the stakeholders of FAPAD audit reports (both primary reports and CAG's audit reports) to review their ownership in the chain of the accountability framework.

Table of Contents

<u>Content</u>	<u>Page Number</u>
Abstract	i
Table of Contents	ii
Abbreviations and Acronyms	iii
Title	1
Background of the Study	1
Problem Statement	2
Scope of the Study	3
Objectives of the Study	3
Research Questions	3
Rationale of the Study	4
Research Methodology	5
Present scenario of Foreign Aided Projects Audit Directorate (FAPAD)	7
Results and Discussion	8
Conclusion and Recommendation	32
Bibliography	
Appendix	

ABBREVIATIONS and ACCRONYMS

ADB	Asian Development Bank
ADB PLU	ADB Project Liaison Unit
ADP	Annual Development Programme
ADG	Additional Director General
AIR	Audit Inspection Report
BSR	Broad Sheet Reply
CAG	Comptroller and Auditor General
CGA	Controller General of Accounts
CGDF	Controller General Defence Finance
CONTASA	Convertible Take Special Account
CPAM	Computerization of Project Accounting Manual
CPTU	Central Procurement Technical Unit
CQAC	Central Quality Assurance Committee
DCA	Development Credit Agreement
DCAG (A&R)	Deputy Comptroller and Auditor General (Audit & Report)
DFID	Department for International Development
DD	Deputy Director
DG	Director General
DOSA	Dollar Special Account
DP	Development Partner
DPA	Direct Project Aid
DPE	Department of Primary Education

DPP	Development Project Proposal
EAs	Executive Agencies
ERD	Economic Relations Division
FAPAD	Foreign Aided Projects Audit Directorate
FS	Financial Statement
FY	Financial Year
GoB	Government of Bangladesh
GDP	Gross Domestic Product
IAs	Implementing Agencies
IDA	International Development Agency
IGS	Institute of Governance Studies
IMED	Implementation, Monitoring and Evaluation Division
ISA	International Standards of Auditing
MDG	Millennium Development Goal
MoPME	Ministry of Primary and Mass Education
MoF	Ministry of Finance
NPM	New Public Management
ODI	Overseas Development Institute
OCAG	Office of the Comptroller and Auditor General
PA	Performance Audit
PAC	Public Accounts Committee
PAO	Principal Accounting Officer
PD	Project Director
PEDP II	Second Primary Education Development Program

PPR	Public Procurement Regulations
QAC	Quality Assurance Committee
RPA	Reimbursable Project Aid
SAFE	Special Account Foreign Exchange
SAI	Supreme Audit Institution
SFI	Serious Financial Irregularity
SoE	Statement of Expenditure
SWAp	Sector Wide Approach
TAPP	Technical Assistance Project Proposal
TOR	Terms of Reference
UNDP	United Nations Development Program
VFM	Value for Money
WB	World Bank

audit reports - as for example - What are the factors that contribute to and/or affect an effective FAPAD audit? or How much effective a mechanism is government auditing to uphold project accountability? or What is the degree of usefulness of FAPAD audit reports for its users?

Apart from some articles or essays on FAPAD auditing published in departmental journals or presented in seminars, there is not much in-depth academic research conducted in this area. Thus a study aiming to examine the areas question mentioned above is important not only for the audit directorate but also to the Development Projects and Government of the Peoples Republic of Bangladesh. AIRs are the preliminary audit reports issued by FAPAD - after completion of audit and approval by the Director General of FAPAD - to project management/Project Directors, Principal Accounting Officers of concerned ministries and the concerned Development Partner(s). Justification of the study is to analyze data and identify any weaknesses in the system, and thus improve its oversight functions.

8. Research Methodology

Both qualitative and quantitative method is applied to attain the objectives of this study. Qualitative data is collected through interviewing three target groups comprising 8 respondents. Quantitative data is obtained through questionnaire survey of two groups of respondents, the number being 33. The sample size is 41, Purposive sampling technique is used to select the population, comprising members of audit department, representatives of auditees (project and line ministries), representatives from DPs. The composition of the sample size is shown in (Appendix-A). Techniques of data collection entail both primary and secondary modes. Three methods are used to collect primary data - questionnaire survey, interview and case study. The following two tables (Table 1.1 and Table 1.2) show detail outline of the empirical approaches followed:

Table 8.1: Target groups for interview

Category of Respondents	Number
Senior officials of SAI (Gr II and III)	2
Representatives from Ministry and Projects	3
Representatives from Development Partners (DPs)	3
Total	8

A semi-structured form of interview has been chosen as the best alternative because it helps researcher in getting quality information based on interviewees' experience (Denscombe, 1998) and at the same time help in managing the interview with reasonable flexibility. The questions for interview were designed to explore the views and opinions of the senior officials involved in the chain of accountability relationship, from both audit and project management. Also, the valuable insights of representatives from donor agencies were recorded, regarding the effectiveness of auditing in ensuring project accountability.

Table 8.2: Target groups for questionnaire survey

Category of Respondents	Number
Audit Officials of FAPAD and SAI (Gr V – IX)	20
Representatives from Auditee Agencies and Ministry	13
Total	33

Target groups for questionnaire survey were the Audit Officials of FAPAD and SAI, Representatives from Auditable Agencies, concerned Ministry. Survey method was intended to gather primary data about the effectiveness of auditing with a semi-structured questionnaire. Questionnaires were administered face to face in major cases. Due to inability to conduct face to face interview for corona situation, telephonic interview was conducted in some cases. Questionnaires were contained both close ended and open-ended questions enabling them to provide both quantitative and qualitative information. Besides, secondary data was collected through content analysis of various literatures, scholarly writings and documents related to the subject matter. Documentation was provided valuable information. Among the documents that have been used are the Constitution of People's Republic of Bangladesh, Annual Reports of the Office of CAG, Organization Chart of FAPAD, FAPAD Audit Manual, Government Auditing Standards and Code of Ethics for Government Auditors, Audit Code, FAPAD AIRs, reports of Donner Agencies, VFM Audit Manuals and Guidance materials, FAPAD Annual Audit Plan, Audit program and other official documents, Reviews, Journals of OCAG, written and recorded

materials such as correspondences with DPs, minutes of meetings, relevant circulars and orders issued by the C&AG from time to time, online articles, e-books, notes etc.

9. Present scenario of Foreign Aided Projects Audit Directorate (FAPAD)

The area of present study is the Foreign Aided Projects Audit Directorate (FAPAD), one of the audit directorates under the CAG of Bangladesh. The objective of the thesis is to look into FAPAD audit effectiveness in upholding accountability of foreign aided projects in Bangladesh. It is thus helpful to have an understanding of the organization and its nature of work.

a. Establishment

Audit of foreign-aided projects became institutionalized in our country with the establishment of the Foreign Aided Projects Audit Directorate (FAPAD) in 1982. According to a Report of the Martial Law Committee on organizational set-up of the Directorate of Audit, Foreign Aided Projects, Finance Division, Ministry of Finance and Planning (December, 1982), FAPAD was created in 21-11-1982 with 100 posts of officers and staff as sanctioned by the Finance Division at the initial stage.

b. Functions of FAPAD

The functions allocated to the directorate, according to the Martial Law Committee Report (1982) of its Organizational Set-up are given below:

- a) Conducting local audit of all foreign-aided projects in Bangladesh and audit reports thereon.
- b) Issuance of audit certificates on the project accounts to the Government and other authorities as prescribed by the Government.
- c) Conducting audit of all loans, grants and aids received from various aid-giving agencies and other friendly countries.
- d) Maintaining liaison with the aid-giving agencies and the Government in all matters relating to audit.
- e) Providing financial advice to the foreign-aided projects in maintenance of their accounts.
- f) Prescribing manner and forms on which the project accounts would be maintained.

g) Arrangements for imparting training to the project accounts people to improve quality of project accounts.

c. Auditable units and audit teams involved

The number of auditable units under FAPAD for a given period (1 financial year) depends on the number of foreign aided projects included in the ADP of the government. 489 auditable units are under FAPAD audit coverage for FY 2018-19 (FAPAD, 2019). The ADP allocation for FY 2019-20 was Tk 2,02,721 crore, which was 38.7% of total allocation. Project aid was 35.4% of total ADP allocation in FY 2019-20 (CPD, 2020). This portion is currently under the purview of FAPAD audit for FY 2010-11. There are two-member 36 regular audit teams/parties in FAPAD at present engaged in field audit. However, this number varies as per requirement. Manpower involved in the field audit is almost 41% of the existing strength, according to sources from the directorate.

