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A Critical Review of Public Accounts Committees

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Geoff Dubrow

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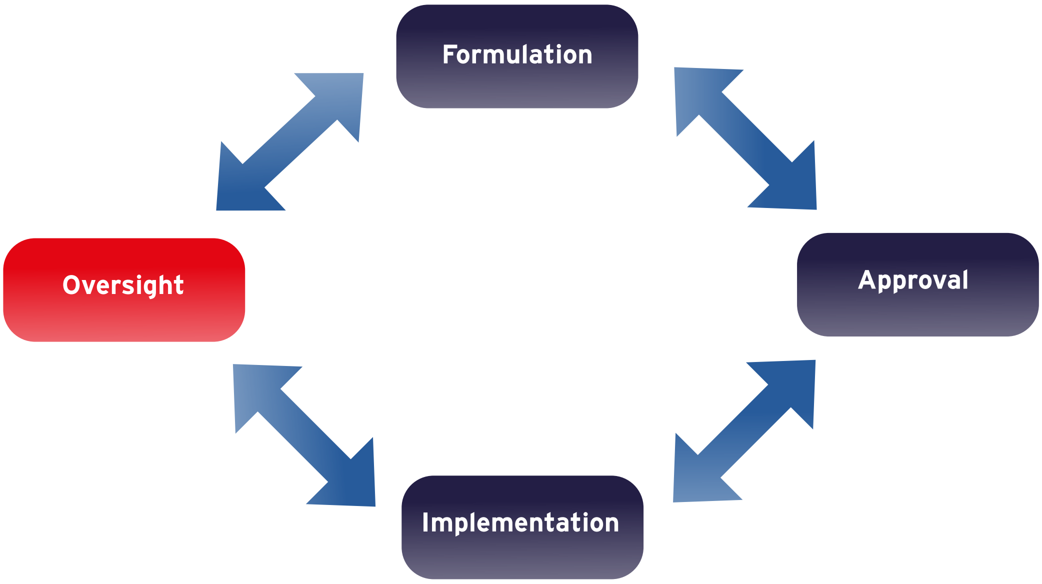
Introduction

When it comes to parliamentary oversight of government spending, Public Accounts Committees (PACs) tend to be viewed as the go-to committee for keeping an eye on government spending *ex-post*. PACs are viewed as the 'final stop' in the public financial management (PFM) cycle. PACs are essentially the last line of defence in the end-to-end public financial management process. As part of the Westminster Foundation for Democracy's (WFD) briefs on financial accountability, this brief examines:

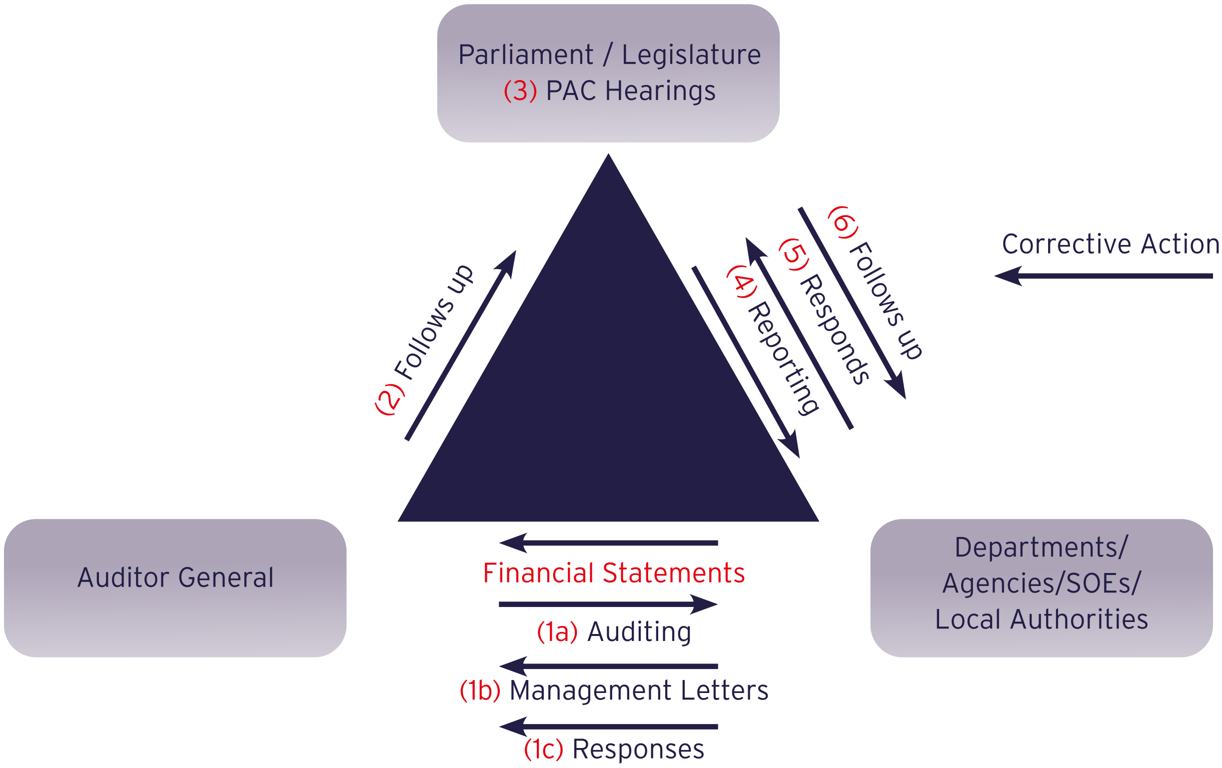
- the typical operating process of PACs in the Westminster tradition;
- four key challenges faced by PACs in effectively discharging their oversight role.

