Auditing and Integrity in the Security Sector

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Tool 5

Tool 5
Auditing and Integrity in the Security Sector

Domenico Polloni

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The Geneva Centre for the Democratic Control of Armed Forces (DCAF) promotes good governance and reform of the security sector. The Centre conducts research on good practices, encourages the development of appropriate norms at the national and international levels, makes policy recommendations and provides in-country advice and assistance programmes. DCAF's partners include governments, parliaments, civil society, international organisations and the core security and justice providers such as police, judiciary, intelligence agencies, border security services and the military.

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Geneva Centre for the Democratic Control of Armed Forces (DCAF)

Ch. Eugene-Rigot 2
P.O. Box 1360
1211 Geneva 1 Switzerland
Tel: +41 (22) 730 94 00
Fax: +41 (22) 730 94 05

www.dcaf.ch

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Author

Domenico Polloni

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- State Audit and Administrative Control Bureau
- Palestinian Legislative Council
- Office of the President
- Council of Ministers
- Ministry of Finance
- Ministry of Interior
- Central Military Financial Administration
- Palestinian Anti-Corruption Commission
- Palestinian National Security Forces

Introduction

Why is financial oversight in the security sector important?

Financial oversight in the security sector is a key instrument for ensuring that public funds allocated by the state for the security of the people are spent in a transparent effective and accountable manner.

However, the financial management of security sector institutions is often characterised by opacity rather than transparency. Even in established democracies, the budgets and financial operations of law-enforcement, military and intelligence organisations are often concealed from public scrutiny and sometimes even from formal external oversight by parliament or audit institutions. Furthermore, in many developing countries, disproportionate security expenditures prevent the use of public funds for socio-economic development.

Why this Toolkit?

Building the conceptual and technical capacities of specialised practitioners is a crucial step towards strengthening financial oversight in the security sector. This Toolkit is designed for financial oversight practitioners who wish to:

- Gain access to best international practice in financial oversight of the security sector
- Improve their professional ability to financially oversee security sector institutions
- Acquire a more proactive attitude toward conducting thorough financial oversight activities of security sector institutions
- Assert their authority in scrutinising budgets and financial operations conducted by security sector institutions.

How was this Toolkit developed?

The tools included in this Toolkit were developed based on four needs assessment meetings with financial oversight employees and two trainings of financial oversight practitioners in the Palestinian Territories in 2013-2014. The Geneva Centre for the Democratic Control of Armed Forces (DCAF) conducted the trainings in cooperation with DCAF international experts and with the financial support of the European Union.

The tools that are part of this training manual contain a generic component that can be used in virtually any country where financial oversight practitioners in the security sector require capacity building. The tools also contain a locally adapted component, which offers examples from the Palestinian training course and suggestions for how to adapt activities and materials to suit the trainer's own context.

Other DCAF publications on financial oversight in the security sector

In addition to this Toolkit, DCAF has published other reference material on financial oversight in the security sector. These publications include:

1. Guidebook: Strengthening Financial Oversight in the Security Sector, 2012.
2. A Palestinian Legal Collection: Financial and Administrative Oversight in the Security Sector, 2013 [English edition forthcoming]
3. Financial Oversight in the Security Sector: A Compilation of International Standards, 2014.

To download these or other publications please visit: www.dcaf.ch/publications

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Using the Training Toolkit

Overview

The training toolkit has been designed to be used as a whole training course, which covers six different topics relevant to financial oversight and security sector governance. The six topics may also be used individually as 'stand-alone' training sessions.

What does the Toolkit include?

The training Toolkit includes one introductory tool (Tool 1) and six training tools. Each tool has a three-hour generic component. The generic material is applicable internationally and can be used without adaptation in any training context. In addition, there are suggestions and example activities for adapting material to a particular context. They are designed to be amended by the trainer to engage with local issues specific to the trainer's own context. It is envisaged that the localised session would take two hours, but it can be as long as the trainer deems necessary.

The Toolkit contains the following seven tools (including this one):

Tool 1. Using the Toolkit and Acquiring Trainings Skills

Tool 2. Concepts and Main Actors of Financial Oversight in the Security Sector

Tool 3. Medium-term Strategic Financial Planning for Security Sector Institutions: Tools and Techniques

Tool 4. The Budget Cycle and the Security Sector

Tool 5. Auditing and Integrity in the Security Sector

Tool 6. Handling Legal Gaps while Practicing Financial Oversight in the Security Sector

Tool 7. Financial Oversight of Intelligence Agencies

These tools may be used for individual training workshops on each topic or as a comprehensive training course.

The toolkit user

The training sessions in the Toolkit are intended to be read and used by trainers with expertise in financial oversight and security sector governance and reform.

The target audience

The target audience for the training course outlined in the Toolkit is mainly practitioners involved in financial oversight of public institutions, including security sector organisations. These practitioners include specifically, but not exclusively:

- Parliamentarians and their staffers who are involved in financial oversight and budget control activities
- Members of Supreme Audit Institutions (SAIs) who provide expertise and support in financial oversight activities
- Strategic-level members of security and defence institutions in charge of preparing and executing budgets
- Representatives of executive authorities, including ministries who oversee the preparation and execution of security and defence budgets
- Officers and auditors working in core security and justice institutions whose role is to perform internal controls and audits.

The ideal number of participants for the course is around 15 people. However, the course may be used with more participants.

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Using the toolkit in the trainer's own context

As mentioned above, the tools in this Toolkit consist of generic training sessions and locally adapted training sessions. The generic training sessions included in the toolkit have been developed to be used in any context. However, if possible, the trainer should conduct some form of needs assessment in his/her own context. Based on the results of the analysis, the trainer can understand which training sessions to use, which to prioritise, and which to adapt. The localised training sessions give examples and offer suggested objectives for use in the trainer's own context.

When choosing which of the sessions in the toolkit to use, the trainer can choose to use only part of a session or to rearrange the order of the activities if desired. However, the trainer should be aware that some of the activities in a session follow each other, and one activity may often build on a previous activity.

The structure of a generic training session

A generic training session consists of the following six elements:

1. **The introduction** lists the learning objectives and focus questions for the session. It also gives an overview, which lists the handouts and trainer resources that are used in the session.
2. **The session plan** gives a full overview of the training session. It is a guide for the trainer to get a quick understanding of the session. It is also used as a quick reference to help the trainer keep track of activities and timing during the training.
3. **The description of activities** explains in more detail how to carry out the activities listed in the session plan.
4. **The handouts** are given to the participants during the activities in the sessions. They are easily photocopied and can include:
    - Worksheets with tasks for the participants to complete
    - Hardcopies of PowerPoint presentations
    - Summaries of key information
    - Extracts of, or references to, publications
5. **The trainer resources** provide supporting information for the trainer. They can include:
    - Summaries of international best practices
    - Answer sheets
6. **The suggested resources** contain references relevant to the activities.

Types of activities

The types of activities in the sessions are designed to involve and engage the participants. They are expected to build their own understanding of concepts and issues presented. Often, this means encouraging participants to work and provide feedback in groups rather than 'teaching' topics in a non-participative way.

Trainers might nevertheless be advised to make PowerPoint presentations. The training tools do include handouts with PowerPoint presentations, which may be adapted by the trainer as required. However, the trainers are encouraged to use a minimum number of slides. It is also recommended that they use images or other types of documents that are likely to trigger participants' attention and active participation. The trainer may provide the participants with a hardcopy of the presentation before or after it is shown. The trainer may also ask the participants to discuss a question in pairs before asking for feedback.

The structure of a local training session

A local training session contains example materials and objectives for the local sessions to cover. It is given as an example for the trainer to draw on in his or her own context when devising his or her own localised sessions and materials.

The structure of a local training session is similar to that of the generic training session (see above).

Suggested example activities are given instead of a full session plan.

A local training session consists of the following five elements:

1. **Introduction:** This consists of learning objectives and focus questions that are relevant to the trainer's own context. An overview of handouts and trainer resources is also given.

2. **Example activities:** These are example activities of suggested content to be covered. This content can be adapted by the trainer to fit his or her own context. It includes a description of the activity, timing, etc.

3. **Example handouts:** The handouts are given to the participants during the activities in the sessions. They are easily photocopied.

4. **Example trainer resources:** These provide supporting information for the trainer.

5. **Suggested resources:** The suggested resources are references for the trainer to use when adapting these example activities.

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Auditing and integrity in the security sector: the training session

Introduction

Learning objectives

This session aims to give working knowledge of the concept of Building Integrity and the role of the audit function in the security sector.

The specific learning objectives include:

- Gaining knowledge of what integrity means in the context of security sector governance
- Becoming aware of the importance of the audit function
- Understanding the conceptual and practical difference between internal and external audit
- Understanding basic concepts and requirements of performance audits
- Sharing experiences of field practices and developing solutions to apply in the participants' work practices

Focus questions

The following questions are addressed through the activities in this session:

- What is integrity and Integrity Building in the security sector?
- On which areas do Building Integrity initiatives focus?
- What are the elements of and tools for Building Integrity?
- What is the audit function?
- Who carries out audits and how?
- What is the objective of an audit? Why is it important? And which results/ effects can be expected?

Overview

Session Plan *Auditing and Integrity in the Security Sector*

Description of Activities

Handout 5.1 *PowerPoint hardcopy: Auditing and Integrity in the Security Sector*

Handout 5.2 *Exercise on the three basic components of performance audit*

Handout 5.3 *Excerpt from India's Comptroller and Auditor General Report on the performance of medical establishments in the Defence Services*

Handout 5.4 *Worksheet: A worksheet with instructions*

Handout 5.5 *PowerPoint: A PowerPoint presentation summarising the answers to the questions asked in Activity 6*

Handout 5.6 *Test on building integrity in the security sector*

Trainer resource 5.1 *A question sheet providing the answers to the questions asked in Activity 3*

Trainer resource 5.2 *Answers to the case studies in Activity 6 (Handout 5.3 Worksheet)*

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Session plan

Auditing and Integrity in the Security Sector					
Learning objectives	Participants will be able to: 1. Gain knowledge of what integrity means in the context of security sector governance 2. Become aware of the role of the audit function 3. Understand the conceptual and practical difference between internal and external audit 4. Understand the types of audit performed by audit institutions 5. Develop an understanding of the basic concepts and requirements of performance audit 6. Share experiences of field practices and develop solutions to apply in the participants' work practices				
Content to be covered	• The concept of integrity in security sector organisations • The audit function in organisations • Internal and external audit in organisations • Legal and regulatory audit • Value-for-money audit				
Time	180 minutes				
Activity	**Time**	**Description of activity**	**Grouping and materials**	**Session objectives**	**Comments**
1.	5 min	*Introduction and*	Trainer to whole group	-	The trainer briefly introduces the learning objectives of the session.
2.	30 min	*PowerPoint presentation: Auditing and Integrity in the Security Sector (slides 1 to 14)*	Trainer to whole group ***Handout 5.1*** *PowerPoint presentation hardcopy: Auditing and Integrity in the Security Sector*	Objs. 1, 2, 3, 4, 5	The trainer introduces the concept of integrity, the role of the audit function (as a method to examine budgetary procedures within a security agency) and types of audit in a power point presentation. The trainer explains also the three components of a value-for-money audit ('three E's'): economy, efficiency and effectiveness.
3.	25 min	*Case study and discussion: Internal audit in practice: Application of the CRIME framework*	Trainer to whole group then work in breakout groups (small groups) ***Handout 5.2*** *Exercise on the three basic components of performance audit*	Objs. 2, 3, 5	The trainer briefly introduces the case study. The participants break out into groups and they work on applying the internal controls framework in practice.