10. Results and Discussion

The purpose of this paper is to assess the effectiveness of government auditing of foreign aided programs and projects in Bangladesh. This chapter deals with the findings and analysis in this regard, based on data gathered from primary and secondary sources. Effectiveness of government audit means how well the end results of audit are meeting the intended outcomes. It may be mentioned here that the intended outcome of government audit is to ensure accountably and transparency across the government. In the current paper, audit effectiveness is meant to be concerned mainly with the role of audit in ensuring accountability of the audited entities (project management and line ministries), in the use of financial resources.

As stated before, the performance of FAPAD is considered to depend upon two main kinds of activities, firstly, functions directly related to the audit process, like, audit planning, programming, and processing, audit methodologies, etc., and second, functions needed to perform to acquire environmental support in favor of the audit activities. The major environmental actors for FAPAD are the auditees (project management and line ministries), the Parliament, the Development Partners

For the purpose of achieving the objectives of this paper, data has been collected through questionnaire surveys and interviews. Two sets of questionnaires were developed for the purpose of the study, to collect primary data from both the parties involved in actual auditing, the auditors and auditees, using an open-ended semi-structured questionnaire, was conducted for interviewing senior officials of SAI, the Director General of FAPAD, FAPAD's concerned stakeholders - senior officials (Deputy/Joint Secretary) of the ministries and of project management), senior officials of development partners (DPs). Thematic analyses of responses made by respondents of the groups have revealed a number of aspects relating to effectiveness of government audit in Bangladesh. Tables incorporating the responses (in both absolute number of responses and in percentage), and charts are described in the following part of the chapter. Data collected from the survey has been presented chronologically with findings and necessary analysis. The findings are presented corresponding to the independent variables taken and indicators selected. For convenience, the responses are listed relating to the questions, followed by brief interpretation/analysis.

10.1 Findings through Data Analysis

It is relevant to project and interpret the findings applying possible statistical analysis. Since source data comprise of both qualitative and quantitative information, apart from summarization of data, some figure-based analyses and deduction are also made. In this data presentation section, summarization of data, use of number and percentage, some graphical representations reflecting the comments of the respondents on issues pertaining to performance of audit and responsiveness of its stakeholders are used. Some measures of location and other tests are also applied.

The work nature and standard of FAPAD, as stated, is unique in comparison to the other directorates under CAG. As FAPAD has to meet the deadlines of the Development Partners (DPs), the Audit Inspection Reports (AIRs) have to be made available to DPs as per the timeframe agreed between GoB and DPs in the loan agreement. There were two research questions that this study sought to address, one was related to the extent of FAPAD audit being effective in carrying out its responsibility of auditing foreign aided projects, and the

second one was on the degree of auditee entities' responsiveness towards audit. With a view to addressing the above mentioned questions, the survey has been conducted on 41 respondents to collect primary data. Besides, content analysis was also completed as a source of secondary information. These were discussed in the research methodology. Keeping in mind the research questions and objectives of the study, all these are done to justify the analytical framework of the study. The following part elaborates the findings and interpretation of the data collected during interview with the target groups of the research work. The analyses are arranged in sequence to the independent variables of the study.

10.1.1 Application of Auditing Standards and Ethics

Audit can help restrain any tendency to divert public resources for private gain (Sahgal, 1997). By auditing government income and expenditure the Office of the CAG provides assurance for financial integrity and the credibility of reported information and contributes to building up National Integrity System (IGS, 2009). Audit activities therefore need to conform to professional auditing standards to make quality observations. A Code of Ethics has been formulated by OCAG, which it tries to implant in the auditors to adhere to values of ethics needed to objectively assess the financial integrity of management. The findings against the indicators of the variable are presented below:

a. Type of audit

The full scope of OCAG's mandate includes financial statement audits, regularity (or compliance) audits, and performance audits. The question regarding the type of audit usually undertaken by FAPAD was asked to audit personnel only. The respondents of this question were chosen particularly from mid-management level of SAI, i.e. Director and Deputy Director level. This is because officials of this level carry out the directives or strategies as laid down by OCAG and complied by the DGs of directorates under CAG. Here the number of respondents is 10.

Table 10.1: Type of audit traditionally conducted by FAPAD (n = 10, audit)

Type	Financial Audit and Compliance Audit	Performance Audit
Comment	10	0
%	100%	0

Source: Survey Data

In response to the type of audit undertaken by FAPAD, all the 10 respondents (100 percent) commented that generally both Financial Audit and Compliance/Regularity Audit are concurrently carried out by the directorate. The scope of audit, commented a senior SAI official, is limited to examining the regularity of financial transactions and compliance with rules. Though audit observations on performance related matter of the projects/program implementation were noticed occasionally in the FAPAD AIRs, but Value for Money (VFM) audit is not regularly conducted. Owing mostly to the deadline oriented nature of the directorate, Performance Audit (PA) is conducted in a very limited scale on sectoral basis. Since VFM or PA, remarked one of the leading authorities of the directorate, usually requires to be conducted at the end year, or one or two years subsequent to project/program completion in order to evaluate the outcome, or the intended objective, its scope is very limited in FAPAD. The directorate does not have “pick and choose” option or cannot divide the auditable units under A, B or C category like the other directorates. Besides, there is a separate directorate, called Performance Audit Directorate, established in 2005, that is responsible for conducting VFM audit.

b. Effectiveness of VFM Audit

Parliamentarians particularly, are not satisfied with only the audit findings focusing on what went wrong in the financial transactions of the project expenditure. They want to be ensured of the value for money, and want the remedial measures to be pointed by audit. The traditional Financial and Compliance Audits, commented both PAC Chairman of the 9th Parliament and a member, though necessary, are not enough for upholding transparency and accountability of donor assisted projects. A corresponding query to the above mentioned question was made to members of audit and auditee entities whether PA/VFM audit would yield better result in ensuring overall project accountability. A total of 31 respondents were asked about it.

The general perception supports the assumption that PA audit would ensure the project accountability more effectively if conducted along with the traditional ones. Majority of respondents (77 percent) expressed in the affirmative that audit will be much more effective in ensuring overall project accountability if PA is conducted alongside traditional audits, i.e. financial and compliance audits. It is true that due to resource (time, budget, personnel etc.) constraints, PA is conducted in a very limited scale by FAPAD, viewed its top management. There is also a shortage of expertise to conduct VFM audit, since the majority of audit personnel involved in field audit are non-cadre members, and the bulk of them are class II and class III personnel. However there is sometimes special audit taking place in the directorate, which involves senior management members as team leaders.

According to a senior bureaucrat of commerce ministry, many projects in Bangladesh are donor driven, and not need based. As a result despite the fact that many projects are able to show economy and efficiency, they are hardly seen to yield the desired results. And herein lies the need for PA for the aided projects in Bangladesh to ensure accountability. He further remarked from his own experience, that auditee organizations are comfortable with PA, but the auditors are not capable of conducting PA at this stage, of so many projects. A senior PAC member agreed fully. Though PA is the demand of time, FAPAD auditors need the required potential and orientation for it, as it involves technical skill and expertise. Expressing dissatisfaction at the quality of FAPAD audit reports, he reiterated the need for

training to make audit reports/observations of more substantive nature. Lack of quality makes audit ineffective, thus affecting its intent and efforts. For this the PAC member called for more involvement of cadre officers at field audit, especially of significant projects. According to SAI officials, due to shortage of cadre officers, as well as the deadline-oriented nature of FAPAD, it is usually not possible for the Deputy Directors (DDs), who are in charge of the audit teams, to conduct the field audit themselves. DDs can at best monitor/supervise through telephone the teams under him/her, or carry out physical inspections to ensure the quality of audit work to an acceptable standard. Their foremost responsibility is to meet the deadlines of donors and ensure quality of AIRs after the teams submit the AIRs at the head office on completion of field audit. It may be inferred in this regard that there exists some weakness on the part of FAPAD, ultimately OCAG, for not attaining the competence or quality to effectively ensure accountability of the auditee.

c. Adequacy of FAPAD audit resource

The main resource of audit is the available competent workforce and time for auditing and reporting. FAPAD, reported Dayal (2000), which alone has the responsibility to audit 650-700 projects per year, is facing problems, like other directorates, as the number of available audit staff is seriously inadequate to do justice to the volume of audits. The auditable units of FAPAD for the financial year 2018-19 is 489, and the number of audit teams are 36, comprising of around 80 personnel. A World Bank Country Study (1996) reported that one of the major reasons why audit office does not perform satisfactorily is insufficient and weak staff skills. Respondents from the two main strata (audit and auditee) were asked whether they think the existing resource of FAPAD is sufficient in auditing donor-funded projects' expenditure.