The first two challenges (planning and follow up) pertain to the effectiveness of PACs, while the second set of challenges (widening coverage beyond central government and identifying alternatives to PACs in some small jurisdictions) require support of the entire parliament.



What is the typical operating process of PACs in the Westminster tradition?

In addition to authorising government spending during the approval phase of the budget cycle, parliament should also be playing an *ex-post* oversight role by reviewing and holding the government to account for how it has spent and managed public funds during the execution phase. In parliamentary systems, the *ex-post* oversight role is often exercised by the PAC, although it should be noted that many parliaments that did not originate from the Westminster tradition have adopted a PAC, including Afghanistan, Bhutan, Ethiopia, Morocco, Nepal, Thailand, Tunisia, Rwanda and others.



In the Westminster tradition, the Supreme Audit Institution (SAI) conducts audits of government departments, agencies, state-owned enterprises (SOEs) and local authorities[1] (step 1). The types of audit reports prepared by SAIs are outlined in Box 1.

Box 1: Defining the three main types of audit

The International Association of Supreme Audit Institutions (INTOSAI) defines the three key types of audit as follows:[2]

Financial audit focuses on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor to express an opinion as to whether the financial information is free from material misstatement due to fraud or error.

Compliance auditing is performed by assessing whether activities, financial transactions and information are, in all material respects, in compliance with the authorities, which govern the audited entity. These authorities may include rules, laws and regulations, budgetary resolutions, policy, established codes, agreed terms or the general principles governing sound public sector financial management and the conduct of public officials.

Performance audit focuses on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. Performance is examined against suitable criteria, and the causes of deviations from those criteria or other problems are analysed. The aim is to answer key audit questions and to provide recommendations for improvement. Compliance audit focuses on whether a particular subject matter is in compliance with authorities identified as criteria.

1. More information on Supreme Audit Institutions is provided in the WFD brief entitled 'Are Supreme Audit Institutions fit for purpose in the age of COVID-19 and beyond?' (Brief number 1 in the eight-part series on financial accountability), published October 2020.
2. INTOSAI. 'Fundamental Principles of Public-Sector Auditing'. Endorsement Version. No date.

In the Westminster system, SAI reports are laid in parliament, generally with the Speaker (step 2). The SAI reports are then tabled with the PAC, which reviews (step 3):

- the audited version of the financial or consolidated financial statements to establish whether the government collected or spent the authorised amount of money for the purposes intended by Parliament; and
- performance audit reports to determine whether the government spent funds with due regard to economy and efficiency.

As part of its hearings (step 3), PACs will generally call the accounting officer - the most senior civil servant in a department - to account for deficiencies found in SAI reports. According to best practice, PACs will issue a report on its hearing containing recommendations for the audited ministry, department or agency (MDA) to address unresolved audit findings (step 4). A government response is generally provided within a requisite number of days (step 5). PACs can then follow up to ensure that the audited entity has implemented the SAIs' recommendations (step 6).

What are the key challenges faced by PACs in effectively overseeing government spending?

1. PACs need see the 'bigger picture':

PACs remain heavily dependent on SAIs for the information that they receive. A WFD brief entitled 'Are Supreme Audit Institutions fit for purpose in the age of COVID-19 and beyond?' outlines these issues in more detail. Most of the reports reviewed by PACs in low- and middle-income countries are related to SAI financial or compliance audit findings (often known as audit exceptions or audit paras). One frequent complaint of parliamentarians is that these findings tend to be the same across entities year over year. In effect all you would have to do is erase the name of one department and replace it with another and the findings would be almost identical. As a result, PACs are rarely getting to the root cause of non-compliance.