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Activity	Time	Description of activity	Grouping and materials	Session objectives	Comments
4.	10 min	*Feedback and brief discussion*	Whole group discussion ***Trainer resource 5.1.*** *A question sheet providing the answers to the questions asked in Activity 3*	Objs. 4,5	The trainer presents the proposed answers in a worksheet and invites participants to make comments and ask questions.
5.	20 min	*PowerPoint presentation: Auditing and Integrity in the Security Sector (slides 15 to 18)*	Trainer to whole group ***Handout 5.1*** *PowerPoint presentation hardcopy:* *Auditing and Integrity in the Security Sector*	Objective 2, 4, 5	Based on the power point presentation, the trainer presents the different types of audits: financial, legality and performance auditing. The trainer then discusses the attributes and qualities of a good performance audit .
6.	60 min	*Case study and discussion: Applying key concepts of performance auditing in practice*	Small groups ***Handout 5.3*** *Excerpt from India's Comptroller and Auditor General report on the performance of medical establishments in the Defence Services* ***Handout 5.4 Worksheet:*** *A worksheet with instructions*	Objs. 4, 5,6	The trainer briefly introduces the case study. The participants break out into small groups and they work on applying the concepts of value-for-money auditing in practice. ***Handout 5.4 Worksheet*** provides the participants with guiding questions to approach the case study in ***Handout 5.***3 and to analyse the role of an auditor and how integrity is undertaken while auditing a security agency.
7.	20 min	*Feedback and discussion on performance auditing*	Whole group discussion ***Handout 5.5 PowerPoint:*** *A PowerPoint presentation summarizing the answers to the questions asked in Activity 6*	Objs. 4, 5,6	The trainer presents the proposed answers in a power-point presentation and invites comments and questions.
8.	10 min	*Wrap-up of the session*	Trainer to whole group ***Handout 5.6*** *Test on building integrity in the security sector*	Obj 1.	The trainer wraps up the session handing out a short test that should both consolidate the knowledge acquired by the participants and prepare them for the next session on handling legal gaps while practicing financial oversight in the security sector.

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Description of activities

This section describes in more detail the activities listed above in the Session Plan. It also provides alternatives to several activities.

Activity 1. Introduction

The trainer explains to the whole group the relation between the audit function of an organisation and integrity building principles, and which integrity values are applicable to public institutions. The trainer describes why an awareness of modern auditing principles and tools is relevant to the participants, i.e. to them as stakeholders in the security sector who are, at the same time, actors of financial oversight and managerial accountability processes. Next, the trainer gives an overview of the kind of activities the participants will be doing and the timing of the training session.

Activity 2. PowerPoint presentation: Auditing and Integrity in the Security Sector

This activity consists of slides one to 14 of the PowerPoint presentation that introduces key principles and tools of auditing and integrity building in the security sector.

These include:

- The concept of integrity and integrity building, particularly as applied to security sector agencies
- The importance of the audit function in security sector organisations
- Internal and external audits
- Different types of external audits in the public sector, and particularly security sector organisations
- Two basic approaches to performance audit, and
- The three components of value for money ('three E's'): economy, efficiency and effectiveness.

The trainer may choose to distribute ***Handout 5.1*** to the participants at the beginning or at the end of the presentation.

Materials:

- ***Handout 5.1*** PowerPoint presentation hardcopy: Auditing and Integrity in the Security Sector
- Computer, projector

Activity 3. Case study and discussion: Performance audit in practice: Understanding the three E's

This session allows the participants to acquire a practical grasp of the basic building blocks of performance auditing, which are the notions of economy, efficiency and effectiveness.

Participants are divided into small groups. Each group receives copies of ***Handout 5.2***. The group's task is to categorize the information contained in the handout according to the classification grid proposed:

- Whether the issue proposed in the audit question is one of economy, efficiency or effectiveness?
- Whether the audit approach implied by the audit question is an audit of actual performance or an audit of the control systems of the organisation?

The participants may be asked to note the results of their work in a flip chart sheet for it to remain available after the end of the activity. ***Handout 5.1*** ought to remain available for the participants to refer back to and the relevant slides should also be on display to facilitate the participants' work.

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♣ *Alternative:* Similar documents from other countries may be proposed instead of ***Handout 5.2***, as long as they allow the participants to focus on the performance audit approaches and the three E's.

Materials:

- ***Handout 5.2***: Audit questions to be categorized
- Flip-chart sheets
- Normal sheets of paper
- ***Trainer resource 5.1***

Activity 4. Feedback and short discussion

This activity allows participants to exchange views on their understanding of the concepts introduced and to ask the trainer, if they so wish, for more information or resources to deepen their knowledge.

The trainer presents the proposed answers in ***Trainer resource 5.1*** and invites comments and questions from the participants.

Materials:

- ***Handouts 5.2*** (already used in Activity 3).
- The trainer will be distributing ***Trainer resource 5.1*** with the proposed answers to the questions asked in Activity 3.

♣ *Alternative*: If more time is available, the trainer can ask all the groups formed during Activity 3 to present the results of their work, and to answer questions from the other groups.

All the groups can be asked to pin the flip charts onto a wall, or a board, for them to be seen by the other groups.

Activity 5. PowerPoint presentation of Auditing and Integrity in the Security Sector, slides 14 to 18

This activity continues Activity 2. It covers slides 14 – 18 and discusses the following concepts:

- Financial, legality and performance auditing
- Auditing techniques in the different types of audit
- The qualities of a good performance audit (the 'SMARTest' approach)

Materials:

- ***Handout 5.1:*** PowerPoint presentation hardcopy: Auditing and Integrity in the Security Sector
- Computer, projector

Activity 6. Case study and discussion: Applying key concepts of performance auditing in practice

This session allows the participants to be exposed to real-life examples of the concepts presented in the previous activity, and to consolidate their practical understanding by using an analytical framework based on these concepts.

Participants are divided into small groups. Each group receives copies of the worksheet in ***Handout 5.4. Worksheet*** They also receive a case study that is presented in ***Handout 5.3***.

Given the limited time available, the trainer will explain that preference is being given to the quality of the final product, rather than the breadth of coverage. The trainer will ask each group to read the document and to answer two to three questions related to the case study, making sure that the distribution of tasks covers the whole spectrum of questions asked.

The trainer will take the participants briefly through the questions, namely:

- On whose initiative is the performance audit being carried out?
- What are the stated objectives of the audit? Is the audit indeed a performance audit?
- What are the concerns expressed by the auditor and related to the three value-

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for-money components: economy, efficiency and effectiveness?

- What techniques are used by the auditor to substantiate each of the concerns expressed?

♣ *Alternative*: Similar documents from other countries may be proposed, as long as they allow the participants to focus on the key areas of interest for performance auditing (value-for-money auditing) in the security sector, in particular the assessment of economy, efficiency and effectiveness of public sector action.

Materials:

- ***Handout 5.3*** Excerpt from India's Comptroller and Auditor General report on the performance of medical establishments in the defence services
- ***Handout 5.3 Worksheet*:** A worksheet with instructions
- Flip-chart sheets

Activity 7. Feedback and short discussion

This activity allows participants to exchange views on their understanding of the key principles and concepts of performance-based budgeting, and to ask the trainer, if they so wish, for more information or resources to deepen their knowledge.

The trainer presents a few slides with the proposed answers to the questions asked in Activity 6 and invites comments and questions from the participants.

♣ *Alternative*: Given more time available, each of the groups presents the result of their activities and receives questions or remarks from the other groups.

Materials:

- ***Handout 5.4.Worksheet*** already used in Activity 6
- (The trainer will use the PowerPoint presentation contained in ***Handout 5.5 PowerPoint***)

All the groups may then be asked to pin the flip charts onto a wall, or a board, so that they can be seen by the other groups.

Activity 8. Wrap-up of the session

The trainer distributes a short test (***Handout 5.6 Test)*** taking stock of the ground covered so far, not only in this session, but in the previous ones as well. The aim of the test is to both consolidate the knowledge acquired by the participants and prepare them for the next session on handling legal gaps while practicing financial oversight in the security sector.

The participants will be invited to answer the test questions and keep their copy until the next session. The test will be discussed at the beginning of the session on handling legal gaps.

Materials:

- ***Handout 5.6 Test***: Test on building integrity in the security sector.