Table 10.2: Response to adequacy of FAPAD resource in auditing projects' expenditure {n=31, Audit (20), Auditee (11)}

Adequacy of human resource	Audit Officials		Executives of auditee bodies		Total	
	No. of Respondents	%	No. of Respondents	%	No. of Respondents	%
1 (Not Sufficient)	1	5%	0	0	1	3.225 %
2 (Partially Sufficient)	5	25%	0	0	5	16.12 %
3(Moderate)	9	45%	5	45.45 %	14	45.16 %
4(Fairly Sufficient)	5	25%	5	45.45 %	10	32.25 %
5(Fully Sufficient)	0	0	1	9.09%	1	3.225 %
Total	20	100%	11	100%	31	100%

Source: Survey Data

Majority i.e. 45 percent of respondents (out of total 31) saw FAPAD resource being moderately sufficient, and 32 percent believed it was fairly sufficient or more than moderate. Only 3 percent opined it was fully sufficient. A higher FAPAD authority commented resource as 'not sufficient'. FAPAD is working with a little more than half of the sanctioned resource, and the auditable units are 400 plus. It was found that against a sanctioned post of 300 personnel the existing human resource of FAPAD is 179 (OCAG *Annual Report, 2009*). Moreover, time allocated for the audit of the different projects also prove very less to reflect an in-depth picture of the internal control system of the project management, according to some team leaders of audit. The problem, observed an ex-CAG, is two-fold. Firstly, quantity could not necessarily ensure quality. The bulk of the audit workforce is clerical personnel having no expert auditing skill. Secondly, there is scarcity of professionally capable personnel. The findings of the survey put up with the assumption that resources have an impact on audit effectiveness. It may be deduced from this, given the work load in the directorate, there is a general requirement for more audit resource, particularly quality human resource, to produce better audit result.

It is observed that the modal value for affirmative responses lie in the class of 'moderate'. But accepting the weightage towards the possession of 'fairly sufficient' leads to the support towards acceptable/ satisfactory level of manpower availability in the audit sector.

d. Importance of audit operational plan

Individual audit work plan prepared by the concerned audit team is an important audit strategy that helps the team to perform audit in an efficient and timely manner, making the optimum use of audit resources. The lack of planning and the limited number of staff and time allotted for the large volume of audits result in superficial examination and more reliance on management provided information (Dayal, 2000). According to a senior audit official, if you do not plan properly, you plan for your failure. In a response whether audit work plan is prepared by every team, a mixed feedback was received. The following chart and responses during interviews, present the findings.

Only the audit related people were asked of this matter, as this is concerned with an audit strategy. According to FAPAD auditing system, audit planning is done once at the directorate level, i.e. there is an Annual Audit Plan prepared by the directorate, based on the list of projects included in ADP and as per requirements of DPs. These auditable units are quite satisfactorily complied with within the timeframe of DPs, as well as within a given year. However, individual audit operational plan is, in most cases, not developed before field audit, by the teams. Among 20 respondents, majority (75 percent or 15) agreed that audit plan is rarely, or only sometimes prepared prior to actual audit, and is not a regular practice. Most of the team leaders (AAOs) expressed that it is not made mandatory for teams to develop individual audit plan.

Among the reasons for it, 20 percent of total respondents out of 16 said 'Teams get insufficient time for developing plan', 20 percent said that 'Plans are not always made compulsory or monitored afterwards'. 18 percent said documents and files are not up-to-date to provide adequate information for audit plan, while another 18 percent put the reasons on all the statements given. According to some representatives from audit management level, it is only audit program that is prepared, not audit plan, or prepared rarely. Lack of knowledge regarding necessity of operational plan is also a reason, viewed another mid-level audit manager. It gives the impression here from the system of FAPAD, that management level has a role in this regard. Lack of active involvement by audit managers in the audit process, and making audit plan not mandatory or supervising afterwards, along with audit teams getting insufficient time, are in most cases the reasons why audit plans are not prepared.

e. Competence and skill of FAPAD human resource

Skill and expertise of an office are its most valuable assets. This is more significant in case of FAPAD, as the directorate has to furnish audit opinions on financial statements prepared by management that requires sound understanding of the system. Moreover, as all the project documents (DPP, DCA etc) are prepared in English, and the AIRs are also prepared and issued in English, language ability is of vital importance. So both technical skill and language proficiency are necessary. *Country Financial Accountability Assessment* conducted jointly by the UNDP and the World Bank on SAI Bangladesh in 2000, observes that lack of adequate staff and quality control has limited the effectiveness of audit reporting (cited in OCAG,

2000:6). The most serious shortcoming of the OCAG is the lack of suitably qualified, experienced and trained staff (Dayal, 2000). A total of 31 respondents were asked about competence of FAPAD audit personnel. The chart below shows the response.

While ranking the extent of competence and skill of FAPAD workforce in auditing donor-funded project expenditure (where the scale was used from 1 to 5, 1 for lowest, 5 for highest), majority (little less than 50 percent) respondents among 31 (8/20 from audit, and 6/11 from auditee), gave opinion that competence or skill of FAPAD resource is of moderate/average standard. Almost 39 percent (8/20 from audit and 4/11 from auditee) are quite satisfied with the standard, as more than average. Thus the score is mostly between average and more than average about the skill of auditors. 16 percent gave a full score, with no score given for the scale 1 and 2. FAPAD audit demands expert skill and proficiency in English, pointed out an ex-Auditor. Even if quantity is increased, there is dearth of professionally skilled manpower in FAPAD. All the findings indicate that resource (both in quantity and quality) needs to be increased to meet audit objective, and to meet stakeholders' expectation from FAPAD reports. This was equally emphasised in the interviews taken of senior representatives of projects, donors, member of PAC and SAI. A PAC member observed that posting in FAPAD should be done on a very selective basis, with an eye to the academic background and professional skill of auditors, both at managerial and staff level. The objective of FAPAD audit would be compromised otherwise, since quality audit cannot be expected of incompetent auditors.

f. Independence of auditors in discharging duties

Auditor's independence is the basic foundation for the credibility of audit. The audit function should be independent from those it is required to audit. Organizational independence as well as auditor's individual independence allows the audit function to conduct audit work without interference by the entity under audit. Consequently, users can rely on the objectivity and the accuracy of the auditor's result and reports. The Constitution of Bangladesh has given enough independence in terms of mandate. In the present research, independence is related to the functional side, which is independence of auditors in discharging their duties. Question was asked on how much independently FAPAD can carry out its duties, on behalf of SAI

Table 10.3: Nature of influence on audit independence (n = 13, Audit)

Nature of Influence on audit Independence	Response	%
Political pressure/interference	0	0
Pressure from line ministry	2	15.38
Influence from project management	8	61.53
Influence from development partners	2	15.38
Physical threat/ situational pressure	1	7.69

Source: Survey Data

The tabular data above indicates highly the prevalence of project management exerting influence that can have a serious and direct impact on the expected performance during field audit. The funds are used by the project management. If they have the chance of exercising influence, the independence of OCAG is hampered in the operational level executed by the FAPAD auditors.

Other comments : Interestingly, some respondents (15 percent) from audit teams remarked that there were instances where they sometimes faced pressure from some departmental senior officers from audit, as well as from the accounts side, including some on lien/deputation in projects/ministry, that try to “exert influence on auditors’ freedom”. This impairs their independence to some extent, that impacts on audit quality. It is to be noted here that as the sample size of the study is small and comparatively the source database of this research is of qualitative type, hence this assertion from the respondents require some attention. The example of response may be three or 15 percent, but certainly the information obtained seems detrimental to the framework of accountability and internal control.

g. Code of Ethics for Auditors

Principles and moral standards are very vital characteristics in auditors engaged in the audit activity. These are essential in attaining the audit objective of ensuring accountability of

projects. SAI acts as a watchdog over financial integrity and the credibility of reported information. If the auditor's integrity is compromised in terms of corruption, the independence of auditor is impaired and the role of watchdog is undermined and audit report to Parliament will no longer serve the purposes for which budget is approved. There is no denying the fact that management level has to rely on personal morality and firmness of the officials and staff for performance.

It is sometimes alleged that audit teams cannot always adhere to the values of code of ethics for auditors, like integrity and objectivity, while performing their duties. Comments/response regarding the issue, along with indicating the party responsible for this frame of mind, were asked of the respondents. The chart below presents the response to the indicator.