SAI annual reports are typically hundreds of pages in length. By way of example, the latest Annual General Report of the Controller and Auditor General of Tanzania on the Audit of Financial Statements of The Central Government is 490 pages.[3] Many PACs will begin on page one and work chronologically through each of the audit paras. PAC members tend to hesitate to prioritise issues according for fear of overlooking an issue that could appear on the news at a later date. The PAC could then be accused of not having done its job by turning a blind eye. Perhaps as a result, it is not unusual during an assessment of PAC capacity to hear the PAC Chair mention that there is a significant backlog of up to five years' but that this is being addressed and the committee will soon be 'up-to-date'. This is the proverbial dog chasing its tail. To illustrate, the Auditor General for Pakistan recently reported that:

'PACs are unable to discuss audit reports promptly. There are long time lags between years of accounts and timing of discussion of an audit report. The effect is that recommendations of PACs are either redundant, time-barred or irrelevant due to events that happened since the transactions took place.'[4]

3. The United Republic of Tanzania. National Audit Office. The Annual General Report of the Controller and Auditor General on the Audit of Financial Statements of the Central Government for the Financial Year Ended 30th June 2019.

4. Public Financial Management in Pakistan: Harmonizing Accountability Framework with Contemporary Reality. Muhammad Akram Khan. Department of Auditor General, Pakistan. January 2019.

As is the case with SAIs, PACs therefore spend a lot of time in the proverbial weeds. This keeps them away from examining the key risks associated with the country's finances such as level of debt, oversight of contingent liabilities, climate change finance as well as key issues associated with good governance such as the strength of internal control systems, disaster preparation and others.

In order to address this issue, PACs need to have a planning process in place to balance the plethora of audit paras with the 'big picture' issues identified in the preceding paragraph. In Nigeria, at the state level, PACs have been known to prioritise inquiries based on six issues, including: the significance or potential significance of the matter for the reputation of the state; the sum of money involved; the level of public concern; and whether the issue could be referred to another existing standing or select committee in the House.[5]

In some countries, SAIs are providing PACs with the information they can use to organise their hearings more effectively. In Malaysia for example, the National Audit Department (NAD) has developed a Financial Management Accountability Index that 'ranks financial management practices of ministries, departments and agencies and should serve as a benchmark for self-improvement'. The NAD also developed a dashboard 'that oversees and reports on the actions taken by government agencies on the audit report'.[6] The PAC can consult both tools so that it can effectively plan its hearings based on a set of established criteria.[7] In Ethiopia, during the planning phase, the PAC selects all MDAs with an adverse audit opinion issued by the Office of the Federal Auditor General as well as a sample of organisations with a disclaimer opinion.[8]

2. Improved follow-up is required:

One of the ongoing challenges for PACs in developing countries is following up on unimplemented SAI and PAC recommendations. PACs tend to depend on the SAI to track the implementation of these recommendations (often SAIs lack the capacity to do so), rather than placing increased pressure on the government to provide follow-up information. For example, in Laos PDR, the 'legislature issues recommendations on actions to be implemented by the executive but there is no systematic follow-up or only limited follow-up on the implementation of actions by the Ministry of Finance and audited agencies'.[9]

Ghana has had good intentions on follow-up since the inception of the Ghana Audit Service Act of 2000, which mandated the creation of Audit Report Implementation Committees (ARICs) to ensure that ministries, departments and agencies follow up on audit reports and prepare an annual status update on the implementation of recommendations.[10] However, to date, one Ghanaian academic found that 'most of the ARICs set up in the MDAs were ineffective. To date, some ARIC committees were yet to be formed in their respective ministries. Others that had been formed were not properly constituted. Yearly reports about the follow ups on the status of recommendations had not been done'.[11] Until government takes the implementation of audit recommendations seriously, there is little the PAC can do.

5. Ben Eyeki. 'The Parliamentary Public Accounts Committees in Nigerian States - Structure, Working Practices and Networking'. In Frederick Stapenhurst, et al, eds. African Parliamentary Reform. 2012, Chapter 12.

6. Zakiah Saleh and Haslida Abu Hasan. 'The Role of the Public Accounts Committee in Enhancing Government Accountability in Malaysia'. In Zahirul Hoque, ed. Making Governments Accountable: The Role of Public Accounts Committees and National Audit Offices. 2015, p. 215.