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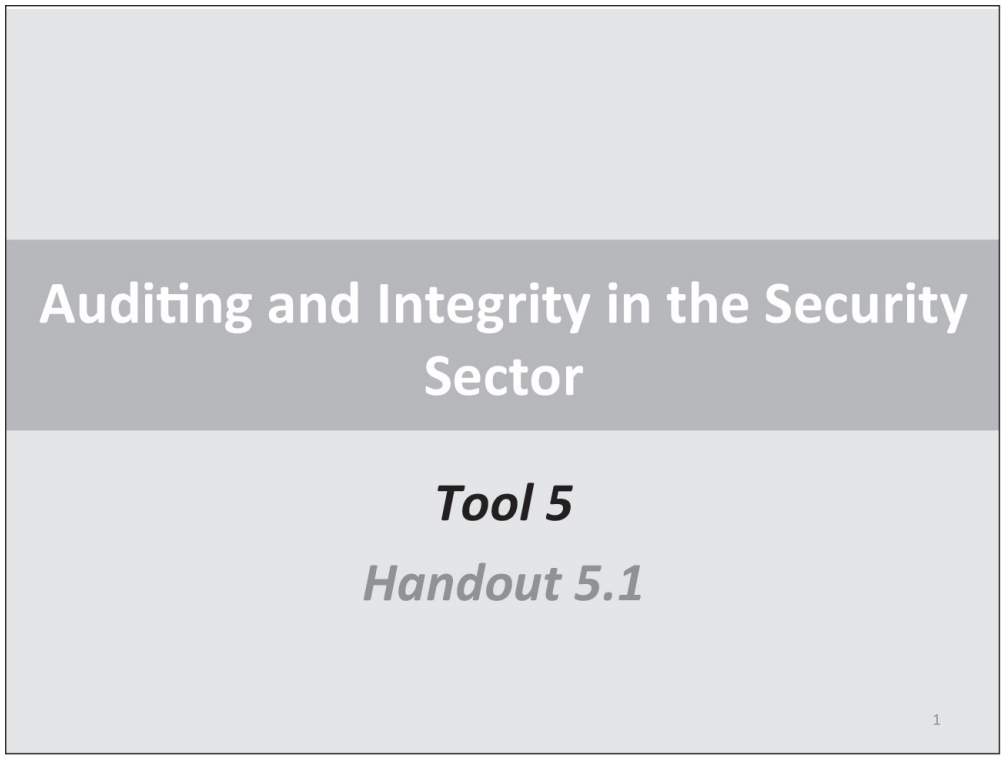
Handout 5.1

PowerPoint presentation hardcopy: Auditing and Integrity in the Security Sector



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Building Integrity efforts should focus on:

- Personnel management
- Defence budgeting and financial management
- Operations and maintenance
- Procurement and construction
- Offset arrangements
- Outsourcing, privatisation and public-private partnerships

Key elements of Integrity Building:

- Norms of individual and collective behaviour
- Clearly established and respected codes of conduct
- Leadership by example
- Legislation and regulations
- Effective training and regular reinforcement
- Assurance and enforcement

3

Building Integrity Tools: (1) Codes of conduct

- Single, easily accessible code of conduct for all personnel, firmly rooted in ethics and values
- Clear guidance on accountability
- Regulations on bribery, gratifications, gifts and hospitality, conflicts of interest, etc.
- Regular ethics training
- Periodic updating of the code

Source: Transparency International (2011), Building Intergity and Countering Corruption in Defence and Security.

4

Building Integrity Tools: (2) Principles of sound budgeting

- Sound legal framework
- Public access to defence budget information
- Strong role of the Parliament in the budget process (debate on budget proposal in the Parliament)
- Parliamentary Committee that has access to defence budget
- Civil society organisations and the public monitor the budgeting process
- Regular reports on budget execution and transparency
- **Internal and external audits** (results are publicly available)
- Independent oversight agency

Source: Ibid

5

What is the audit function in an organisation?

- a **systematic** and **independent examination** of data, statements, records, operations and performances (financial or otherwise) of any given organisation for **a stated purpose**

IMPORTANT: audit is only a **method;** it must be given **an objective** to be effective.

6

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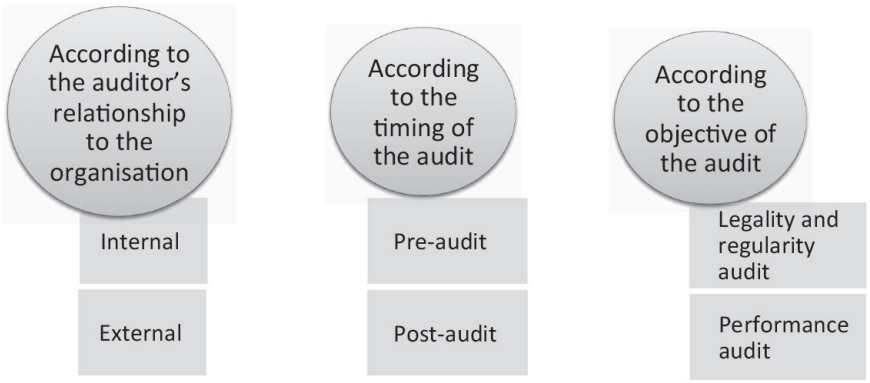
Types of audits



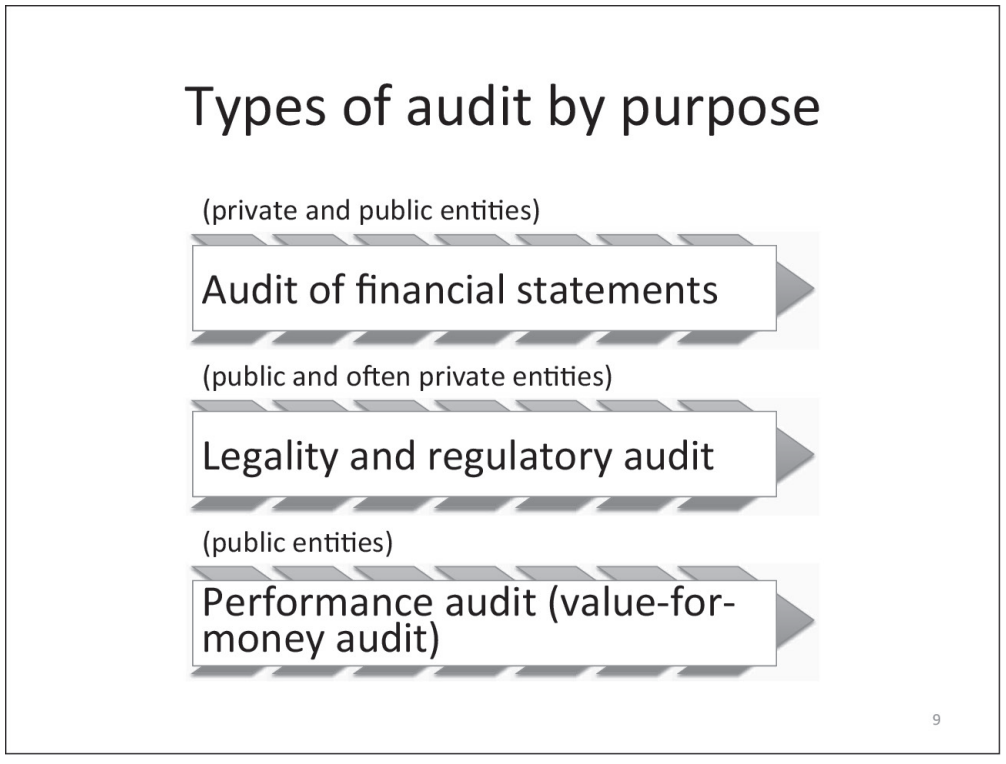
7

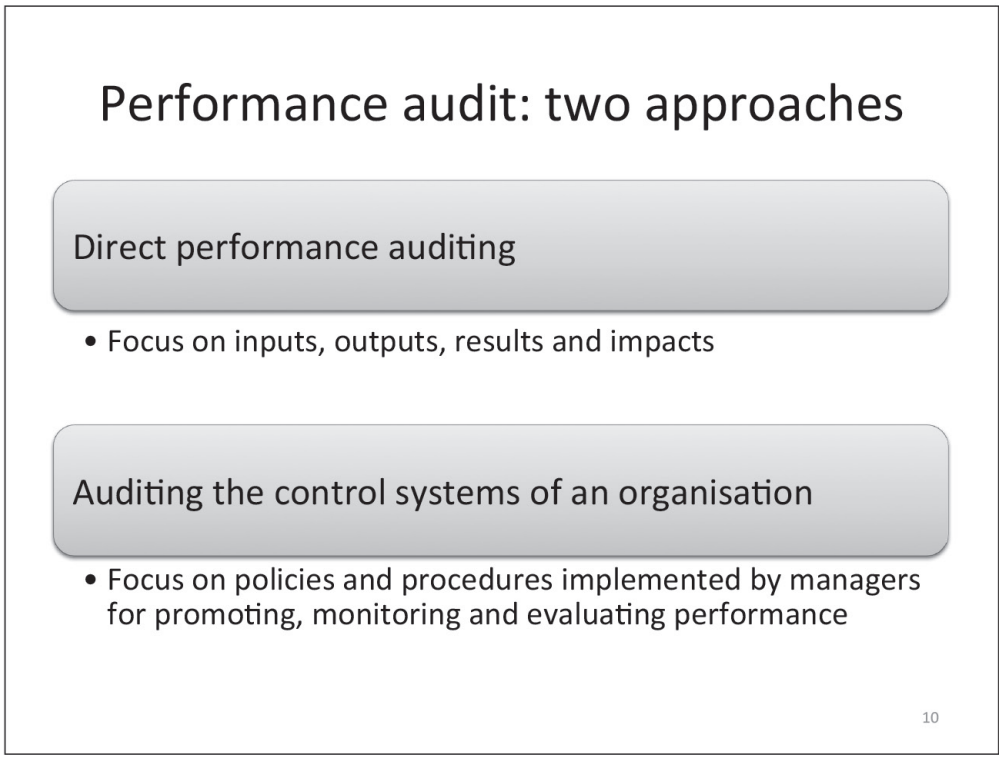
Internal and external audit

- **Internal audit** (Institute of Internal Auditors' definition)
  = **independent** assurance activity designed to **improve an organisation's operations**, especially the effectiveness of risk management, control and governance processes
  – it is a **service to, and within**, the organisation

- **External audit**
  = a **third-party review** of an organisation's financial or business operations
  – conducted **from outside the organisation**, e.g., by a public accounting firm, certified public accountant (CPA), compliance agency etc.

8


Types of audit by purpose
(private and public entities)
Audit of financial statements
(public and often private entities)
Legality and regulatory audit
(public entities)
Performance audit (value-for-money audit)
9


Performance audit: two approaches
Direct performance auditing
• Focus on inputs, outputs, results and impacts
Auditing the control systems of an organisation
• Focus on policies and procedures implemented by managers for promoting, monitoring and evaluating performance
10

Performance auditing: basic questions

Economy	• **Are we minimising the cost of resources used with a due regard to quality?** • Techniques: analysis of human, financial and material resources, analysis of applicable regulations, analysis of management activities, etc.
Efficiency	• **Are we getting the best possible output – in terms of quantity and quality – from our inputs and actions?** • Techniques: checking against planning documents, outputs of similar activities, a standard that had been adopted; comparison with outputs of other time periods, similar countries, best practices, etc.
Effectiveness	• **Are the stipulated aims being achieved? Are the outcomes observed really the result of the policy rather than of any other circumstances?** • Techniques: measurement before and after policy implementation (with a control group), comparison of observed outcomes and stated goals, study of side effects and unintended effects, etc.

11

The first one of three E's: Economy

When do issues of economy arise?