Only 19 percent (6/31) disagreed to the observation that auditors "cannot adhere to ethical standards" for them, as laid down in Code of Ethics for Auditors. This portion is mostly from audit. The rest 25 or 81 percent agreed/partially agreed to the truthfulness of the allegation. 25 respondents out of total 31 opted for 'auditee' solely or 'both' – auditor and auditee, who may be held responsible for auditors' failing to abide by the code of ethics for government auditors while carrying out audit of donor aided projects' expenditure. And among this 81 percent i.e. 25 respondents, 72 percent (18/25) laid the blame on both auditor-auditee, who are responsible for this sort of mindset. It was observed that, the 8 respondents from audit side who said 'Both' are responsible, are all Director and Deputy Director level officers, i.e. cadre officers. And the 7 respondents who said 'Auditee organizations' are the singular cause for the auditors' failure to adhere to ethics in auditing, are all AAOs – non-gazetted Class I officers. They are the major portion involved in field audit. Interestingly, none from auditee side opted for only the auditors/auditees who may be taken into account for auditors' failing to maintain ethical standards. Rather, the 10 respondents who agreed/partially agreed that it is true that auditors cannot always remain ethical, commented that 'Both' (Auditor and Auditee organization) bear responsibility for it.

Findings show that majority of respondents held both auditors and auditees at fault, but since auditors are the holding the positions of trust, they are to be blamed the most, commented an ADB senior member. Appendix C (Table C1 and C2) represent the percentage, as calculated

from response provided by the respondents who blamed 'both' the sides (Auditor and Auditee organization) for auditors' failing to abide by ethical values. In both cases the modal value indicates that the cause of non-adherence to code of ethics significantly indicates towards the auditors bearing the major share of the blame. The highest percentage from audit side was 80 (i.e. Auditor 80%, and Auditee 20% responsible), while auditees gave 60 percent as highest to auditors.

h. Effectiveness of quality control/ assurance of audit and reporting

There are no benchmarks for quality in the audit process, observed Dayal (2000), and further stated that a relatively small number of generalist audit managers, who themselves lack sufficient audit training and experience, are expected to provide direction, guidance and supervision to a huge number of largely unqualified and untrained auditors. Quality control and quality assurance mechanisms of auditing and reporting that are in practice in FAPAD, are supposed to prove effective as means of better audit output. These control tools are also laid down in the FAPAD Manual. These are also in line with the directives set by OCAG for the audit directorates, for quality auditing. The opinions of the respondents are reflected in the following chart. Respondents from audit (n=20) were asked to comment on it, with a scale ranging from 1 to 5 (1 for lowest, 5 for highest).

Majority gave much importance to the processes to ensure quality audit output. These are conducive to better auditing and reporting, they felt. The query received a mixed reaction. 55 percent said it is quite effective, i.e. the system is well in practice and satisfactory. 15 percent ranked it as moderate, 25 percent as below moderate or partially effective. Only 5 percent ranked it as very effective. This however, was less felt in the views given by members of PAC and senior project management, who felt the quality/standard of audit needs much improvement. Auditees were not directly asked to comment on the above indicator, as they may not be aware of this audit system. However, their response to the quality of audit and reporting are given in the later section of the chapter.

10.1.2 Responsiveness of Auditees (project management and line ministries)

To uphold the audit objective in making its oversight function meaningful, the cooperation of the audited entities and the line ministries is an indispensable criterion. These actors, in fact, are the subject of audit oversight functions, and important partner in the chain of accountability relationship. The findings of audit would have little effectiveness if the auditees are not serious about the audit activities and objectives to improve the financial management of the projects' performance. Findings on the indicators of this variable are summarized as follows.

a. Audit as an aid to management

Audit is said to be an aid to management, its objective to promote accountability and transparency for improved public financial management (PFM). Question was incorporated in this regard to find out from both auditor and auditees how much they agreed to this, as reflected in the relationship between auditor-auditee in the overall audit functions. In fact, auditor and auditee require a sound relationship between themselves, one of good rapport and devoid of prejudices. This should be based on mutual understanding and respect of each others' responsibilities. Auditors undertake audits and prepare programs and methodology unilaterally, were the observations of a senior member from donor agencies. An agreed approach is missing. On the other hand, the auditees are also indifferent to audit matters and do not give much attention to audits while being conducted. 31 respondents were surveyed to get their views on audit as an aid to management, as reflected in their reciprocal relationship.

14 respondents from audit (out of 20), which is 70 percent of the total from audit side, replied that the attitude or mindset of accepting audit as aid to management is reflected in the relationship of auditor-auditee in the overall audit functions, but only partially. And these 14 blamed it not on auditors, but either on 'auditees' solely, or 'both' - auditors and auditees combined. In the words of an ex-CAG, audit mostly fails to render "substantive management improvement inferences", whereas the management (auditee) similarly is "non-respectful of whatever management improvement opinion is offered in the audit report". Partially agreeing

b. Responsiveness of the project management

Responsiveness of the project management in giving/taking timely and proper reply/ action as per audit recommendations against observations raised is an important aspect rendering effective audit. The FAPAD reports by themselves, even if they are of substantial nature, will not be meaningful and prove effective if the auditees are not responsive to audit findings and recommendations, to bring improvement to management. Review of FAPAD AIRs showed that often the management's approach to the audit observations raised, are their inclination to giving answers (spot replies) "later on after verification of relevant records". This not only hinders an effective audit result, but results in an increase in audit observations.

While perception of major portion, i.e. 90 percent of audit people (18/20) expressed average/moderate satisfaction about the responsiveness of the project management in giving/taking timely and proper reply/ action as per audit recommendations against observations raised, majority. i.e. almost 91 percent of auditee (10/11) ranked it between 4 and 5 in the scale, that is, fairly high and very satisfactory. Here the response again seems to be a little prejudiced on the part of auditees. Majority of senior audit officials viewed as average the responsiveness of auditees. Inability of auditee (project management) to prepare accurate and reliable accounts and financial statements deter meaningful audit, remarked an ex-CAG. Audit is also not sufficiently skilled to decipher credibly the financial transactions and financial statements. This affects the auditees' responsiveness/acceptability of audit in some cases.

c. Seriousness of the line ministries towards audit

In a recent view exchange meeting with the media, the present CAG said that though it is the duty of Principal Accounting Officers to ensure financial discipline in their respective organization, they do not do it let alone rectifying those anomalies and misappropriation reported by the CAG (*The Daily Star*, May 2011). *How much serious are the line ministries when responding to audit observations of serious nature - Advanced Paras (APs) or Draft Paras (DPs) - concerning projects of their ministries?* – This was included in the list of questions to find out the mindset of line ministries towards audit. The following figure focuses on the response from both the sides.

Again, majority of audit respondents – 65 percent (13/20 from audit) viewed ministries as harbouring a moderate attitude or seriousness towards audit, while more than 50 percent of auditees (6/11) saw it as prevailing a quite satisfactory attitude of line ministries towards audit. While taking interview of a representative of DP, it was found that line ministry takes quite a long time to sign the response or Broadsheet Reply (BSR) given by project management and takes audit by and large, casually. A senior member of project management agreed to this. Audit will have a narrow impact as means of ensuring accountability of the use of state's exchequer, observed a director of an audit directorate, if ministry does not own the results/consequences of projects' expenditure taking place in the ministry. According to media reports, as the PAOs, in most cases do not ensure accountability in expending the taxpayers' money, the country's financial anomalies and corruption keep rising consistently (*The Daily Star*, May 2011). DG, FAPAD agreed that auditees are reluctant to respond as per audit requirement. Official letters or DO letters are issued against PAOs, but if they do not respond timely and accurately, audit cannot enforce them. However he also acknowledged of an improvement in the situation. Ministries are at present much proactive, thanks to a very active PAC, he observed.

d. Seriousness of the auditees towards non-recurrence of similar audit objection

Response was sought about consciousness of the auditees (project management and ministries) to check/avoid recurrence of similar irregularity - detected through auditing - in future. If same type of error/irregularity takes place in the following year in the financial transactions of the same project, despite previous audit objection in similar area, will be indicative of the minimum effectiveness of audit as means of improvement of PFM. From self experience, the researcher has often witnessed that similar errors continue in the financial transactions of the project funds. The following chart focuses on the response from both the sides.

Maximum, i.e. 12 respondents or 60 percent from audit side ranked auditees as moderately conscious to check recurrence of similar audit objections. Very few (3 or 15 percent) from audit said auditees are even 'Fairly serious'. On the other hand, almost 73 percent (8/11) from auditee saw management/ministry being quite or very serious about non-recurrence of

same nature of error/lapse in the management of financial resources, as detected by audit. In a relating query on how much effective audit will be if auditees give proper and regular response to settle audit objections based on audit recommendations (Appendix D), almost all the respondents (90 percent) acknowledged the significance of it for an improved PFM. In practice however, it was found that where auditors give a Qualified Opinion on FS of projects' accounts, it often goes unheeded by project management, even DPs, whereas the main concern is to get settled/reduce the number of observations. This narrows down the effectiveness of the unique nature of financial statement audit conducted by FAPAD.

