

Process of Conducting Performance Audit in Supreme Audit Court of Islamic Republic of Iran

Introduction

Supreme Audit Court of Islamic Republic of Iran (SAC) has a history of more than 100 years. According to the Constitution, SAC continued its work as an independent institution under the direct supervision of Islamic Consultative Assembly (Iranian Parliament). Based on the Supreme Audit Court Act ratified in 1982 and the subsequent amendments, the responsibility of examination and auditing of all government organizations/institutions have been rested upon SAC and therefore it has focused on financial and compliance audits in conducting its duties. The new approach of SAC is to monitor consumption of scarce resources, examination of the efficiency and effectiveness of the operations in auditees. Considering the economy aspects of projects/program, SAC considers this aspect of auditing very fundamental in performing its duties. Performance auditing is one of the main pillars of the accountability system. It is indeed a tool for identifying the strengths and weaknesses of the operations of auditees, providing assurance to stakeholders and the public and providing advisory opinions to the management of auditees so that weakness and disorders in operations of government organizations are eliminated and quality of projects are improved.

Performance auditing takes into consideration all the aspects of the operations of the auditees, promotes accountability, improves productivity, improves the structure of government budgeting, increases financial and operational discipline in information systems and reporting. Since the responsibility to monitor the financial and operational activities of the auditees is rested upon SAC, the establishment of a strong auditing system could improve the shortcomings of current examinations and will improve the quality of audits in SAC.

Institutionalization and conducting performance audit will result in consumption patterns, avoiding unnecessary costs and waste of scarce resources and this by itself will increase operational efficiency, reduction of unnecessary bureaucracy, omission of non value added activities, identification, creation and enhancement of value added activities and the development of human resources.

The main measures taken by SAC in implementing and developing performance audit in Iran

These measures include:

1. Based on the Supreme Audit Court Act, any kind of misuse, negligence in safeguarding public properties, documents of public funds or any kind of expenditure that wastes public property could be stopped through implementing performance auditing and reporting on improper decisions. This aspect of auditing has been clearly permitted in the amendment draft to the Supreme Audit Court Act in 2009. According to this amendment, SAC will have the new authority to conduct performance auditing related to the operations/programmes of all government organizations/institutions and report about the economy, efficiency and effectiveness of the same operations/programmes/ decisions.

2. In this regard, to initiate a systematic measure based on the professional code of ethics, SAC at the beginning of the year 2009 held its first international performance audit seminar on accountability and improvement of productivity where the SAI Turkey and SAI Malaysia shared their experience with SAI Iran. The papers presented at the same seminar include:

- Proper structure in SAC for implementing performance audit
- Attitude of public administration towards performance auditing
- Advantages of implementing performance auditing in Iran and its role in accountability
- Performance auditing and its role in improvement of productivity
- Performance auditing and operational budgeting
- Planning standards and implementation of performance auditing
- Challenges of determining performance auditing criteria
- Performance auditing reporting standards

The seminar aimed to achieve the following objectives: providing the opportunity for implementing performance auditing, acquaintance with the latest developments in performance auditing, investigation of the obstacles on the way of performance auditing, The seminar secretariat composed of university professors and at the end of seminar, totally 178 papers were published in a book.

3. Following the performance audit seminar, Performance Audit Strategic Committee composed of authorities of SAC, university professors and experts was established. The same committee held many meetings in 2009 and finally devised Performance Audit Strategic Document. In the preceding paragraphs a brief explanation will be provided about the same document:

Vision:

To ensure government accountability and improvement of performance in public sector and development of performance audit components

Mission:

- Independent evaluation of the performance of auditees within the framework of laws
- Providing continuous performance improvement and strengthening financial systems and management systems in the auditees
- Devising performance auditing standard in public sector

Objectives:

- Effective and efficient management of performance audit of operations
- Preparing independent, fair, on time and good quality performance auditing reports for related authorities
- Estimating the needs and expectations of other stakeholders within the framework of laws and regulations

Responsibilities:

- Performance audit of government organizations/institutions to ensure that the projects/activities enjoy economy, efficiency and effectiveness.
- Reporting about how to implement programmes and policies of government and the level of achievement of objectives.
- Analyze and evaluate policies and providing important findings to stakeholders
- Analyzing the illegal and improper activities of auditees which affect their performance

Strategies:

- Emphasis on comprehensive quality management
- Application of modern technologies and compliance with performance auditing standard
- Continuous training, development and improvement of human resources
- Interact effectively with auditees and increasing their awareness
- Sensitivity to the needs of stakeholders and consideration of this important point in performance audit programme
- Utilizing private sector experts in implementation of performance auditing
- Developing relationship with local and international professional organizations and using the experience of other countries in implementing performance audit

Values:

The values include:

Piety and righteousness, independence, neutrality, professional competence, rule of law, transparency, accountability, secrecy, trustworthiness, honesty, respect, growth, excellence insight, courage and ability to guide

Implementing Performance Audit Strategic Document:

Ten major strategies to implement Performance Audit Strategic Document:

1. Continuous supervision of the top management of SAC regarding the developments in performance auditing and exerting necessary encouraging policies
2. Establishment of performance audit executive committee composed of top managers of SAC and qualified experts who are appointed by the decree of the president of SAC. The responsibilities of the same committee include:
 - Identification of efficient human resources , training of personnel, coordination in devising evaluation standards, review and study on performance audit report in order to increase the quality and uniformity and finally presenting proposal to president of SAC for performance audit projects
3. Follow up the duties of the auditees regarding preparation of key performance indexes
4. Ratification of necessary performance audit law, accelerate to devise performance audit standard and necessary guidelines for implementation of this kind of audit
5. Constant interaction with Parliament and other stakeholders of performance auditing to ensure understanding the needs and priorities, control and proposals
6. Planning to promote accountability culture and the performance of the management in the auditees
7. Acceleration the finalization of IT auditing system for performance auditing
8. Planning for comprehensive training for the audit staff regarding performance auditing

9. Providing the opportunity for auditors to participate in seminars and workshops inside and outside the country in the field of performance auditing

10 Planning to identify and use the services of experts outside SAC for performance auditing

4. The Audit Standards Committee, composed of authorities of SAC, university professors and experts, was set up to devise audit standards. This project was initiated since the second half of the year 2009 and it is expected to be completed soon. The approach of SAC regarding the same audit standards includes:

- Formation of the members of the committee and signaling contract for writing performance audit standards

- Using government audit standards prepared in other countries- July 2007 version (comparative study)

- Adding other information to audit standards such as:

- * INTOSAI Government Audit Standards, Code of Ethics and Performance Auditing

- * Information paper by International Federation for Accountants

- * Audit standards of other countries (at least 4 countries)

- Using the views of users and auditors as it follows:

- * Seeking continuous consultation from performance audit experts (at least 5 people)

- * Seeking periodical consultation from special people (50 people)

- * Public consultation from the official website of SAC

- Receiving the opinion of auditors of SAC and sample investigation of performance audit cases

- Establishing constant communication between the Audit Standards Committee and Technical Committee

- Finalizing audit standards by Technical Committee

5. Parallel to the above measures for the achievement of performance evaluation indicators in the auditees, necessary research was conducted. The Committee for devising Indicators could identify 16 sources for determining performance audit criteria, more than 58 general indicators, 541 specific indicators and 71 financial and operational indicators for investigation of auditees. In addition to this, Executive Committee on Performance Audit was set up to monitor the implementation performance audit project.

6. Regarding the implementation of performance audit in SAC, until now 190 performance audit projects were conducted in all parts of Iran and the reports of the same audits will be provided to the auditees by the Executive Committee on Performance Audit. Two of the same audit projects namely "Liberalization of Ancient Castle of Falkol Aflak in Khoram Abad city "and" Comprehensive plan for air pollution reduction in Tehran" will be explained in the appendix 1 and 2.

7. In order to strengthen the culture of accountability and provide the right situation for performance audits in the auditees, the authorities of SAC have held numerous meetings with different committees in the Parliament through which the spirit of cooperation has increased and furthermore, shortcomings of the projects and the ways to improve them are discussed. Regarding training in SAC in recent years most training courses have been devoted to performance auditing (almost 17680 hours). Also the Journal of SAC often publishes articles on performance auditing.

Future plan of SAC:

In the first six months of the year 2010 upon the approval of the bill of the Fifth Economic, Social and Cultural programme of Islamic Republic of Iran and with regard to the requirements considered in the same bill which is "creation of necessary infrastructure for implementation of operational budgeting and performance auditing", it is the decision of the authorities of SAC to turn Iran into a leading and successful country in performance auditing in the region during a five-year period.

Appendix 1: Case study one

Liberalization of Ancient Castle of Falkol Aflak in Khoram Abad city

Problem definition:

Liberalization includes purchase of shops and buildings belonging to private sector as well as the post office of Khoram Abad Province, providing land and building for those government institutions next to the castle and ownership of green spaces. This liberation is quite justifiable both economically and socially and is considered as a development factor in the province especially in tourism sector. The most important factors in the same project is too much delay, lack of sufficient budget, lack of coordination between different organizations involved, lack of serious effort by the authorities of the province especially during the early years of the project, deviation from the budget law and making improper decision. The same issues led to the release of part of the castle in 2002 but the main part of it which needed more budget remained in the ownership of individuals and legal persons both in public and private sector.