When an entity or activity could reduce the costs of inputs significantly for a given level of outputs or results

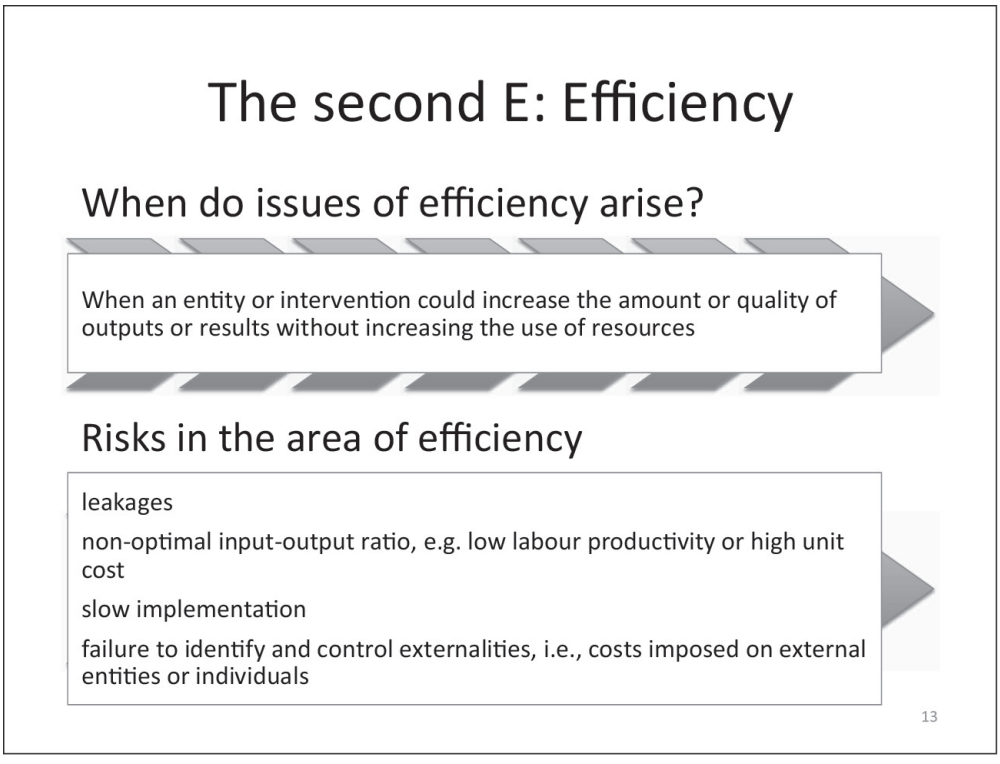
Risks in the area of economy

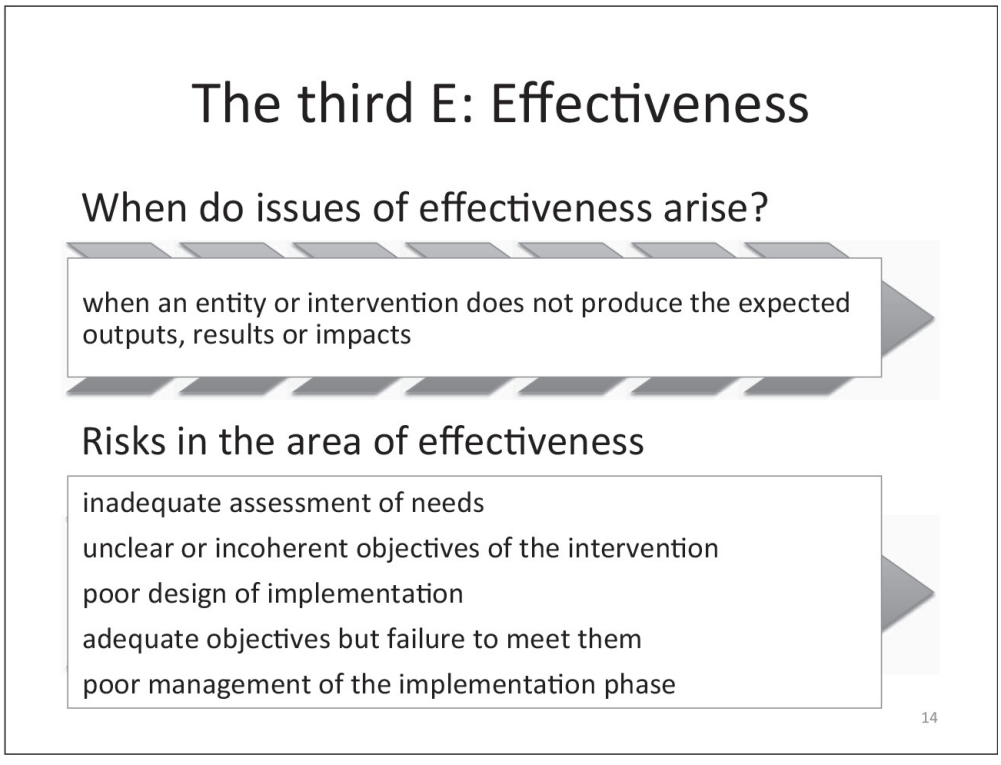
waste

overpaying

gold plating (incorporation of costly and unnecessary features or refinements into a product or structure to justify large budgets)

12


The second E: Efficiency
When do issues of efficiency arise?
When an entity or intervention could increase the amount or quality of outputs or results without increasing the use of resources
Risks in the area of efficiency
leakages
non-optimal input-output ratio, e.g. low labour productivity or high unit cost
slow implementation
failure to identify and control externalities, i.e., costs imposed on external entities or individuals
13


The third E: Effectiveness
When do issues of effectiveness arise?
when an entity or intervention does not produce the expected outputs, results or impacts
Risks in the area of effectiveness
inadequate assessment of needs
unclear or incoherent objectives of the intervention
poor design of implementation
adequate objectives but failure to meet them
poor management of the implementation phase
14

Financial audit

Objective of the audit:

to provide reasonable assurance that the financial statements are presented fairly, in all material respects, and/or give a true and fair view in accordance with the financial reporting framework

Outcomes of the audit:

1) Increase user confidence in the financial statement,

2) Reduce investor's risks

Audit **techniques**:

Assessing internal controls, check of the postings, check of the casting, bank reconciliation, vouching, re-count, etc.

15

Legality and regulatory audit

Objective of the audit:

to confirm compliance with standards,
whether they are set by law or regulations or codes of conduct

Outcomes of the audit:

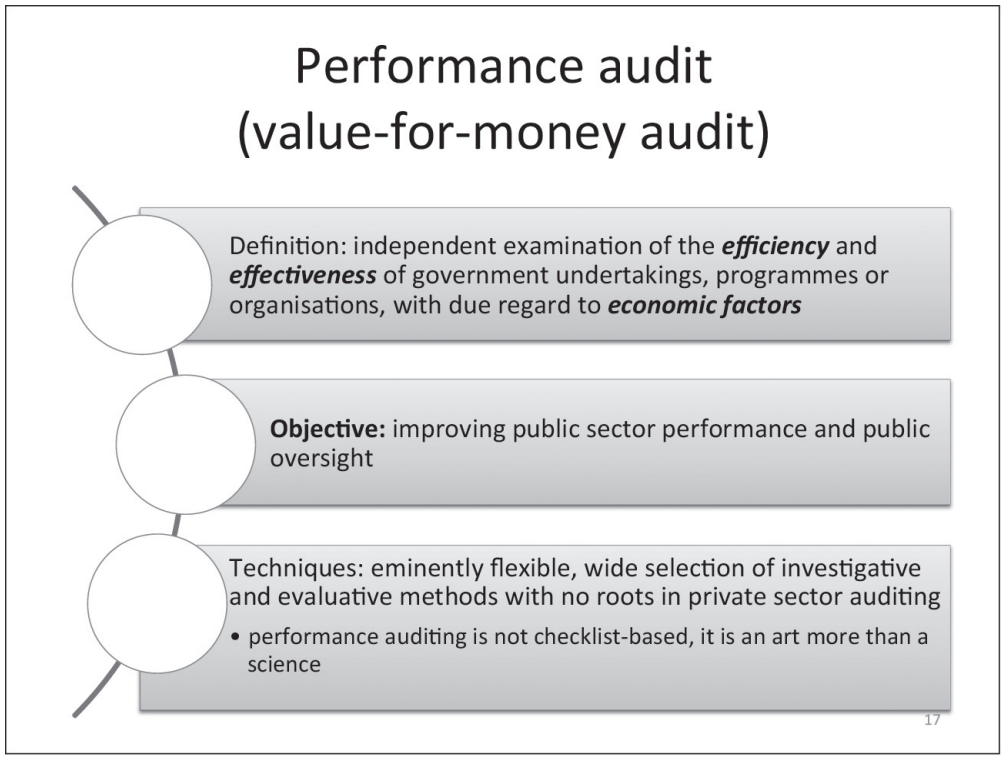
1) Increase management's and clients' trust in the organisation

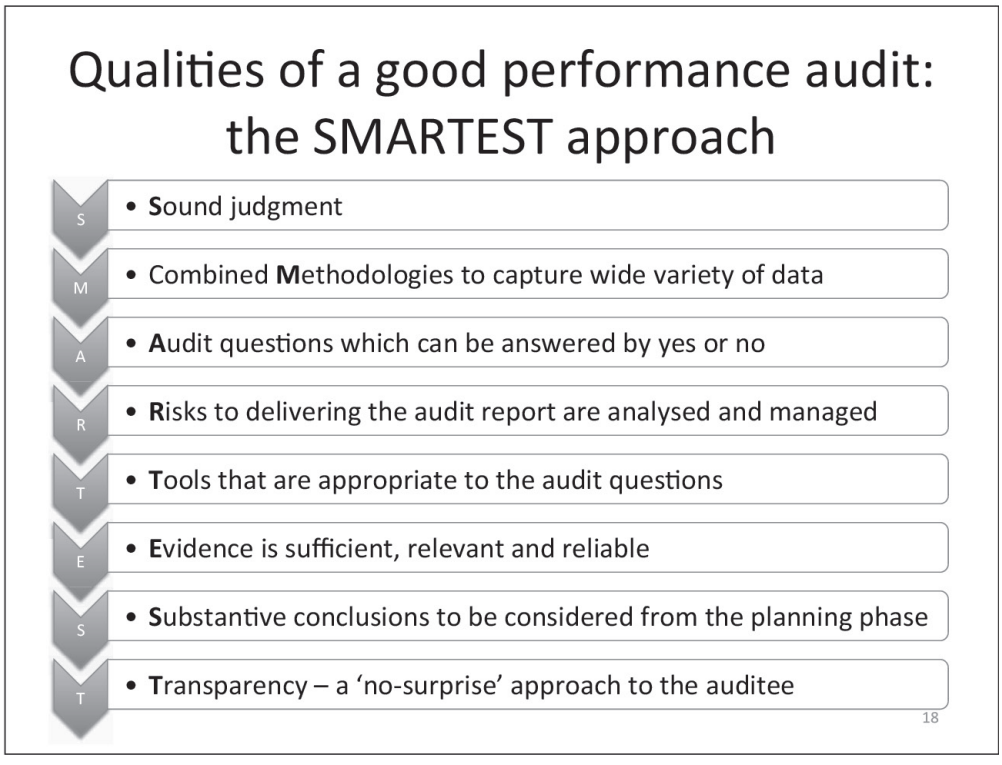
2) Satisfy legal or regulatory accountability requirements

