

Audit: before or after the act?

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ASUBJECT of debate these days is whether the auditing function to control disbursements is best exercised before or after the transactions go through.

The accountability of government, at all turns of fiscal administration, is today a necessary check on freedom of administrative function. The multifarious acts of government—right through from their initial planning stage to their implementation and thereafter, and the appraisal of their results—need a broad and continuous process of control.

Various forms of control exercised before the consummation of an act or series of acts of administration are *pre-audit*, *a priori control*. Postaudit or *a posteriori control* is what takes place afterwards.

The General Accounting Office of the United States, for example, exercises essentially a postaudit function. The Comptroller General, however, retains certain powers regarding proposed receipts and expenditures.

He is required by law to render advance opinions on the legality of proposed expenditures at the request of heads of departments and establishments, disbursing officers and certifying officers. He likewise has the power to settle claims by and against the Government. While these powers are not exercised automatically on the Comptroller's own initiative, but only at the request of the parties interested, extensive use is in fact made of them. In many cases, disbursing officers, who are personally liable for their administrative actions, frequently seek to ascertain in advance the legality of proposed expenditures.

The result is that each year thousands of decisions are given on an extremely wide range of subjects, binding the administration and constituting an impressive code of precedent, guiding it in its future activities.

In Russia, audit of government agencies is subdivided as regards the time and way it is applied: into *preaudit*, *current audit* or *audit at the time of per-*

formance, and *postaudit*.

Preaudit is done at the time of preparation of the budget and during discussion of allocations for projects, first of all, from the point of view of correctness of allocation. *Preaudit* entails examining whether, and to what extent, allocations accord with the plans and projects, and also their conformity to legal terms of reference.

This form of audit also imposes examination of the correctness of calculations and the necessity of each item of expenditure separately. Great importance is attached to this form of audit since every unit obtains for its budget only such amount of expenditure as is approved by the audit service which can refuse to support allocations that are found to be unjustified or unnecessary.

A specific category of *preaudit* which is of particular importance is the audit of individual salaries in accordance with grading and of the final amount to be allocated for salary purposes and for administration and management expenses.

In this field the question of financial discipline is considered seriously, and government adopts a number of resolutions aimed at intensifying audit over expenditure on salaries and over administrative expenses.

Budget funds for salaries are supervised most strictly and any violation involves financial penalties. The agencies and institutions may only make use of allocations in accordance with the actual number of employees for each month individually, and not in accordance with the initially authorized establishment. When any agencies wish to get funds for the payment of salaries, they are required to submit monthly a list of employees signed by the head of the agency and the chief accountant. The auditors examine the efficiency of the establishment, the need for the listed number of posts and the level of salaries. This duty is to question unnecessary increase in staff.

Current audit which is made at the

time of performance has some element of *preaudit*. It is made in the agencies at the time when financial transactions are made or expenditures are incurred. Current audit is applied during the implementation of the revenue and expenditure parts of the budget to make sure, through checking of accounts kept by agencies, that the expenditure from the budget keeps pace with the fulfillment of operating and production plans, and corresponds to the actual amount programmed for those establishments.

Postaudit is used to examine the legality of financial operations. With the help of *postaudit*, the economic efficiency of financial transactions and correct allocations of budget funds are verified and unused resources of government institutions are conserved. This covers examination of balance sheets and financial reports and checking documents.

In Austria, the system is *postaudit*. There are, however, specified exceptional cases in which *preaudit* is exercised. In cases where expenditures are known to be against what is provided in the budget in amount or purpose, these expenditures are examined by the auditor. Proposed expenditures of this kind are accordingly brought to the auditor's attention before being entered into, unless the subject of special legislation or relating to a case of extreme urgency.

In these cases, the auditor examines whether conditions justifying deviations from budgetary provisions are present and, if necessary, makes his observations to the management. The observations do not bind the management, and the auditor is not entitled to reject the proposed expenditure but can only report the matter to the legislature.

HAVING gained ideas on some audit systems in vogue in highly developed countries, we inevitably come to the point of asking: Should the auditing body perform both *preaudit* and *postaudit*?

Should *preaudit* be exercised by the audit body or should it be based on

internal checks within the management itself?