10.1.3 Role of Development Partners (DPs) in facilitating effective auditing

Development Partners are also significant actors in the chain of accountability relationship. They are the co-financers of the government's funding of foreign aided projects, in implementing of the government's policies and plans. FAPAD has been maintaining a good relationship with DPs from the very beginning, and meets the audit requirement of DPs in furnishing timely audit opinion on the FS of project's accounts. Regarding response about the role of DPs in facilitating effective auditing, auditors and auditees, as well as the DPs agreed that intervention of DPs would bring about a meaningful output and outcome from audit activities. The following chart depicts the response whether meetings and trainings facilitated by DPs are conducive to quality auditing.

74 percent of respondents, involved in the field audit believed that FAPAD audit will be more effective to uphold project accountability if more training programmes are arranged by DPs for capacity building of both auditors and auditees. More than 50 percent of audit personnel (among 20 respondents) and almost 90 percent (among 11 respondents) of auditees commented that meetings, trainings facilitated/funded by DPs would render a better understanding of the requirement of audit (on the part of auditee), as well as that of the DPs (on the part of both auditors/auditees). Especially, entry and exit meetings, remarked an ADB representative, are very effective for quality auditing as these meetings provide opportunity not only to understand each others' viewpoints, promote better understanding and cooperation, but also enrich knowledge on audit methodology and subjects of audits. Some

AAOs observed that, since transfer posting is an ongoing phenomena in audit department, the newly posted audit workforce of both Class I and II level, need training and orientation. This has a positive impact on auditing in field level.

It was found during interview that mechanisms are in place whereby DPs monitor closely that project financial management is improved, based on audit recommendations. The table below is an indication that role of audit will be enhanced if DPs monitor project management, so that its financial management is improved based on action taken, as per audit recommendations.

Table 10.5: Audit effectiveness through monitoring of management by DPs
(n=31, audit- 20, auditee-11)}

Effectiveness of audit through monitoring of management by DPs	1 (Not much effective)	2 (Partially effective)	3 (Moderately effective)	4 (Fairly effective)	5 (Very effective)
Audit	0	1	6	5 (25%)	8 (40%)
Auditee	0	1	2	6 (54%)	2 (29%)
%	0	6.45%	25.80%	35.48%	32.25%

Source: Survey Data

In fact, monitoring by DPs may be said to be one of the main factors why auditees are much active nowadays to respond timely to audit recommendations. 65 percent of audit workforce and 83 percent of auditees gave high score that role of audit will be enhanced if DPs monitor project management regularly, so that its financial management is improved based on action taken, as per audit recommendation. Responding to another query on how much accurately the AIRs can reflect on areas of interest to DPs, pertaining to the projects they fund, (i.e.

project specific financial statement; internal control; performance measurement/implementation), 30 percent among audit (total 10) responded in the positive and rest 70 percent responded as partially. When a representative from DPs was asked on it, he commented that, AIRs report on FS and project implementation quite well. However, the treatment of internal control is found insufficient.

10.1.4 Supporting role of Public Accounts Committee (PAC) in rendering effective FAPAD audit

PAC give recommendations based on audit findings, but very few are implemented (cited in Azad, 2007). Government departments are not also serious to implement PAC recommendations. Audit effectiveness gets narrow or is affected in such case. Responding to the query on how much they agreed that PAC is assisting in audit effectiveness by its timely scrutiny of audit reports/objections, majority however responded in the affirmative. The table below shows the respondents’ views on how much they agreed that PAC is monitoring or following up of its recommendations by auditees.

Table 10.6: Response regarding PAC follow-up of its recommendations

(n=31, audit- 20, auditee-11)}

Extent of agreeability about PAC role in following up of its recommendations	1 (Disagree)	2 (Partially agree)	3 (Moderately agree)	4 (Fairly agree)	5 (Fully agree)
Audit	0	1	14 (70%)	2	3
Auditee	0	2	3 (27%)	5 (45%)	1
%		9.67 %	54.83%	22.58%	12.9%

Source: Survey Data

On the response whether PAC is playing its role satisfactorily by reviewing /monitoring the follow-up reports on auditees' timely implementation of PAC recommendations, majority (70 percent) of audit personnel among 20, moderately agreed to it. Almost 72 percent of auditee responded between 'moderately' and 'fairly' agreeing to PAC's role in following up of its recommendations. If the total number of 31 respondents are taken, majority (54.83 percent) thinks that the role of PAC in monitoring the follow-up or reviewing the follow-up reports on auditees' timely implementation of PAC recommendations, is average or moderately satisfactory.

10.2 Summary of issue specific findings regarding an enabling auditing environment

The current section is inclusive of several pertinent problems identified during field survey, especially from discussion with senior OCAG and project officials and are believed to have an influence on the effectiveness of FAPAD auditing. The limitations described relate to weaknesses of both audit side and executive agencies, as well as the other actors involved in the accountability chain, and thus need especial attention. Foremost among these are highlighted below.

- i. FAPAD as mentioned is a deadline oriented directorate, the deadline being set by the DPs. FAPAD has to meet the requirement of DPs as set out in the DCA. Again, each DP has their own timeframe (Appendix C may be referred) of submission of audited report, focus of their demand being essentially on giving on Opinion on FS. But the time required for completing the audit and giving opinion is, in many cases, too short to expand the coverage, scope (to determine the sample size and cover the areas to be audited), and preparing the AIRs, the preliminary audit report. As for instance, the deadline for submission of audit opinion on Health, Nutrition and Population Sector Programme (HNPSPP), the largest audit coverage of sector-wide program, is December 31 of every year. This requires a maximum audit involvement, in terms of time, personnel.
- ii. Financial Statement is often not furnished on time (i.e. within a month after the end of a financial year, by end July), or accurately. The executing agencies, particularly the project directors in a good number of cases, cannot prepare the FS

timely, which affects directly the audit activities. As a result, undertaking of audit is delayed. Preliminary data collection on basis of FS, analysis of risk at the head quarter of FAPAD, briefing the audit teams etc are hampered. The resultant effect is, quality of FAPAD audit report is not ensured as expected. Besides, FAPAD in most cases has to certify the FS without auditing DPA expenditure, as the DPs only provide a quarterly Statement of Expenditure (SOE) to project management without any supporting documents or vouchers.

- iii. The planning phase of audit is the most essential phase. But due to inclusion of huge number of projects every year, in addition to the existing ones, and due to number of audit manpower being reduced year after year, the gap becomes wider. There is gap in the preparation of proper audit planning in the directorate due to manpower constraint. Moreover, the ratio between management level officers and staff is so significant, that most of the audit programmes cannot be run effectively. Effective monitoring and supervision of field level audit and work of auditors is also a key problem. Besides, the quality assurance mechanisms of audit and reporting seem not to be able to perform their assigned duties effectively. The reasons are, in many cases, their pre-occupation and involvement in matters, such as, bilateral and tripartite meeting, attending of PAC meeting, preparation of working papers and so on. These affect the quality of FAPAD reports.
- iv. Development Partners, in most cases, are found, not taking seriously the audit opinion of FAPAD, even if opinion is Qualified. On the other hand, the general tendency of the executing agencies, in most cases, seems not to provide the required information during audit. There is also lack of initiation of proper replies/response on audit observations during the conduct of audit, as well as during follow up of audit. The EAs and DPs, as well, remain less concerned with the audit observations of the closed projects. Under such situations, sufficient and appropriate evidence of audit observations cannot be taken, hence quality of audit is affected. Besides FAPAD is found to face problem in conducting audit of closed projects. As the project people get transferred during this time, project FS and other relevant documents are not maintained properly. Thus, the last audit of those projects can't be carried out effectively.

- v. The feedbacks received from auditee organizations, different projects, concerned ministries, etc, in many cases, are often found to be not taken care of timely by FAPAD. The responses are often not examined and reviewed carefully. As such, there is huge accumulation of unsettled audit paras. Even the SFIs are often not sent to the PAOs timely. The audit function is still viewed as means of detecting fraud and irregularities rather than as a management control function. The focus is largely to verify transactions with less regard to their values. Sometimes the presence of auditors in the Project Directors' offices becomes a matter of apprehension for the management. There is an established attitude of 'thief vs police' between auditee and auditors, leading to non-cooperation. A cooperative mind of the auditors is often found missing.