Types of regulatory audits:

- quality audits, safety audits, information system audits
- in the public sector, most financial audits are legality audits

16


Performance audit
(value-for-money audit)
Definition: independent examination of the efficiency and effectiveness of government undertakings, programmes or organisations, with due regard to economic factors
Objective: improving public sector performance and public oversight
Techniques: eminently flexible, wide selection of investigative and evaluative methods with no roots in private sector auditing
• performance auditing is not checklist-based, it is an art more than a science
17


Qualities of a good performance audit:
the SMARTEST approach
S • Sound judgment
M • Combined Methodologies to capture wide variety of data
A • Audit questions which can be answered by yes or no
R • Risks to delivering the audit report are analysed and managed
T • Tools that are appropriate to the audit questions
E • Evidence is sufficient, relevant and reliable
S • Substantive conclusions to be considered from the planning phase
T • Transparency – a 'no-surprise' approach to the auditee
18

Handout 5.2

Understanding the basic concepts of performance audit

(adapted from actual cases of the European Court of Auditors)

The first column contains a selection of audit questions that have been asked in real-life performance audits.

In your group, you should:

1) Read the audit question

2) Discuss and decide whether the audit question is part of a direct performance audit (Column A: Auditing performance directly) or of an audit that focuses on assessing the control systems of the organisation (Column B: Auditing the control systems of the organisation).

3) Then, discuss and decide wheter the issue raised by the audit question is related to an economic risk, an efficiency risk or an effectiveness risk

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Audit question	A: Auditing performance directly	B: Auditing the control systems of the organisation
1. Have best prices been obtained for consultancy services for an IT upgrade in the Communications Unit?	o Economy o Efficiency o Effectiveness	o Economy o Efficiency o Effectiveness
2. How much additional carbon dioxide is released into the atmosphere by the Government's support scheme to the industrial drying of cattle fodder?	o Economy o Efficiency o Effectiveness	o Economy o Efficiency o Effectiveness
3. Are there adequate procedures to prioritise and select procurement of equipment for the police force to ensure maximum impact of the expenditure? Are the criteria used appropriate and are they being implemented as intended?	o Economy o Efficiency o Effectiveness	o Economy o Efficiency o Effectiveness
4. Are there procedures in place to ensure that the transport costs of a security sector department are the lowest available and compare favourably with costs incurred by other departments? Are these procedures adequate and being properly applied?	o Economy o Efficiency o Effectiveness	o Economy o Efficiency o Effectiveness
5. How does the cost per trainee incurred in the intelligence recruits' training programme compare with similar unit costs per training in other security sector agencies?	o Economy o Efficiency o Effectiveness	o Economy o Efficiency o Effectiveness
6. Have the new road infrastructure projects contributed to increasing traffic flow while reducing journey durations and improving road safety?	o Economy o Efficiency o Effectiveness	o Economy o Efficiency o Effectiveness

Audit question	A: Auditing performance directly	B: Auditing the control systems of the organisation
7. Does the Corrections department have and consistently use adequate key management information about the size, condition, utilisation and cost of their facilities for decision making?	o Economy o Efficiency o Effectiveness	o Economy o Efficiency o Effectiveness
8. Is there potential for equitably reducing the cost of sick leaves in the police force	o Economy o Efficiency o Effectiveness	o Economy o Efficiency o Effectiveness
9. Has the management carried out an adequate assessment of needs and possible benefits arising from the Early School Leavers skills training programme to support the funding decision?	o Economy o Efficiency o Effectiveness	o Economy o Efficiency o Effectiveness
10. Could the projects have been implemented in a different manner which would have resulted in improved timeliness and quality?	o Economy o Efficiency o Effectiveness	o Economy o Efficiency o Effectiveness
11. When an employee is no longer able to carry out his or her duties on account of invalidity, are alternative solutions to invalidity pension being studied, such as a change of position?	o Economy o Efficiency o Effectiveness	o Economy o Efficiency o Effectiveness

Handout 5.3

Excerpt from India's Comptroller and Auditor General Report on the performance of medical establishments in the Defence Services[1]

"Performance of Medical Establishments in Defence Services. Report No. 18. 2012-13.

Executive Summary

1. Why did we do this performance audit?

Armed Forces Medical Services (AFMS) is one of the critical logistics arms of Defence Services both in war and in peace. The objective of the AFMS is to preserve and promote the health of the Armed Forces personnel and their families by prevention of diseases and care and treatment of the sick and wounded among them.

AFMS is an inter-services organisation headed by Director General Armed Forces Medical Services (DGAFMS) who functions directly under the Ministry of Defence. DGAFMS at the apex level is assisted by the Directors General Medical Service for the Army, Navy and Air Force who are responsible for overseeing the functioning of the hospitals of the respective Services.

There are 133 Military Hospitals (Army-111, Navy-10 & Air Force-12) of varying bed strengths spread throughout the country in addition to 90 Field Hospitals in field areas.

AFMS, in April 2003, assumed the responsibility for treatment of Ex-servicemen and their families as and when referred by the Ex-servicemen Contributory Health Scheme (ECHS) polyclinics.

Considering the pivotal role of the organisation to keep the Armed Forces personnel healthy, we undertook this performance audit to assess how well the organisation is equipped and also the extent to which it was performing the assigned role, keeping efficiency, effectiveness and economy in mind.

2. What does this performance audit cover?

We took up the performance audit to obtain reasonable assurance that:

- There existed a sound budgetary formulation, control and expenditure management system conforming to the General Financial Rules;
- Hospitals are adequately manned with doctors, nurses and paramedical staff and are equipped with modern medical equipment;
- Sound practices existed for ensuring economy in procurement, inspection and timely supply of drugs to hospitals/ patients;
- Hospital administration including bio medical waste management was effective; and
- The nascent organisation of ECHS has been provided with necessary infrastructure, medical equipment, drugs and human resources.

[1] This is an excerpt of the following document, prepared by DCAF for the purposes of this Toolkit : India's Comptroller and Auditor General Report on the performance of medical establishments in the Defence Services: *Performance of Medical Establishments in Defence Services. Report No. 18,* 2012-13. pp 4-11.

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3. Our audit findings:

Increasing trend in local procurement of drugs

During the period from 2006-07 to 2010-11, the allotment of funds for local purchase (LP) of drugs increased significantly from ` 157.73 crore to ` 371.34 crore, an increase of 135 per cent, against a marginal increase (11 per cent) in allotment for central purchase (CP). As LP is intended to meet requirements of ad hoc and urgent nature, the major shift in the trend of allocating budget in favour of LP was contrary to the obvious advantages of centralised procurement in terms of quality and cost.

(Paragraph 2.2)

Disconnect between Annual Acquisition Plan and Budget allotment

Annual acquisition plans reflect the plan for procurement of items for modernisation of AFMS covering both revenue and capital items. There was a huge backlog of `943.41 crore, as of March 2011, against the approved Annual Acquisition Plan (AAP), making the plans largely irrelevant as far as procurement of capital items is concerned. The huge cumulative backlog of the AAP shows that the implementation has been rather slow and tardy due to processing delays.

(Paragraph 2.4)

Critical shortage of Medical officers in hospitals

Manpower in medical services is a critical component having a direct bearing on patient care. There was an overall shortage of 12 per cent Medical Officers (MO) in hospitals. Barring the Tertiary care hospitals (CH & Spl centers), deficiency existed in the chain of medical care of Army at Field Hospitals (36 per cent), Peripheral (6 per cent), Mid Zonal (19 per cent) and Zonal hospitals (nine per cent). Even among the Command and Specialist hospitals the posted strength varied from (-) 25 per cent in Udhampur to (+) 93 per cent in R&R Hospital Delhi. The cumulative deficiencies in Field, Peripheral, Mid Zonal and Zonal hospitals with surpluses in Tertiary care units is indicative of non- rationalisation in posting of the MOs against authorization.

(Paragraph 3.1)

Recruitment through Armed Forces Medical College (AFMC)

Medical cadets passing out of AFMC are liable to serve the Services. During the years 2007 to 2010, 73 of the 508 successful cadets opted out of service liability by paying the bond money of ` 15 lakh as fixed by the Ministry in September 1998. Obviously, the bond money of ` 15 lakh was not a sufficient deterrent in arresting the exodus.

(Paragraph 3.2)

Shortage of specialists

MBBS doctors acquiring appropriate qualifications are graded as specialists/ super specialists. As of March 2011, the specialists/super specialists held were 1919 against the authorisation of 2217 (2295 minus the reserve of 78) indicating a deficiency of 298 (14 per cent).

Attrition of specialists

During 2006-10, 190 specialists had left the service on grounds of supersession in service. Maximum attrition of specialists had taken place in those disciplines where deficiencies already existed.

(Paragraph 3.3)

Deployment of nursing staff and paramedical staff

As in the case of medical officers, there was disparity in the deployment of nurses and paramedical staff across various hospitals. In CH SC Pune, CH WC Chandimandir, AH R&R, BH Delhi Cantt and MH Jaipur, nursing staff was short by 39 per cent, 30 per cent, 21 per cent, 3 per cent and 25 per cent. At CH WC Chandimandir, BH Delhi Cantt and MH Jaipur paramedical staff was in excess by 4 per cent, 15 per cent and 8 per cent respectively, whereas it was short by 15 per cent and 23 per cent at CH SC Pune and AH R&R.

(Paragraphs 3.4 & 3.5)

Huge shortage of scaled electro-medical equipment

As of December 2010, there was deficiency of at least 22,108 equipment in different hospitals, with reference to the authorised scales for which no procurement was made to make up the projected deficiencies.

