SECTION 8: IMPROVING THE MANAGEMENT OF FINANCE

8.1 Internal auditing

8.2 External auditing

8.1 Internal auditing

Currently, internal audit exists only in large ministries such as the Ministry of Defence and the Ministry of Education. About 22 (or 55%) of the statutory boards also have internal audit units in their organisations.

A review of the internal audit unit of the Ministry of Defence showed that much effort had been taken to increase its professionalism and standards. A survey by the Auditor-General's Office (AGO) of the internal audits in statutory boards also showed that in general the internal audit units report to a sufficiently high organisational level to give them assurance of independence and objectivity. A few areas for improvement identified included the need to give more emphasis to value-for-money audits and upgrading the professionalism and skills of internal audit staff.

The context for change

It is increasingly recognised that internal audits can be useful as a tool of management, and help organisations to increase effectiveness and efficiency in addition to improving financial controls and procedures.

The Public Accounts Committee had also, as far back as 1979, felt that ministries should consider assuming responsibilities for self-policing by setting up internal audit units to supplement the functions of the Auditor-General. It also recommended that internal audit units be set up in the more important revenue collecting departments and those with larger expenditure votes. The Committee also recommended that medium and large statutory boards establish internal audits as soon as practicable. In 1986, it also recommended that the internal audits extend their scope of work to value-for-money auditing, where it was not already being done.

In seeking to improve the effectiveness and efficiency of internal audits, some basic areas would need to be addressed. These include:

(a) Role of the internal auditor

(b) Independence

(c) Scope of work

(d) Staffing

(e) Organisation and Management

To achieve good internal auditing that can fulfill the needs of management and serve as a basis for managerial decision-making, the internal auditor should be independent. He should carry out his work freely and objectively, and make impartial and unbiased judgements.

To achieve independence, the internal auditor should have access to the administrator who can take appropriate action to correct problems as they are discovered and reported. He should not be placed under the chief financial officer whose work is under the internal auditor's constant review. The internal auditor should also have direct access to the Permanent Secretary, board members or audit committee so that significant issues and unrectified problems can be brought to their attention. This would signal top management's commitment to organisational efficiency and effectiveness.

There should also not be any significant restrictions on the work of the internal auditor if he is to act as an effective tool for management control. He should not be given direct operating responsibilities, e.g. making operational decisions and designing systems.

Because the internal auditor is a part of the management team, the effectiveness of the internal audit is largely dependent upon the objectives and directions laid down by management. It is therefore important that the management understands and appreciates the functions, requirements and advantages of internal audit.

Much progress has been made by the internal audits since 1979, when the Public Accounts Committee made its recommendations on the need for more internal audit units, and in 1984, when it recommended that the scope of the internal audits be extended to cover value-for-money audits as well. Strengthening the internal audits is a continuous process, and over the years, internal audits have continued their progress. Currently, many of the internal audits have used computer audit software to help increase effectiveness and efficiency. They have also undertaken assessments of audit risks and controls.

Implementing change

Improvements in internal audits have been achieved through the following:

Audit Charter

The objectives, authority and responsibilities of internal audits need to be defined. This is in line with professional standards on the management of internal audits.

In the Ministry of Defence, the Audit Charter was approved by its Audit Committee in 1988. Many of the internal audit units also have similar charters approved by their organisations' senior management. The AGO has also formulated a set of guidelines for the internal auditors of statutory boards. These guidelines cover aspects such as the organisational status of internal audit units, functions, scope etc.

Training

The internal audit units have also carried out training plans for their staff. Areas covered include information systems auditing, audit working papers, project management and statistical sampling.

The AGO occasionally also offers training to the internal auditors. For example, it provided training to internal auditors of statutory boards in value-for-money audits (classroom and on-the-job). This was conducted over a three-year period, in conjunction with the Institute of Public Administration and Management.

Staff have also gone for training which leads to their certification as Information Systems Auditor and Internal Auditor, and attend various courses.

Standards

The internal audits have generally adopted professional standards, which include:

- Standards set by the Institute of Certified Public Accountants, Singapore (Statements by Auditing Guidelines and Statements of Auditing Practices)

- Standards set by the Institute of Internal Auditors

- Standards set by the EDP Auditors' Foundation Inc.

Some of the common problems faced by internal audit units include problems in recruitment and high staff turnover, particularly in information systems auditing. Such turnover, however, cannot be avoided so long as the private sector is prepared to pay more, relative to the public sector. In a few instances, internal audit units also face obstacles owing to the reluctance of auditees to release information considered sensitive. However, with more education and better rapport, auditees are increasingly viewing auditors as an aid to the management rather than as watchdogs and policemen.