This study has attempted to explore the circumstances that are understood to lead to FAPAD audit effectiveness and the actual state of its usefulness for its stakeholders. Using both primary and secondary data, the study has worked through the steps of audit process to assess FAPAD auditing effectiveness for the beneficiaries of FAPAD audit.

It may be stated here again that 'effectiveness of FAPAD audit' has been taken as the dependent variable of the present research, whereas 'application of auditing standards and code of ethics', 'responsiveness of auditees', 'supporting role of Public Accounts Committee (PAC)', and 'involvement of Development Partners (DPs)' are identified as the independent variables. At the outset, there were some general assumptions that FAPAD audit effectiveness depends much on the effective working relationship and environment between the auditors and the major actors or stakeholders in the chain of accountability. The findings of the study suggest that the factors which were assumed to have a bearing on audit activities have much relevance. For instance, the survey data reveals that 16 out of 20 respondents viewed that an important audit strategy like operational audit plan is sometimes/not prepared by the audit teams, again majority (55 percent) were of the opinion that quality control/assurance tools of audit were in place, more or less satisfactorily, however more involvement of senior audit management is required to make audit activities effective. In fact, the overall findings on matters related to audit process and standards are inclined towards an average level of effectiveness or satisfaction among the beneficiaries of FAPAD

audit reports. The main actors involved in audit, i.e. auditor and auditee feel that a concerted coordination between them is a prerequisite to attain the objective of audit, also the aim of a democratic government, i.e. sustaining transparency and accountability in the use of public funds. However, findings reveal in some cases, a somewhat biased response from each side. Like, while majority from audit (18/20) side has ranked 'moderate' the responsiveness of auditees towards audit, major portion of auditees (10/11) on the same issue gave a high score to their cooperation by responding to audit requirement. A gap may be perceived, that certainly need reciprocity, awareness on both sides about the importance of value addition of audit activities. An interesting observation is the role of DPs as facilitators. It is understood from the practical scenario of the case study, that regular monitoring of project management by representatives of DPs had lead to a number of audit observations getting settled at the ministry level meetings. Also, an active PAC of the present (9th) parliament had been able to build maximum seriousness of the line ministries to respond to the PAC recommendations of audit observations. A common view of all stakeholders of audit is the urgent need for resource development of audit. The findings reflect that all the indicators selected to assess audit effectiveness are agreed by respondents to be among the contributing factors of effective auditing, however their practice and implementation are not, most of the time, made at the desired extent. As the audit work takes place against this backdrop, these hold back FAPAD audit effectiveness to the expected level.

11. Conclusion and Recommendations

In summing up the discussions made above, the thesis indicates that accountability and transparency are among the main attributes of good governance. Government of Bangladesh has mechanisms in place to maintain accountability and transparency across the public sector. SAI Bangladesh is one of such mechanisms. FAPAD, on behalf of CAG, conducts audit and certifies accounts of donor-assisted programs/projects to ensure accountability in the use of public resources. But FAPAD works under some limitations, among which are shortage of competent and skilled manpower, inadequate response from the project management and ministry and so on. Keeping this in consideration, the present study has aimed at assessing the level of effectiveness of government auditing in ensuring accountability of foreign aided projects.

The study has attempted to examine the effectiveness of government auditing of foreign aided programs/projects in the context of Bangladesh. Primary data collected through questionnaire survey and interview carried out with the stakeholders of FAPAD audit reports, gave various insights into the actual scenario of the audit work. Some crucial observations also resulted from content analysis, particularly documents pertaining to the case study of the research. A careful compilation and analysis of the findings has been done. The investigation revealed certain dissatisfaction regarding FAPAD audit in important areas, like lack of strategic planning, insufficient evidence of audit work, lack of skilled human resource, less understanding of the auditee organizations, delayed issue of audit reports, poor presentation of audit report, weak monitoring as well as follow up, weak management etc. The contexts that are perceived to affect/impinge most an effective FAPAD audit are among others, lack of skilled audit manpower, lack of proper monitoring and quality assurance process of audit, delay in implementation of audit recommendations by project management and ministry. From the study it is evident that there exist certain gaps in the working system of audit that need to be addressed. Equally important is the need for the stakeholders of audit to be more attentive to audit, as a tool of accountability.

As mentioned before, there are two research questions that the study aims to examine: (i) the extent of effectiveness of FAPAD audit to ascertain accountability of foreign aided projects and (ii) the extent of responsiveness of the Executing Agencies (EAs) and line ministries to government auditing of donor funded projects. To gather primary data related to the study area 41 respondents were interviewed. If we take the highest representative, empirical data reveals that 45 percent or the majority of total respondents (14/31) believe that FAPAD reports (AIRs and audit reports) are good, in terms of being fair, reasonable and timely presented. However, regarding the quality and the substantial evidence of the reports, 45 percent (14/31) ranked it as average. Again, regarding the quality of auditing itself, 42 percent or majority (13/31) ranked it as average. And though FAPAD audit is considered an effective mechanism for upholding project accountability, 58 percent (18/31) respondents saw FAPAD reports meeting partial expectation of stakeholders. In response to the first research question, it is evident that the respondents agreed that the factors or criteria selected

in the study, do have a bearing upon an effective FAPAD auditing. However, the overall findings from both qualitative and quantitative data on matters related to audit process and standards are inclined towards an average level of effectiveness or satisfaction among the beneficiaries of FAPAD audit reports. The general opinion is that all the factors considered in making auditing effective are in practice, nevertheless, their effectiveness is not as per expectation. The contexts that deter audit from being qualitative, thus effective, are described in the next part of the chapter. However, an agreed reality was that an often unethical nexus between the auditors and auditees is greatly responsible for audit being partially effective.

On the other hand, in response to the second research question, it was apparent from responses that there exists biasness on the part of auditees (project management). This is manifested in their defending of their position of aiding in audit activities throughout the audit process. However, responses from audit side revealed average level of cooperation from auditees that limits audit from being effective. What was clear from the interviews and discussions with senior level officials, especially as felt by the development partners, was the existence of a gap between the auditors and auditees that affect an effective auditing from taking place. This gap comprises of lack of mutual understanding and respect to each other's objectives, and has a direct impact on the quality of auditing and reporting.

The following aspects of the major agencies/actors involved in the audit activities can be taken into account to ensure better accountability of foreign aided projects. These include the recommendations based on the findings.

First, though each DP has their own timeframe of submission of audited report, with focus of their demand being essentially on giving on Opinion on FS, but the time required for completing the audit and giving opinion is, in many cases, too short. Also, the EAs particularly the project directors in a good number of cases are found to be unable to prepare the FS timely and accurately. This affects directly the audit activities. As there prevails a dissatisfaction regarding the audit quality, both the executing agencies and the DPs may think of re-scheduling the timeframe of completing audit opinion on FS for quality and effective audit reports. Moreover, the posting of the project staff in the PDs' offices should be from

accounting background and they should be updated with continuous training, in order to overcome the above stated problems.

Second, the planning phase of audit is the most essential phase. Inclusion of huge number of projects every year on one hand, and number of audit manpower being reduced year after year on the other, create a gap in the preparation of proper audit planning in the audit directorate. Moreover, due to the limited involvement of the already insufficient management level officers, most of the audit programmes cannot be run effectively. These affect the quality of FAPAD reports. Under such circumstances, appropriate ratio of management level officers and staff should be maintained.

Third, FAPAD audit approach, planning and reporting are viewed as being not scientific and not in conformity with international auditing standards. Risk based auditing approach should be followed and auditing standards need to be followed strictly. Well structured audit plan has to be prepared for all audits and permanent file has to be maintained following ISA. Audit teams need to gather adequate and relevant evidences to prepare and report findings and conclusions so that they stand on sound footing. Auditors should not undertake audits and prepare programs and methodology unilaterally. An agreed approach needs to be in practice. On the other hand, the auditees should also not be indifferent to audit matters and need to give much attention to audits while being conducted.

Fourth, FAPAD opinion on FS is often found to be taken care of less seriously, both by DPs and EAs, even if the opinion is Qualified. The EAs and DPs, as well, remain much less concerned with the audit observations of the closed projects. Under such situations, the matter may be addressed whereby all unsettled audit observations should be settled within one year after the close of the project. There can be a government directive regarding the issue. Besides, FAPAD is often found to face problem in conducting audit of closed projects. In such cases, the project related documents must be preserved properly, and it should be given special attention by the PAOs.