Alarming deficiency of critical equipment

We examined the holding of 20 equipment vis-à-vis the authorization at 28 hospitals. Most of the hospitals were alarmingly deficient in equipment such as portable multi-channel ECG, bedside monitor heart rate display, DC defibrillator, Nebuliser electric, Portable ultrasound unit, etc.

(Paragraph 4.2)

Downtime of medical equipment

The downtime of 51 medical equipment in 10 hospitals valuing ` 16.35 crore, ranged from 01 month to 12 months due to delay in repair by the Command Repair Cells and AFMSD Pune.

(Paragraph 4.7)

Vendor registration

The system of vendor registration was flawed as the hospitals registered even those firms which had made a false declaration; or/and did not produce certificate of Good Manufacturing Practice (GMP) issued by the State or Central authorities, Dealer licence and valid drug licence at the time of registration.

(Paragraph 5.4)

Central procurements through Rate Contracts

Normally Rate Contracts (RC) are executed to enable procurement officers to procure indented items with economy of scale. However, as of March 2011, RCs were in force only in respect of 44 items (6 per cent of total items) which resulted in local purchase at higher cost.

Local procurement of items available under RC

Even where DGAFMS had concluded RCs, our test check showed that six hospitals procured drugs from other than RC firms at higher rates. Similarly, Command Hospital, Pune, AFMSDs Delhi, Mumbai and Lucknow procured goods locally at rates higher than the DGS&D RC rate.

(Paragraph 5.5)

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Local procurement of drugs at inexplicably varying rates

Inexplicable wide variation in the rates of procurement by different hospitals in respect of common drugs was prevalent. For example for Oral Rehydration Powder (PVMS-011688) the rate varied from `1.58 {CH (AF) Bengaluru} to `12.93 (INHS Ashwini) and for Voveran Gel (PVMS-012920) it varied from `6.98 (MH Ambala) to` 59.17 (INHS Jeevanthi). In respect of Digene (170 ml bottle) local purchase rates varied from ` 9.50 per bottle (AH R&R) to `41.50 (178 MH). Similarly the procurement rate of Inj Dextrose varied from `12.8 (CH WC) to ` 150 (MH Kirkee).

The fact that there are huge price variations in local procurements of drugs across various hospitals ranging up to even 100 times implies one of the following two possibilities:

- Drugs are being procured locally at exorbitant prices; and
- Drugs are being supplied at freakishly low prices, calling into question their quality, given the fact that supplies in local procurements are accepted in hospitals based on only visual inspection by a board of officers.

(Paragraph 5.7)

Overstocking of drugs

AFMSD Delhi was holding 210 drugs valuing ` 3.80 crore in excess of the requirement. Out of the 210 drugs the quantity held in respect of 96 drugs, constituting 46 per cent, would be sufficient for more than two years, by which time their life would have expired. In the case of some of the medicines, overstocking was so huge that it covered the requirement of 6 to 109 years based on the average monthly maintenance figure. Similarly, AFMSD Mumbai was holding 460 drugs in excess, of which the stock of 197 drugs (constituting 43 per cent) would be sufficient for a period of more than two years, by which time the life would have expired.

(Paragraph 5.9)

Procurement of drugs with less than prescribed shelf life

The stocking policy laid down by DGAFMS requires the AFMSDs to accept expendable stores with residual life of at least five-sixth of their normal life. Test check for the month of December in 2008, 2009 and 2010 at AFMSD Lucknow revealed that 22 items valuing ` 46.64 lakh having shelf-life less than prescribed were accepted. The position was even worse in AFMSD Delhi where 52 such items valuing` 2.00 crore were accepted. AFMSD Mumbai had accepted 20 such items valuing` 23.07 lakh.

(Paragraph 5.10)

Quality inspection

The Director General of Quality Assurance (DGQA) is mandated to carry out inspection of all purchases against the RC and local purchases where the order value exceeds ` 1.5 lakh. However, we noticed that the DGQA authorities designated for the inspection were underequipped for conducting such tests, which compromised the quality of inspection. We also observed that in a large number of cases drugs were accepted by the CH WC, AH (R&R), CH SC, AFMSD Mumbai without the Inspection Note. Acceptance of drugs without Inspection Note carries the risk of acceptance of substandard drugs.

(Paragraph 5.14)

Deficiency in storage accommodation

Cool room and cold storage accommodation in hospitals are intended to preserve the life as well as the quality of medical stores. We noticed that in the test checked hospitals across the country deficiency in cool room ranged from 11 to 100 per cent, that of cold storage from 10 to 100 per cent and of overall medical storage accommodation from 5 to 100 per cent.

Deficiency in ambulances

During July 2008 to July 2011, the deficiency of four stretcher ambulances increased from 48 per cent to 57 per cent. Of the 23 hospitals reviewed during the performance audit, where the holding of ambulances against the authorisation was examined, only nine hospitals had ambulances as authorised, one was holding surplus while deficiency was there in 13 hospitals. The deficiency was the highest at MH Jaipur (50 per cent) followed by MH Ambala (46 per cent), MH Jabalpur (40 per cent), MH Jodhpur (36 per cent), MH Gaya (33 per cent) and CH SC (29 per cent).

(Paragraph 6.2)

Bio-Medical Waste

Under the Bio-Medical Waste (Management & Handling) Rules 1998 all Health Care Establishments (HCEs) generating bio-medical waste are required to apply to the prescribed authority for authorization for management and handling of bio-medical wastes. Of the 280 HCEs in the Army, 241 (87 per cent) were not holding valid authorisation as of March 2011. In Air Force, 99 HCEs out of 162 (61 per cent) and in Navy, 2 HCEs out of 10 (20 per cent) did not renew their authorisation as of March 2011. As valid authorisation under the rules is not available to a large number of HCEs, their capacity to handle bio medical waste in accordance with these rules is suspect.

(Paragraph 6.4)

Creation of infrastructure

As per the scheme sanctioned in December 2002, the infrastructure was to be created within four years in 104 polyclinics at military stations and in 123 polyclinics at non- military stations within five years. While the scheme had nearly met the objective of creating infrastructure in military stations, in respect of non- military stations the infrastructure was established in only 15 per cent of the polyclinics as of February 2011.

(Paragraph 7.2)

Deficiency in manpower

Deficiency of Medical Specialists and Gynecologists in ECHS was as high as 27 per cent and 31 per cent respectively as of March 2011. The deficiency in respect of all categories of medical officers was more in the polyclinics located in non-military stations than in the military stations, adversely affecting patient care by the former.

(Paragraph 7.3)

Equipment

Even as X-ray machines were provisioned to all the 227 polyclinics, radiographers to operate them have not been sanctioned for 79 military polyclinics. As a result, at many places, the X-ray

machines were not utilised and therefore were either transferred to military hospitals or were lying idle.

Downtime and non-functioning of medical equipment

Thirty six equipment remained intermittently un-serviceable at 18 polyclinics during 2008-10 for periods ranging from one month to 36 months. As of March 2011, 18 equipment (seven X-ray machines, nine Dental chairs and two Semi auto analysers) at 17 polyclinics located at non-military stations were nonfunctional since January 2010.

Low availability of medical stores

The ECHS Polyclinics are dependent on AFMSDs as well as nearest service hospitals for medical stores. The AFMSD Mumbai did not stock 35 vital and essential drugs (52 per cent), while the stock of nine drugs (13 per cent) was less than the requirement as per the monthly maintenance figure (MMF). The AFMSD Delhi Cantt did not have stock of 10 essential drugs (15 per cent) and for 24 drugs (36 per cent) the stock was less than MMF. Thus the depots were unable to provide the vital and essential drugs to ECHS polyclinics.

(Paragraph 7.4)

Inadequacy of empanelled hospitals

In the non-military stations the beneficiaries have to solely rely on the empanelled hospital for treatment. No empanelled hospital was available to ECHS beneficiaries at 15 non-military stations (20 per cent) and at an equal number of military stations (21 per cent). Thus, in the absence of empanelled hospitals the beneficiaries in those non-military stations were deprived of hospital care.

(Paragraph 7.5)".[2]

[2] Ibid.

Handout 5.4

Worksheet: A worksheet with instructions

Read the document (***Handout 5.3***) and reply succinctly to those of the following questions the trainer has asked you to work on.

1. Who took the decision to carry out the audit? Did the auditor act on his or her own initiative or on somebody else's request?
2. How does the auditor state the objectives of the audit?
3. Identify and state ***at least three*** of the auditor's concerns related to economy and the technique or methodology used to substantiate them.
4. Identify and state ***at least three*** of the auditor's concerns related to efficiency and the technique or methodology used to substantiate them.
5. Identify and state ***at least three*** of the auditor's concerns related to effectiveness and the technique or methodology used to substantiate them.

(Some of the concerns expressed by the Auditor might be related to more than one area)

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Handout 5.5

PowerPoint: PowerPoint presentation summarizing the answers to the questions asked in Activity 6

Performance-based auditing: medical establishments of India's Defence Services

Tool 5, Feedback on Activity 6

Handout 5.3 *POWERPOINT*

Initiative of the audit

- not explicitly clarified
- most likely on the initiative of the Comptroller and Auditor General, in the exercise of the prerogatives conferred upon her or him by the Constitution of India
- no mention of any Parliament or Government request to undertake such an audit

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Expected objectives of the audit

- To assess how well the Armed Forces Medical Service (AFMS) is equipped and the extent to which it is performing the role assigned to it = **performance audit**.
- To obtain reasonable assurance that there exists in the AFMS a sound budgetary formulation, control and expenditure management system conforming to the General Financial Rules of the Government of India = **legality audit**

Concerns related to economy

Concerns related to economy	Technique applied to substantiate this concern
Drugs are being increasingly procured locally, at a larger cost than via centralised procurement.	Analysis of financial records
Flawed vendor registration	Analysis of financial records
Limited use of centralised Rate Contracts, with larger costs as a result	Analysis of financial records
Procurement of drugs with less than required residual shelf life	Analysis of stocks records

Some concerns related to efficiency

Concerns related to efficiency	Technique applied to substantiate this concern
Underspent resources from the approved Annual Acquisition Plan	Comparison between the planning documents and the actual expenditure records.
Shortage of medical officers in several hospitals despite authorisation to hire	Apparently, comparison between human resource plan and actual personnel files
Waste of human resources trained by the Armed Forces Medical College	Comparison between human resources trained and liable to serve and human resources that opted out of service; assessment of the deterrent effect of the bond money
Shortage of specialists	Comparison human resource plan vs actual personnel files
Attrition of specialists	Analysis of human resources
Flawed deployment of nursing and paramedical staff	Comparison human resource plan vs actual personnel files
Shortage of electro-medical equipment	Comparison procurement plan vs actual financial records
Dearth of other critical equipment	Comparison procurement plan vs actual financial records
Long periods of non-usability of medical equipment due to lack of repair	Analysis of equipment inventories
Wide variability of prices for drugs paid in different hospitals	Comparison between unit costs across hospitals
Oversupply of drugs	Comparison stocks vs estimated rate of stock depletion
Flawed drug quality inspection process	Comparison between available human resources and estimated workload
Deficiencies in storage facilities	Comparison between material resources available and standards for preserving medical supplies