8.2 External auditing

The Auditor-General's Office (AGO) is an independent organ of state set up to help Parliament ensure that there is accountability in the management of public monies. This is done through its audits of government ministries and statutory boards and reporting to Parliament instances of irregularities, non-compliance with rules, inefficiencies, wastage and extravagance observed during its audits.

The context for change

Accountability to Parliament is needed because civil servants are managing resources belonging to the public, and in a democratic system, Parliament represents the people of the state. As external audit is a key element in the process of ensuring public accountability, a strong external audit capability would greatly enhance the accountability process.

Implementing change

One of the fundamental requirements for strengthening external audit is to have a legal framework in place to enable the auditor to carry out his role objectively and effectively. The Office of the Auditor-General is provided for in the Constitution of the Republic of Singapore and provisions are made within the Constitution to safeguard his position so that he can act without fear or favour. The specific duties and powers of the Auditor-General are also spelt out in the Audit Act. The Audit Act grants the Auditor-General the powers to audit the activities of all bodies entrusted with the management of public monies and to report to Parliament on instances of financial malpractice, weakness in financial controls, inefficiencies, wastage and extravagance, among other matters.

In order that all ministries can be called to account, it is also important that the Auditor-General does not report to any minister. The AGO is therefore an organ of state reporting directly to Parliament, whose Public Accounts Committee (PAC) can call ministries and departments to account for any mismanagement of public monies reported by the Auditor-General's Office.

The Treasury takes an interest in the proper management of public monies by the ministries and departments, and it is usually able to exert a strong influence on other ministries by virtue of its roles in controlling the government budget and in setting the government's financial policies, regulations and instructions.

Key stakeholders for a strong external audit system are therefore the Public Accounts Committee (which is responsible for ensuring that public money is well managed) and the Treasury (which relies on the external auditors to help ensure that ministries put their allocated funds to best use and are complying with financial policies, regulations and instructions). The ministries themselves could also be considered as stakeholders since the aim of the auditor is also to help improve the efficiency of the ministries.

Potential obstacles to developing an external audit system include:

(a) lack of independence of the external auditors;

(b) lack of access to relevant records and information.

Other important factors in strengthening external audit capability include:

Working with Treasury and the Public Accounts Committee

Copies of the audits report are forwarded to the Treasury to keep them informed of the audit findings at the end of each audit. The Treasury takes action, when necessary, to ensure that ministries implement Audit's recommendations for improvement. Discussions may also be held with the Treasury on areas of interest and sometimes, when called upon, the AGO may provide advice on financial matters or sit in some of the committees set up by the Treasury. The Annual Auditor-General's Report to Parliament is passed on to the Public Accounts Committee for detailed examination. The Auditor-General's Office supports the PAC during its deliberations on the Annual Report and other matters brought to its attention by helping to obtain and collate information that the Committee requires.

Agent of Change

During its audit, the AGO does not stop at merely pointing out areas of deficiency. Instead, it tries to offer practical solutions to resolve any problems identified. Through this approach, it works with the ministries during the audits to help them improve operational efficiency. In this regard, the AGO has also downplayed the reporting aspect of auditing and instead focused more on helping to bring about improvements in the management of public monies. To help overcome ministries' resistance to audit observations and to meet their concern over bad publicity, published audit reports of audit findings are kept brief and to the point, without sensationalising the deficiencies observed. However, the PAC is kept informed of the full details of audit findings.

Helping Ministries

The AGO also provides advice on financial matters if called upon by the ministries. It participates in Civil Service-wide programmes to train officers in ministries to carry out financial work. Although manpower is a constraining factor, the AGO also has helped some ministries to set up a system to ensure greater accountability within these ministries. This is done by helping them to:

- form audit committees and, where necessary, be represented on these committees;
- establish a system of having officers-in-charge conduct internal reviews and provide certification to their Accounting Officers on the adequacy of controls over the financial systems under them.

Financial officers of these ministries are also trained to carry out their financial duties and to enable them to carry out their own internal reviews of the financial systems under their charge.

The chief aim of the external audit is to help to bring about greater accountability for the management of public monies. It is difficult to find any direct indicators to measure how successfully this is being done, but the indirect indicators include:

(i) the amount of cost-savings identified through the audits;

(ii) comparison of the amount of public funds audited against the cost of the audits;

(iii) requests by ministries to carry out special audits;

(iv) advice sought by ministries;

(v) degree of co-operation rendered by ministries to the audit team/willingness to implement recommendations.