7. Zakiah Saleh and Haslida Abu Hasan. ''The role of the Public Accounts Committee in enhancing government accountability in Malaysia'. In Zahirul Hoque, ed. Making Governments Accountable: The Role of Public Accounts Committees and National Audit Offices. 2015, p. 215.

8. Based on interview with the Public Accounts Committee of Ethiopia and representative of the OFAG, January 2020.

9. PEFA (Public Expenditure and Financial Accountability). Government of Tonga. https://www.pefa.org/node/286

10. Ghana Audit Service Act 2000. S. 30(1).

11. Samuel Pimpong. Public Accounts Committees: Do They Really Enhance Public Financial Accountability In Africa? International Journal on Governmental Financial Management - Vol. XVIII, No 2, 2018

In order to improve the implementation rate of audit recommendations, PACs will need to develop follow-up strategies and work with the executive branch to strengthen its capacity to supervise the implementation of the recommendations. Returning to the example of Ghana, in 2016, Ghana scrapped the ARICs and replaced them with audit committees, mandated to perform similar work under a new Public Financial Management Act. Political will on the part of the executive branch, ongoing pressure from the PAC and coordination between the legislative and executive branch are important pre-requisites for improved follow-up.

In Ethiopia, the PAC has seized its responsibility as a committee not of management, but of supervision to demand action plans from any central government audited entity deemed high risk:

'As part of its follow-up mechanism…demands that all central government audited entities with adverse audit findings submit an action plan with timelines on how these entities intend to address the audit findings from OFAG as well as recommendations issued by the PAC. In collaboration with OFAG, the PAC demands at least biannual updates from these entities on progress they have made to date about their implementation of remedial actions; there are also ad hoc interventions or invitations to these entities to brief the PAC on progress made'.[12]

3. Parliament needs to reach beyond scrutiny of central government:

In many countries, PAC oversight often remains confined to or heavily geared towards central government operations, with the sub-national government (SNG) level- state/provincial and local government - and state-owned enterprises (SOEs) receiving limited or no attention. PACs are simply stretched too thin by the level of detail they are examining and the expectation that they cover every sector of government. SOEs 'are often major drivers of debt and debt crises and often not subject to the same scrutiny as central government departments',[13] while PFM capacity (which is crucial to prudent fiscal and financial management and transparency) at the SNG level often lags behind the national or central government level.[14]

PACs therefore need to strengthen their coverage beyond central government or new committees need to be formed that can pick up the slack. Some countries do have committees that specialise in oversight of state-owned enterprises (SOEs). They are generally known as public investment committees (PICs) and can be found in many South Asian and East African countries. This includes Kenya, Tanzania and Uganda in East Africa and Bangladesh and Sri Lanka in South Asia. Some parliaments also have local accounts committees. In South Africa, municipalities have their own public accounts committees to ensure effective municipal oversight. Uganda has recently created Local Government PACs (LGPACs), but has expressed concern that:

'Oversight of Local Government operations is weak and there is a lack of clarity in the assignment of roles and responsibilities between (public accounts) committees. For example, the role of the new regional Public Accounts Committees relative to Local Government PACs (LGPACs) is unclear, and there is a poor quality auditing and a lack of follow up of recommendations'.[15]

12. Ibid.

13. Geoff Dubrow. 'The Role of Parliament in Public Debt Management: Weathering the Covid-19 Crisis and Beyond'. Westminster Foundation for Democracy. London, June 2020, p. 9.

14. More information on the PFM and external audit capacity at the SNG level of government is provided in the WFD brief entitled 'Accountability for Fiscal Decentralisation at the Sub-national Level' (Brief number 4 in the eight-part series on financial accountability), published October 2020. The brief compared SNG data to central government data from Public Expenditure and Financial Analysis (PEFA) assessments in 20 SNG units covering five countries—Albania, Ethiopia, Georgia, Kenya and Ukraine and found that national scores exceeded SNG scores in a majority of cases.

15. Uganda Public Financial Management Reform Strategy. (July 2018 – June 2023). Ministry of Finance, Planning and Economic Development. http://csbag.org/wp-content/uploads/2019/03/PFM-Reform-Strategy-2018_2023.pdf

There is also a lack of clarity concerning the ongoing role of the Ugandan Parliament's PAC for Local Government vis-à-vis the LGPACs.[16]

Other committees shadowing line ministries can also play a role in oversight. Despite being viewed as the pre-eminent oversight committee in parliament, [17] *ex-post* oversight is not considered to be 'where the action is'. Finance committees or legislative committees examining high-profile draft legislation are more likely to garner media attention. As a result, PACs are often assigned all *ex-post* oversight roles, with legislative committees that are supposed to shadow line ministries generally abrogating their oversight responsibilities. Typically, the recommended distribution of resources is that PACs have 'first right of refusal' to examine SAI reports, while other legislative committees can examine non-financial performance information from MDAs under their remit, such as annual departmental performance reports.