Concerns related to effectiveness

Concerns related to effectiveness	Technique applied to substantiate this concern
Shortage of medical officers in several hospitals despite authorisation to hire them	See point 4. It is also a concern regarding effectiveness, since shortage of medical officers is said to have an adverse impact on patient care
Dearth of critical equipment	See point 4. It is also a concern regarding effectiveness, since it can have an adverse impact on the quality of care
Long periods of non-usability of medical equipment due to lack of repair	See point 4. It is also a concern regarding effectiveness, since it can have an adverse impact on the quality of care
Low quality of drug inspection	See point 4. It is also a concern regarding effectiveness, since it can have an adverse impact on the quality of care
Deficiencies in storage facilities	See point 4. It is also a concern regarding effectiveness, since it can have an adverse impact on the quality of care
Poor ability to manage medical waste	Lack of proper authorization to manage biological waste can raise fears that effectiveness in managing the waste is poor
Lack of vital medical stores	See point 4. It is also a concern regarding effectiveness, since there is a risk that essential services may not be provided

Handout 5.6

Test: Test on building integrity in the security sector

Test: Auditing and Integrity in the Security Sector

In Activity 10, the participants receive a test on building integrity of security and defence institutions and the audit function which they should answer on their own before the last session, handling legal gaps while practicing financial oversight in the security sector. The test will be discussed again at the beginning of that session.

1. Oversight in a public sector agency is an essentially financial concept, a matter for the accounting department to deal with.

   a. True

   b. False

2. 'The only audit that concerns my organisation is carried out by an inspector directly reporting to the Minister. To my knowledge nobody else carries out any other audit in this country'. Would this be good practice?

   a. Yes

   b. No

3. You are the chief executive of a security sector agency. In order to suppress criminal activity in a specific area, a security contractor has proposed to you the purchase of a sophisticated surveillance system that would require 75% of your budget for this year. The President has told you dealing with criminals in that region is politically essential. Choose the least appropriate answer.

   a. It costs way too much, there must be a less expensive way. Let me inquire with another contractor.

   b. It is a priority for the President, that is the end of it. I must have that equipment, whatever the cost.

   c. It sounds a good idea but it is expensive. Let me consult with the Prime Minister.

4. You are the chief executive of a security sector agency. A vitriolic article has appeared on the most widely read newspaper in the country, lambasting what it believes has been the inconsiderate procurement of costly armament without competitive tender. The Auditor General of your country wants you to send him all the documents concerning that procurement. This is highly classified information, but the Constitution stipulates that the Auditor General shall have access to all records and documents relating to financial management. Choose **the least** appropriate answer.

   a. The Auditor General has no business with this matter, I will not answer.

   b. I will answer telling him that he cannot have access to classified documents.

   c. I will answer telling him that he cannot have access to classified documents, but I will provide as detailed information as possible on the circumstances surrounding this procurement.

   d. I have to see with the Prime Minister how to proceed.

5. Intelligence officials are never supposed to talk to the media. What do you think of this statement? Give arguments to substantiate your view. *(This is not a true/false question).*

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Trainer resource 5.1

Answers to the case study in Activity 3 (Handout 5.2)

Audit question	*Auditing performance directly*	*Auditing the control systems of the organisation*
1. Have best prices been obtained for consultancy services for an IT upgrade in the Communications Unit?	o Economy o Efficiency o Effectiveness	√Economy o Efficiency o Effectiveness
2. How much additional carbon dioxide is released into the atmosphere by the Government's support scheme to the industrial drying of cattle fodder?	o Economy o Efficiency o Effectiveness	o Economy o Efficiency √ Effectiveness
3. Are there adequate procedures to prioritise and select procurement of equipment for the police force to ensure the maximum impact from the expenditure? Are the criteria used appropriate and are they being implemented as intended?	o Economy o Efficiency o Effectiveness	o Economy √ Efficiency o Effectiveness
4. Are there procedures in place to ensure that the transport costs of a security sector department are the lowest available and compare favourably with costs incurred by other departments? Are these procedures adequate and being properly applied?	o Economy o Efficiency o Effectiveness	o Economy √ Efficiency o Effectiveness
5. How does the cost per trainee incurred in the intelligence recruits' training programme compare with similar unit costs per training in other security sector agencies?	o Economy √ Efficiency o Effectiveness	o Economy o Efficiency o Effectiveness
6. Have the new road infrastructure projects contributed to increasing traffic flow while reducing journey durations and improving road safety?	o Economy o Efficiency √ Effectiveness	o Economy o Efficiency o Effectiveness
7. Does the Corrections department have and consistently use adequate key management information about the size, condition, utilisation and cost of their facilities for decision making?	o Economy o Efficiency o Effectiveness	o Economy √ Efficiency o Effectiveness
8. Is there potential for equitably reducing the cost of sick leaves in the police force?	√ Economy o Efficiency o Effectiveness	o Economy o Efficiency o Effectiveness

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9. Has the management carried out an adequate assessment of needs and possible benefits arising from the Early School Leavers skills training programme to support the funding decision?	o Economy o Efficiency o Effectiveness	o Economy o Efficiency √ Effectiveness
10. Could the projects have been implemented in a different manner which would have resulted in improved timeliness and quality?	o Economy √ Efficiency o Effectiveness	o Economy o Efficiency o Effectiveness
11. When an employee is no longer able to carry out his or her duties on account of invalidity, are alternative solutions to invalidity pension being studied, such as a change of post?	o Economy o Efficiency o Effectiveness	√ Economy o Efficiency o Effectiveness

Trainer resource 5.2

Answers to the case study in Activity 6 (Handout 5.4 Worksheet)

Case study: Performance of medical establishments in India's Defence Services (report no. 18 of 2012-2013 of the Comptroller and Auditor General of India)

1. *Who took the decision to carry out the audit? Did the auditor act on his or her own initiative or on somebody else's request?*

   There is no mention of any Parliament or Government request to undertake such an audit. It was doubtless carried out on the initiative of the Comptroller and Auditor General, in the exercise of the prerogatives conferred upon her or him by the Constitution of India. It is possible, though by no means stated in the report, that the Comptroller and Auditor General may have acted as a result of critical press reports, or citizens' complaints about the low quality of service in medical facilities run by the Armed Forces Medical Service (AFMS).

2. *How does the auditor state the objectives of the audit?*

   - To assess how well the Armed Forces Medical Service (AFMS) is equipped and the extent to which it is performing the role assigned to it. It is clearly a **performance audit**.
   - However, there is also a financial audit component (**legality audit**), for the Comptroller and Auditor General wishes to obtain reasonable assurance that there exists in the AFMS a sound budgetary formulation, control and expenditure management system conforming to the General Financial Rules of the Government of India.

3. *Identify and state the auditor's concerns related to economy and the technique or methodology used to substantiate them.*

Concerns related to economy	Technique applied to substantiate this concern
Drugs are being increasingly procured locally, at a larger cost than via centralised procurement.	Analysis of financial records
Flawed vendor registration	Analysis of financial records
Limited use of centralised Rate Contracts, with larger costs as a result	Analysis of financial records
Procurement of drugs with less than required residual shelf life	Analysis of stocks records

4. *Identify and state the auditor's concerns related to efficiency and the technique or methodology used to substantiate them.*

Concerns related to efficiency	Technique applied to substantiate this concern
Underspent resources from the approved Annual Acquisition Plan	Comparison between the planning documents .and the actual expenditure records

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Shortage of medical officers in several hospitals despite authorisation to hire them	Apparently, comparison between human resource plan and actual personnel files
Waste of human resources trained by the Armed Forces Medical College	Comparison between human resources trained and liable to serve and human resources that opted out of service; assessment of the deterrent effect of the bond money
Shortage of specialists	Comparison between human resource plan and actual personnel files
Attrition of specialists	Analysis of human resources
Flawed deployment of nursing and paramedical staff	Comparison between human resource plan and actual personnel files
Shortage of electro-medical equipment	Comparison between procurement plan and actual financial records
Dearth of other critical equipment	Comparison between procurement plan and actual financial records
Long periods of non-usability of medical equipment due to lack of repair	Analysis of equipment inventories
Wide variability in prices paid for drugs in different hospitals	Comparison between unit costs across hospitals
Oversupply of drugs	Comparison between stocks and estimated rate of stock consumption
Flawed drug quality inspection process	Comparison between human resources available and estimated workload
Deficiencies in storage facilities	Comparison between material resources available and standards for preserving medical supplies
Deficiency in ambulances	Comparison between procurement plan and material resources available
Poor use of X-ray machines due to shortages of technicians	Comparison between equipment and human resources available
Lack of vital and essential drugs	Comparison between stocks and good practice/legal requirements for medical facilities

5. *Identify and state the auditor's concerns related to effectiveness and the technique or methodology used to substantiate them.*

Concerns related to effectiveness	Technique applied to substantiate this concern
Shortage of medical officers in several hospitals despite authorisation to hire them	See point 4. It is also a concern regarding effectiveness, since shortage of medical officers is said to have an adverse impact on patient care

Dearth of critical equipment	See point 4. It is also a concern regarding effectiveness, since it can have an adverse impact on the quality of care
Long periods of non-usability of medical equipment due to lack of repair	See point 4. It is also a concern regarding effectiveness, since it can have an adverse impact on the quality of care
Low quality of drug inspection	See point 4. It is also a concern regarding effectiveness, since it can have an adverse impact on the quality of care
Deficiencies in storage facilities	See point 4. It is also a concern regarding effectiveness, since it can have an adverse impact on the quality of care
Poor ability to manage medical waste	Lack of proper authorization to manage biological waste can raise fears that effectiveness in managing the waste is poor
Lack of vital medical stores	See point 4. It is also a concern regarding effectiveness, since there is a risk that essential services may not be provided

All in all, the Comptroller and Auditor General of India seems to be mostly concerned with economy and efficiency issues. Most of the concerns related to efficiency do raise doubts about the effectiveness of the programmes run by the AFMS, but the report does not explicitly address the extent to which policy and programme objectives are being compromised by the lack of economy and efficiency in the use of resources. As a result, the question as to the extent to which the AFMS is performing the role assigned to it by the Government of India is not fully answered by the audit, though there are hints that it may not be performing.