Fifth, the number of unresolved audit observations, mostly of serious nature, is piling up and less attention is given to follow-up activities by the audit directorate. In such situations, FAPAD auditors' attitudinal change or change in mindset is necessary. More interaction is

needed between auditor-auditees through workshops and meetings. Regular correspondence between FAPAD, projects and line ministries is needed to resolve audit observations. The entry and exit meetings that are held presently with the leading donors are very effective for quality auditing. Based on exchanges of views in these meetings, each party can improve its approach and readiness for audit effectiveness, thus paving way for mutual respect and trust. These meetings can be held with each development partner, more so since the auditees and DPs can be informed of the audit plan of FAPAD for the upcoming FY. DPs can offer enhanced inputs in these meetings, by which both auditor-auditee would be benefited. Again, a significant portion of foreign aid comprises of DPA. But FAPAD most often than not, cannot audit DPA expenditure, due to lack of proper evidence and donors' control over it. Donors in such case can provide to PDs monthly SOE of DPA funds.

Sixth, the existing resource of FAPAD can undertake a few PAs a year, but success and quality in pilot performance audits will only earn support within and outside the department for this new type of creative audits, which need subject matters expertise, rigors in research, diplomatic skills in getting support from the audit entity, and leadership in utilizing various resources. FAPAD can proceed and learn about performance audits only by doing them on pilot basis. For this, manpower skilled in various sectors such as engineering, health management, works, financial management should be posted in FAPAD to conduct more PAs. Moreover, positioning personnel in FAPAD having good command in English, knowledge of projects and their operations, operational modalities of donors etc. are important. Besides, the existing resource can be developed through advanced and continuous training. FAPAD needs skilled manpower with highest integrity and professionalism. Institutionalizing of in-house training and intensive audit briefing will improve quality of audit. DPs can offer joint training of both FAPAD personnel and project management. Besides, incentive packages, even appreciation certificates would boost up the efficiency and dedication of auditors.

Finally, FAPAD lacks an effective audit monitoring system. Though a software, Foreign Aided Project Monitoring System (FAPAMS), was developed and installed in FAPAD in 2006 under CPAM project, in absence of appropriate practice and training, data are seldom

found up-to-date and accurate. Computerization of FAPAD records is necessary, catering to the special needs of the directorate.

The research concludes with an emphasis on the significance of effective fund utilization in a democratic government, accountability being its key component. Foreign aid plays a vital role for the socio-economic development of resource-constrained country like Bangladesh. The findings of the study have justified that a concerted coordination among the actors engaged in public accountability relationship is desirable to build an enabling environment for an appropriate stewardship of scarce resource and effective reporting on it. Many significant findings and facts have come up in the process of the research work, pertinent of which are discussed in this chapter. Nevertheless, within the constraints of time and scope, some other crucial and relevant issues of auditing could not be addressed and covered to the fullest in this study. These can be taken up for further exploration into the heart of the matter and offer means of addressing the issues.

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Appendix A

Table A: The composition of the respondents

Stratum	No. of Respondents
Audit Officials (Gr IX-II)	22
Representatives from Ministry and Projects	16
Representatives from DPs	3
Total	41

Appendix B
Questionnaire 1

(This Questionnaire is designed to collect data from audit officials of SAI Bangladesh, which will be used for academic purpose only. The objective is to make use of the data for dissertation under 130 Advanced Course on Administration and Development (ACAD). Title of the thesis is 'An Assessment of the Effectiveness of Government Auditing: A case study of Foreign Aided Projects Audit Directorate, Bangladesh'.)

From: Nazrul Islam Azad, Deputy Secretary

(Please tick or write as the response requires)

Basic Information about respondent

1. Name :

2. Job Title and Office :

.....

3. If your current office is not FAPAD, do you have work experience in this directorate?

a) Yes b) No

If yes, Please give designation and duration of your posting in FAPAD.

Designation :

Duration :

4. FAPAD is a deadline oriented directorate. What type of audit is usually undertaken ?

a) Financial Audit b) Compliance Audit c) Performance Audit

5. Due to resource (time, budget, personnel etc.) constraints, performance audit is conducted in a very limited scale. Do you think that performance /Value For Money (VFM) audit would yield better result in ensuring overall project accountability?

a) Yes

b) No

c) Not sure

6. It is said that the main resource of audit is the available competent workforce and time for auditing and reporting. Do you think the existing resource is sufficient in auditing donor-funded projects' expenditure ? (1 for lowest, 5 for highest)

Not Sufficient

Partially Sufficient

Fully Sufficient

1

2

3

4

5

7. Individual audit work plan prepared by the concerned audit team is an important audit strategy that helps the team to perform audit in an efficient and timely manner, making the optimum use of audit resources. Is audit work plan prepared by every team ?

a) Yes

b) Sometimes

c) No

8. If you answer from the last two options, identify the problem/problems from below :

a) Teams get insufficient time for developing plan.

a) Permanent files are not updated and the contents have insufficient information.

b) Plans are not always made compulsory or monitored afterwards.

c) Any other comment
.....

9. How would you rank the extent of competence and skill of FAPAD workforce in auditing donor-funded project expenditure? (1 for lowest, 5 for highest)

Not competent

Moderate

Very Competent

1

2

3

4

5

10. The Constitution of Bangladesh has given full freedom to public audit. How much independently can FAPAD carry out its duties, on behalf of SAI Bangladesh?

Not much

Moderately

Fully Independently

1

2

3

4

5

11. Have you ever been reported of any incident where FAPAD audit teams faced any sort of compulsion/pressure while auditing that hampered their independence?

- a) Yes
- b) Sometimes
- c) No

12. If your answer to the above question is any of the first two, what was the nature / context of it?

- a) Political pressure/interference
- b) Pressure from line ministry
- c) Influence from project management
- d) Influence from development partners
- e) Physical threat/ situational pressure
- f) Any other comment

13. It is sometimes alleged that it is not always possible for audit personnel to abide by the principles of code of ethics for auditors, like integrity and objectivity. How much do you agree?

- a) Agree
- b) Partially agree
- c) Disagree

14. If you go for either of the first two, who do you think is to blame ?

- a) Auditor
- b) Auditee organization
- c) Both.

Please give the percentage if you agree to the last option. Auditor % Auditee %

15. How would you rank quality control mechanisms of audit like, audit briefing, monitoring, supervision, training and others, as effective means of better audit output ? (1 for lowest, 5 for highest)

Not effective		Moderate			Very Effective
1	2	3	4	5	

16. How much effective are the present mechanisms of quality assurance of FAPAD and OCAG for generating quality audit reports ? (1 for lowest, 5 for highest)

Not effective		Moderate			Very Effective
1	2	3	4	5	

17. Do the findings of FAPAD audit reports have media exposure/public accessibility?

a) Yes b) No

18. Do you think public communication of significant findings of FAPAD audit reports would make audit work more effective to uphold project accountability?

a) Yes b) No

19. Audit is said to be an aid to management, its objective to promote accountability and transparency for improved public financial management (PFM). Do you experience this viewpoint in the relationship of auditor-auditee in the overall audit functions?

a) Yes b) Partially c) No

20. If your answer is one of the latter two, who do think is to blame?

a) Auditor b) Auditee c) Both

Please give the percentage if you agree to the last option. Auditor % Auditee %

21. How would you rank the responsiveness of the project management in giving/ taking timely and proper reply/ action as per audit recommendations against observations raised ? (1 for lowest, 5 for highest)

Not much responsive		Medium		Very much responsive
1	2	3	4	5

22. How much serious are the line ministries when responding to audit observations of serious nature - Advanced Paras (APs) or Draft Paras (DPs) - concerning projects of their ministries ? (1 for lowest, 5 for highest)

Not serious		Moderate		Very Serious
1	2	3	4	5

23. How much conscious the auditees (project management and ministries) are to check/avoid recurrence of similar irregularity - detected through auditing - in future? (1 for lowest, 5 for highest)

Not much		Medium		Very much
1	2	3	4	5

24. How much effective do you think audit will be if auditees respond regularly to settle audit objections based on audit recommendations? (1 for lowest, 5 for highest)

Not much		Moderately		Very much
1	2	3	4	5

25. Do you think meetings and trainings facilitated by Development Partners (DPs) are conducive to quality auditing? (1 for lowest, 5 for highest)

Not much		Moderately		Very much
1	2	3	4	5

26. Do you think the role of FAPAD will be more effective to uphold project accountability if more trainings are arranged by DPs for capacity building of auditors/auditees?

a) Yes b) Partially c) Not Sure

27. Do DPs have mechanisms in place to monitor that project financial management is improved, based on audit recommendations?

- a) Yes b) No

28. Do you think role of audit will be enhanced if DPs monitor project management, so that its financial management is improved based on action taken, as per audit recommendations? (1 for lowest, 5 for highest)

Not much		Moderately		Very much
1	2	3	4	5

29. Three areas of interest to DPs pertaining to the project they fund are - project specific financial statement; internal control; performance measurement/implementation (ref : Project Audit Manual, FAPAD 2007). How much accurately do you think the Audit Inspection Reports (AIRs) can reflect on these?