Which system would best be applied in the Philippines?

A combination of *postaudit* and *preaudit* should be adopted in the Philippines.

There is no doubt that *postaudit* has its advantages. It does not interfere with administration in the way *preaudit* often does. An auditor under the *postaudit* system can exercise his function independently and objectively and avoid being blamed for red tape if he slows down operations.

The efficacy of *postaudit* as a weapon for detecting irregularities, and precluding them, has been proven by program auditing, which is a comprehensive type of *postaudit*.

In view, however, of the values and orientation of our public administrators at this stage of development, it is felt that the administration of some government agencies is not yet ready for its full adoption.

The need for some form of *preaudit* is widely recognized and accepted. Italy, Greece, Romania, Venezuela, Belgium, Russia and most of the Socialist states make extensive use of *preaudit*.

Austria, the Netherlands, United States, France, West Germany, Spain, Britain, Israel, Japan and Norway adopt *postaudit*.

As a general rule, every administrative act should be subject to the prior examination of two independent factors: The executive agency directly responsible for implementation; and An external factor, acting primarily as a restraining influence and concerned, in particular, with legal, financial and administrative regularity of the proposed act.

There is no reason why this latter function should not be entrusted to the management itself.

If it is imposed on the auditing service to have an active role in the administrative process to disallow or disapprove decisions of the executive power, it thereby bears in effect some of the responsibility for administration. □

ly new personality with well defined goals and objectives.

Every official and employee of the Commission must be imbued with the realization that while the Commission must be imbued with the realization that while the Commission does in fact independently appraise the operations of all government agencies, the primary purpose of the evaluation function is not fault-finding; it is rather to assist government to achieve more efficient and economical operations, and formulate and implement programs that will most effectively attain the avowed social and economic development goals of the country.

GOVERNMENT accounting and reporting systems are to be studied thoroughly so that accounting reports will become more useful for economic planning and program implementation.

Accounting principles, rules, and regulations which might have served their purposes well twenty years ago need to be examined closely, recast, and restructured to meet the developmental thrust of government operations. The timeliness of these reports is of vital concern to government users.

Systematic evaluation and revision of government accounting and reporting systems will require the cooperative efforts of the executive branch, the legislature, local government units, and the Commission.

Auditing rules and regulations have been criticized as unwieldy, onerous, and impractical. In a lot of cases they

are, because the formulation of rules has been principally control-oriented with an almost complete disregard for the needs of government agencies to speed up their operations.

Rules and regulations are never meant to fetter the hands of agency management; they are intended instead to provide management with an acceptable degree of assurance that agency operations are being conducted in accordance with management's plans and policies.

A complete reexamination of existing auditing rules and regulations will be undertaken by the Commission in consultation with the heads of government agencies.

THE overall objective is to enable the Commission, more efficiently and effectively, to attain its goals and to keep abreast of the accelerated social and economic development goals of the country.

More specifically, the reorganization plan aims:

1. To restructure the Commission on Audit so that its organization, policies, rules, and regulations are development-oriented;
2. To enable the Commission to plan and implement its programs with a greater degree of effectiveness, efficiency, and economy; and
3. To strengthen and intensify the decentralization of the Commission to make it more responsive to the demands for organized auditing services in all areas. □



HEADQUARTERS of the Commission on Audit in Quezon City.

Professionals needed

IN reorganizing the Commission on Audit, qualified, honest and development-oriented personnel must be found as a priority, according to Macario G. Sevilla, the new Secretary to the Commission. Of the task ahead, he says:

The goal of professionalizing the audit service will require that approved positions qualification standards be closely adhered to. Comprehensive Training programs will be undertaken to upgrade the technical competence of employees who, although without the requisite formal educational background for the jobs they now occupy, have proven by past performance that some formal training will help them meet the de-

mands of their positions. Many may have to be shifted to positions for which their formal education has prepared them.

The major reason for the ineffectiveness of the Commission is the simple fact that most of those holding auditing positions are not Certified Public Accountants. This situation must be changed radically.

Beyond the need for developing technical expertise, the Commission perceives the necessity to re-orient the thinking and attitudes of all its officials and employees.

The Commission must be perceived not as a mere continuation of the General Auditing Office, but as a complete-