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Additional resources

Key resources

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Annex A:
Auditing and integrity in the security sector: the local training session

Introduction

The following objectives, suggested content, example activities and suggested sources are designed to give suggestions and examples of how materials can be developed by the trainer to suit their own particular local context.

Learning objectives

Participants will be able to:

- Gain knowledge of what integrity, transparency and accountability mean in the context of security sector governance in Palestine
- Become aware of the role of the audit function in Palestine
- Understand the conceptual and practical difference between internal and external audit

Suggested content to be covered

- The concept of integrity in security sector organisations
- The audit function in organisations
- Internal and external audit in organisations
- Legal and regulatory audit

Focus questions

- What does integrity, transparency and accountability mean in the local security sector context?
- What is the role of the audit function in the local context?
- What are the differences between internal and external audits?

Overview

Description of example activities

Handout L.5.1 *Answer sheet: SAACB's Commitment to Law Provisions*

Trainer Resource L5.1 *PowerPoint: Building integrity of Palestinian security and defence institutions and the role of audit institutions*

Suggested resources

Description of example activities

The following example activities are taken from the two hours of localised content that was created for use in trainings conducted in the occupied Palestinian territories (oPt). They are given here as a model or example for the trainer to adapt if desired.

Activity 1. PowerPoint presentation: Building integrity of Palestinian security and defence institutions and the role of audit institutions

Time 30 min

The trainer presents the PowerPoint (***Trainer Resource L.5.1***) and asks and answers questions of the participants.

Materials

- ***Trainer Resource L5.1*** PowerPoint presentation: Building integrity of Palestinian security and defence institutions and the role of audit institutions

Activity 2. Test questionnaire: Integrity, transparency and accountability and the State Audit and Administrative Control Bureau (SAACB)

Time 30 min.

The test questionnaire addresses how integrity, transparency and accountability are performed by the State Audit and Administrative Control Bureau (SAACB) while practicing financial oversight in the security sector. It also addresses SAACB's relationships with the local security agencies. The trainer gives a copy of this questionnaire to each participant. Once the questionnaire is completed, each question is discussed and explained among the whole group (approximately 30 minutes). (It is advisable for the trainer to prepare their own answers before giving the test. However, the test can also serve as a stimulus for discussion and participants could complete any unanswered areas as homework to then share with the group.)

Materials

- ***Handout L.5.1*** SAACB's Commitment to Law Provisions (This test questionnaire was used in oPt. It may also apply as is for use in the trainer's own local context.)

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Handout L.5.1

Answer sheet: SAACB's Commitment to Law Provisions

Question 1: Does an audit undertaken by SAACB cover all aspects (compliance, financial, administrative performance)

1. Yes .....

.....

2. Not all but some aspects

   - Legal provision .....

     .....

   - Implementation .....

     .....

Question 2: Does SAACB produce and publically publish periodical reports on security sector audit results?

1. Yes .....

2. No

   - Legal provision .....

   - Implementation .....

Question 3: Are there laws or bylaws/regulations (public / private) on the basis of which SAACB initiates an audit? (oversight on compliance)

1. Laws .....

   .....

2. Bylaws / regulations .....

   .....

Question 4: Are there laws (public / private) by virtue of which SAACB initiates financial oversight on the budgets of security agencies?

1. Laws .....

   .....

2. Bylaws / regulations .....

.....

Question 5: Does SAACB have any remarks regarding security agencies' commitment to the budget law, financial affairs and applicable financial regulations?

1. Regulations .....

.....

2. Remarks .....

.....

Question 6: Are there laws or procedures (public / private) that regulate security agencies' procurements?

1. Laws .....

.....

2. Procedures .....

.....

Question 7: Are there any regulations (public / private) on acquisition, management and use of assets in security agencies with respect to procurement?

1. Asset organisation law .....

2. Asset acquisition .....

3. Inventory management .....

4. Procurement management .....

5. Management of weapons (public), vehicles, uniforms .....

Question 8: What are the key observations regarding asset management and their use in security agencies concerning security agencies procurement and asset management?

1. Observations regarding the legal framework .....

.....

.....

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2. Observations regarding regulations .....

.....

.....

Question 9: Is there any law or regulation (public / private) on human resource management?

1. Laws .....

.....

2. Regulations .....

.....

Question 10: Is there any regulation on appointments, promotions, evaluation, accountability, commissioning and organisational structures?

1. Organisational structure .....

2. Identification of human resource needs .....

3. Appointments in security agencies (laws and regulations) .....

4. Promotions in security agencies (laws and regulations) .....

5. Commissioning in security agencies (laws and regulations) .....

6. Accountability in security agencies (laws and regulations) .....

Question 11: What are the key observations regarding human resource management in security agencies? (organisational structure, identification of human resource needs, appointments, promotions, commissioning, accountability)

.....

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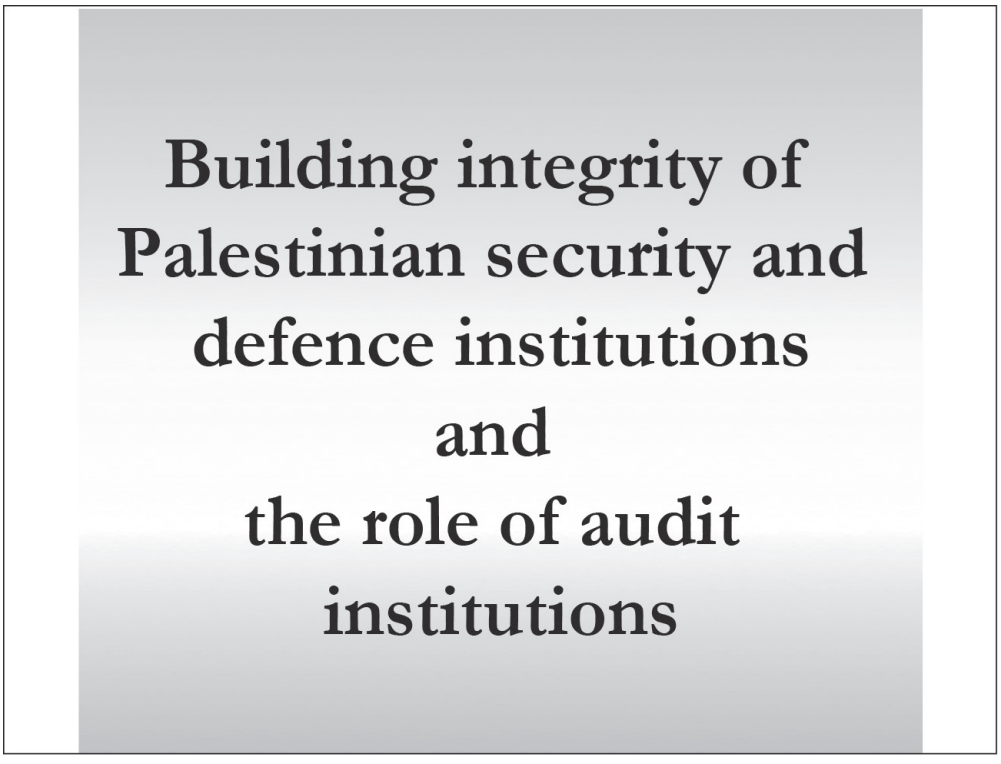
Trainer resource L5.1

PowerPoint: Building integrity of Palestinian security and defence institutions and the role of audit institutions.



Good Governance

- How countries administer public resources to promote development
- A measurement tool to establish comparisons between advanced countries and countries that encounter repeated failures in running their public affairs.

Good Governance Standards

- Rule of Law
- Involvement
- Accountability and Transparency
- Efficiency and Effectiveness

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Role of the State Audit and Administrative Control Bureau (SAACB) in Strengthening Oversight

- Transparency, integrity and clarity in public performance guaranteed.
- Credibility and trust in PNA financial, administrative and economic policies promoted.

How can the SAACB, in keeping with its mission and legal mandate, contribute to upholding integrity?

Integrity in the Security Sector

- National Integrity System

The conditions in the security sector are closely linked to the state of integrity and good governance in any country.

This sector is a key component of the state.

Measuring the Presence of an Integrity System

- Capacities
  1. Resources (law and practice)
  2. Independence (law and practice)
- Governance
  1. Transparency (law and practice)
  2. Accountability (law and practice)
  3. Integrity (law and practice)
- Role
  1. Prosecuting corruption cases

Capacities: Resources and Independence

- Are financial, human and infrastructure resources for security agencies available to perform their duties in an effective manner?
- Are security agencies independent under the law?
- Are security agencies independent in practice?

Transparency

- **Transparency:** planning and activities performed by the state are public and known by the public
- Are the legal provisions available to ensure public access to the required information on decision-making activities and processes in security agencies?
- Are decision-making activities and processes transparent in security agencies?

Accountability

Accountability: Holding individuals to account for the tasks they are in charge to perform in an effective an efficient manner.

- Are legal provisions available to guarantee accountability of security agencies for their acts and behaviors?
- To what extent, in practice, are security agencies subject to accountability for their acts and behaviors?

Integrity

- To what extent are laws applied with integrity mechanisms to ensure the integrity of security agencies?
- To what extent is the integrity of security personnel guaranteed in practice?

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Suggested resources

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DCAF Head Office, Geneva
By Post:
Geneva Centre for the Democratic Control of Armed Forces (DCAF)
P.O.Box 1360
CH-1211 Geneva 1
Switzerland

For Visitors:
Chemin Eugène-Rigot 2E
1202 Geneva
Switzerland

Tel: +41 (0) 22 730 9400
Fax:+41 (0) 22 730 9405

www.dcaf.ch

DCAF Beirut

Gefinor Center - Block C - 6th Floor
Clemenceau Street
Beirut
Lebanon

Tel: +961 (0) 1 738 401
Fax: +961 (0) 1 738 402

مكتب بيروت

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شارع كليمنصو
بيروت
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DCAF Ramallah

Al-Maaref Street 34
Ramallah / Al-Bireh
West Bank
Palestine

Tel: +972 (2) 295 6297
Fax: +972 (2) 295 6295

مكتب رام الله

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DCAF Tunis

14, Rue Ibn Zohr – 1er étage
Cité Jardins
1082 Tunis
Tunisie

Tel: +216 71 786 755
Fax: +216 71 286 865

مكتب تونس

١٤ نهج ابن زهر
شقة عدد ١ - الطابق الأول
الحدائق ١٠٨٢
تونس

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