4. Alternatives to PACs need to be explored in many small jurisdictions:

In many cases, small jurisdictions with small parliaments (with 20 members in the lower house, for example) do not lend themselves to an effective PAC or an effective committee system for that matter. It is common knowledge the first Commonwealth PAC originated in the UK in 1861. Since 1801, the number of seats in the UK House of Commons has never fallen below 600.[18] However, PACs are rarely effective when scaling down to very small parliaments. Some of the reasons include:

- under-resourced committees owing to a weak committee system and lack of committee infrastructure such as research support;
- the presence of ministers on PAC due to an absence of a critical mass of government 'backbenchers';[19] and
- part-time parliamentarians who by definition lack the time to fulfil the PACs mandate.

Small parliaments are prevalent in the Caribbean and Small Island Developing States in the Pacific. Reporting on the Pacific, one academic hailing from the region notes that:

'Size has an important impact on how (PAC) functions are fulfilled in small states in particular. Scrutinizing public accounts in small Westminster parliaments, for example, is often problematic because ministers from previous governments are forced to assess their own work.'[20]

Similarly, in the Caribbean, opposition leaders are often constitutionally required to serve as PAC Chair, which 'can increase the level of partisanship and reduce the incentive for the PAC Chair to exercise a strong leadership role in the committee'.[21] Analysis from the Caribbean suggests that PACs don't fare much better in small parliaments. In that region, parliamentarians are part-time, leaving little time for committee work. Committee infrastructure such as research staff is virtually non-existent; ministers are often forced to sit on PACs as a result of a lack of government 'backbenchers'.[22]

16. Ibid.

17. See for example David McGree. 'The Overseers: Public Accounts Committees and Public Spending'. Commonwealth Parliamentary Association. 2002.

18. https://commonslibrary.parliament.uk/research-briefings/sn02384/

19. Ministers can hamper the effectiveness of PACs in a number of ways, including availability for PAC meetings; increasing the level of partisanship (as other government members on the committee are unlikely to exercise a vigorous oversight role in the presence of cabinet ministers); and ability to block quorum when an issue arises before PAC that is politically sensitive. See for example: Geoff Dubrow. 'Strengthening Parliamentary Oversight in the Caribbean: A Roadmap for Developing and Implementing Initiatives in the Region'. ParlAmericas: 2012, p. 13.

20. Jack Corbett. 'Being Political: Leadership and Democracy in the Pacific Islands'. 2015, p. 86.

21. Geoff Dubrow. Discussion Paper. Re-visioning Public Accounts Committees in Small Legislatures. ParlAmericas, 2014. Online at: http://www.parlamericas.org/uploads/documents/Discussion-Paper-Workshop-7.pdf

22. Geoff Dubrow. Discussion Paper. Re-visioning Public Accounts Committees in Small Legislatures. ParlAmericas, 2014. Online at:

Where PACs are not functional in small jurisdictions, some parliaments are exploring adding non-parliamentarians to their PAC. A first alternative model is the Accounts Commission for Scotland, consisting exclusively of non-parliamentarians. A second alternative model is the Public Accounts Committee of the Danish Parliament, in which 'both members of Parliament and non-elected professionals are nominated by Danish political parties in Parliament for appointment to the PAC'.[23]

Conclusion

This brief has raised four key challenges for PACs. First, planning; PACs need see the 'bigger picture'. While compliance audits, accompanied by a litany of audit 'paras', will continue to be a reality in most low- and middle-income countries, PACs need to strike a more effective balance by prioritising key audit findings and dealing with bigger picture issues. Second, better follow-up practices are required in order to close the accountability loop. PACs cannot act alone - they require the support of government to track the implementation of SAI and PAC recommendations. Third, scrutiny needs to extend beyond central government operations. In many parliaments, separate committees are scrutinising SOEs and local government. Finally, PACs face a different set of challenges in smaller jurisdictions, where there is an absence of government backbenchers available to serve on PAC. Where PACs in small jurisdictions are not functional, adding non-parliamentarians to the PAC is seen as one possible solution.

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http://www.parlamericas.org/uploads/documents/Discussion-Paper-Workshop-7.pdf

23. ParlAmericas. Strengthening Parliamentary Budget Oversight in the Caribbean (Phase 2). 2014, p. 38.

Westminster Foundation for Democracy
Artillery House, 11-19 Artillery Row, London, SW1P 1RT
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