- a) Yes b) Partially c) No

30. In cases where there are DPA expenditure involved in projects, is FAPAD able to audit that portion?

- a) Always b) Sometimes c) Hardly ever

31. If your answer is any of the last two, how much is audit opinion on financial statement affected, in case of DPA expenditure remaining unaudited ? Please comment.

.....

32. The effectiveness of Public Accounts Committee (PAC) and OCAG are

complementary. PAC is assisting in audit effectiveness by its timely scrutiny of audit reports/objections. Do you agree ?

- a) Yes b) Partially c) Not Sure

33. PAC is playing its role satisfactorily by reviewing /monitoring the follow-up reports on auditees’ timely implementation of PAC recommendations. How much do you agree? (1 for lowest, 5 for highest)

Disagree

Moderately

Fully Agree

1

2

3

4

5

34. Please rank the following statements as you value them in present FAPAD audit reports. (1 for lowest, 5 for highest)

- a) Reports are fair, reasonable and timely presented.

1 2 3 4 5
- b) Report are accurate, clear and concise.

1 2 3 4 5
- c) Reports are qualitative and have substantial evidence.

1 2 3 4 5
- d) Reports have usefulness for its stakeholders.

1 2 3 4 5

35. How would you rank the following indicators for assessing the level of effectiveness of FAPAD auditing ? (1 for lowest, 5 for highest)

Indicators	Poor 1	Fair 2	Average 3	Good 4	Exellent 5
Quality of Auditing					
Quality of Reporting					
FAPAD audit as an effective mechanism for upholding project accountability					
FAPAD reports meeting expectation of Stakeholders					

36. What do you think are the contexts, if any, that affect/lessen effectiveness of FAPAD audit?
(Choose at least three from below)

- a) Lack of skilled audit manpower.
- b) Inadequate coverage of audit reports.
- c) Lack of proper monitoring and quality assurance process of audit.
- d) Inadequate response from the auditees.
- e) Delay in implementation of audit recommendations by project management and ministry.
- f) Delays in submitting audit reports to Parliament.
- g) Delay in discussion of audit reports by PAC.
- h) Slow/non-implementation of PAC recommendations.

Signature of respondent (optional)

Date :

Thank You Very Much for your Co-operation

4. If your answer is one of the last two, who do think is to blame?

- a) Auditor b) Auditee organization c) Both.

Please give the percentage if you agree to the last option. Auditor % Auditee

5. How would you rank the responsiveness of the project management in giving/ taking timely and proper reply/ action as per audit recommendations against observations raised? (1 for lowest, 5 for highest)

Not much responsive		Medium	Very much responsive	
1	2	3	4	5

6. How much serious are the line ministries when responding to audit observations of serious nature - Advanced Paras (APs) or Draft Paras (DPs) - concerning projects of their ministries ? (1 for lowest, 5 for highest)

Not serious		Moderate	Serious	
1	2	3	4	5

7. How much conscious the auditees (project management and ministries) are to check/avoid recurrence of similar irregularity in future, that is detected through auditing ? (1 for lowest, 5 for highest)

Not much		Medium	Very much	
1	2	3	4	5

8. How much effective do you think audit will be if auditees respond regularly to settle audit objections based on audit recommendations? (1 for lowest, 5 for highest)

Not much		Moderately	Very much	
1	2	3	4	5

9. Performance audit is conducted in a very limited scale by FAPAD. Do you think that performance /Value For Money (VFM) audit would yield better result in ensuring overall project accountability ?

- a) Yes b) No c) Not sure

10. Is your organization ready to undertake/support performance audit ?

- a) Yes b) No c) Not sure

11. It is said that the main resource of audit is the available competent workforce and time for auditing and reporting. Do you think the existing resource of FAPAD is sufficient in auditing donor-funded projects' expenditure ? (1 for lowest, 5 for highest)

Not Sufficient		Partially Sufficient		Fully Sufficient
1	2	3	4	5

12. How would you rank the extent of competence and skill of FAPAD workforce in auditing donor-funded project expenditure ? (1 for lowest, 5 for highest)

Not competent		Moderate		Very Competent
1	2	3	4	5

13. It is sometimes alleged that it is not always possible for audit teams to abide by the values of code of ethics for auditors, like integrity and objectivity. How much do you agree?

- a) Fully agree b) Partially agree c) Disagree

14. If you go for either of the first two, who do you think is to blame ?

- a) Auditor b) Auditee organization c) Both.

Please give the percentage if you agree to the last option. Auditor % Auditee %

15. The Constitution of Bangladesh has given full freedom to public audit. How much independently do you think can FAPAD carry out its duties, on behalf of SAI Bangladesh?

Not much		Moderately		Fully Independently
1	2	3	4	5

16. Have you ever been reported of any incident where FAPAD audit teams faced any sort of compulsion/pressure while auditing that hampered their independence?

a) Yes b) Sometimes c) No

17. If your answer to the above question is any of the first two, what was the nature / context of it?

- a) Political pressure/interference
- b) Pressure from line ministry
- c) Influence from project management
- d) Influence from development partners
- e) Physical threat/ situational pressure
- f) Other comment (if any)

.....

18. Do you think meetings and trainings facilitated by Development Partners (DPs) are conducive to quality auditing? (1 for lowest, 5 for highest)

Not much		Moderately		Very much
1	2	3	4	5

19. Do you think the role of FAPAD will be more effective to uphold project accountability if more trainings are arranged by DPs for capacity building of both auditors and auditees?

a) Yes b) Partially c) Not Sure

20. Do DPs have mechanisms in place to monitor that project financial management is improved, based on audit recommendations?

a) Yes b) No

21. Do you think role of audit will be enhanced if DPs monitor project management, so that its financial management is improved based on action taken, as per audit recommendations? (1 for lowest, 5 for highest)

Not much

1

2

Moderately

3

4

Very much

5

22. The effectiveness of Public Accounts Committee (PAC) and OCAG are complementary. PAC is assisting in audit effectiveness by its timely scrutiny and recommendations of audit reports/objections. Do you agree?

a) Yes

b) Partially

c) Not Sure

23. Please rank the following statements as you value them in present FAPAD audit reports. (1 for lowest, 5 for highest)

a) Reports are fair, reasonable and timely presented.

1 2 3 4 5

b) Report are accurate, clear and concise.

1 2 3 4 5

c) Reports are qualitative and have substantial evidence.

1 2 3 4 5

d) Reports have usefulness for its stakeholders.

1 2 3 4 5

24. How would you like to rank the following indicators for assessing the level of effectiveness of FAPAD auditing ?

Indicators	Poor 1	Fair 2	Average 3	Good 4	Excellent 5
Quality of Auditing					
Quality of Reporting					
FAPAD audit as an effective mechanism for upholding project accountability					
FAPAD reports meeting expectation of Stakeholders					

25. What do you think are the contexts, if any, that affect/lessen effectiveness of FAPAD audit ?
(Choose at least three from below)

- a) Lack of skilled audit manpower.
- b) Inadequate coverage of audit reports.
- c) Lack of proper monitoring and quality assurance process of audit.
- d) Inadequate response from the auditees.
- e) Delay in implementation of audit recommendations by project management and ministry.
- f) Delays in submitting audit reports to Parliament.
- g) Delay in discussion of audit reports by PAC.
- h) Slow/non-implementation of PAC recommendations.

26. Do you have any advice for FAPAD to make its audit activities more effective to ensure project accountability?

Signature of respondent (optional)

Date :

Thank You Very Much for your Co-operation

Appendix C

Table C1: FAPAD Audit Calendar

Development Partners	Deadline of Annual AIR Submission
WB funded projects	31 December
ADB funded projects (3 phases)	31 Dec; 31 March; 30 June
UNDP funded projects	30 April
UNFPA funded projects	28 February
JAPAN Bank funded projects	31 December
The Netherlands funded projects	30 September
IFAD funded projects	31 December
Other Foreign Funded projects	As per DCA or 31 Dec or 30 June

Comments - The stated deadlines may be subject to change as per Credit

Agreement, Government or Auditor General's directives.

Appendix D

Table D1 : Percentage of audit and auditee responsible for non-adherence to Code of Ethics for Auditors (n = 8, Audit)

Type	Both	
	Auditor (%)	Auditee organization (%)
Comment from 8 respondents	80	20
	75	25
	70	30
	60	40
	50	50
	50	50
	50	50
	40	60