The criteria for measuring the performance of this project were the approved plan by Khoram Abad Province Cultural Heritage Organization in 2003. Accordingly, based on the available documents, the liberated and non liberated areas were compared with each other based on the number of square meters and the amount of progress made.

Audit findings:

The budget available for this project was planned to be used to purchase the non-governmental units and therefore the governments offices were supposed to move according to the agreement and coordination of province's authorities. Based on the examinations and considering the financial operation schedule of liberation of the castle, it was known that 39% of the payments have been made to non governmental sector and 61 % to government sector. Considering the law regarding government immovable properties, government as a large independent entity, can move public properties between different organizations and therefore the purchasing and selling public properties to government organizations using expert rate and pre –payment does not seem logical, it is somehow ilegal. Consequently, the funds have not been used properly. Instead of transferring the fund to the private sector for liberation of some areas, 61 % of the budget has been deposited to government accounts. This has led to non- purchase of important private units which need more fund in the future if they are to be purchased from private sector. This will also lead to considerable delay in liberalization. For further explanation it should be stressed that government

organizations have freed the whole or part of their areas in exchange of receiving money and have legally been able to meet their needs. They merely needed the support and cooperation of Directorate of Planning in the Governor General's Office of Lorestan Province.

In order to meet the needs of military, the university and the General office of prisons, only funding in the annual budget for relevant projects has been necessary not using the budget for purchasing the area next to the castle. Accordingly, it could be said that 39% of the budget spent shows efficiency but the other remaining 61 percent lacks efficiency.

Optimum use of resources and application of right management in public property transfer are two main reasons for the effectiveness of liberation plan of the castle and success of the project. Now after five years since the first payment to Korestan University was made and 6 years after the liberation of the castle, it could be said that only a small part of the area of the castle has been liberated. Of course some liberated areas bear special importance but final criterion is the total area. The unreleased area is 78030 sq meters and the liberated area is 44860 sq meters. Part of the liberated area, as it was already mentioned, is 20280 sq meters where the castle is located on a hill and this area was not necessary to be liberated and that's why it is not included in our audits. Only 24580 sq meters is considered as real liberalization. As the result, the effectiveness of financial and managerial activities is the proportion of 24580 to 102610 equal to 24%.

Audit recommendations:

a) Audit recommendation to improve economy:

In order to improve the economy of the project as soon as possible, it would be better to do pricing of the remaining part of the areas by official experts and to do financing as well. Besides, personal opinions about the project and imposing additional cost to government should be stopped.

b) Audit recommendations to improve efficiency:

To improve the efficiency of the budgets used, every attempts should be taken to appropriate the finance for purchasing private units not for purchasing government units because as it was mentioned earlier this is not legal.

c) Audit recommendations to improve effectiveness:

Upon payment of funds or during the first time after agreements, it is better to evacuate the purchased units so that areas are prepared on time for tourism purposes, otherwise state programmes in tourism will be delayed.

Appendix 2: Case Study two

Comprehensive plan of air pollution reduction in Tehran:

Problem definition:

Tehran metropolitan and its population suffer from an environmental problem called air pollution. According to international organizations, this metropolitan is one of the most polluted cities in the world.

The research conducted by the Air Quality Control Company and Ministry of Health suggests that the amount of the pollutants in Tehran is 8/2 times more than the global standards. Particles of metal pollutants such as cadmium, nickel, arsenic, sulfate, nitrate ions, multi-ring hydrocarbons in the air cause outcomes such as reducing IQ, slow learning, liver problems, asthma, emphysema, impaired smell, fatigue, nerve discomfort, throat irritation etc. The same research shows that air pollution in Tehran is deteriorating and therefore a solution should be found for the problem.

Audit findings:

a)Frequent management change:

One of the major factors restricting the timely and proper implementation of the project is that since the initiation of the project, seven different people have been appointed to manage it. This has definitely delayed the project. After change of management it took some time for the new manager to get acquainted with the project which intensified the problem. Transfer of the project to just one knowledgeable manager could remove many obstacles on the way of implementing the project.

b) Project Management:

One of the major obstacles on the way of implementing the project is that the project management does not work full time for the project. Working part time for the project can not meet the needs of such an important and energy consuming project. Due to the failure of the current management, it is recommended that the project is transferred to a more diligent and full time person.

c) Non- implementation of the contracts on time:

It has repeatedly been observed that the signed contracts are not implemented. In most contracts, the contractor has not done any of their duties and permission has been given by the project manager to extend the period of the contract without a good justification.

d) Non compliance of the contents of contracts with the current situation of air pollution in Tehran :

The management of the comprehensive plan of air pollution reduction in Tehran has declared that the annual rate of pollutants entering into air is 2, 600,000 tons but the contracts say that only 200,000 tons of pollutants will be reduced from air within the period of 7 years. It is obvious that this project will not solve any problems. This happens while the Environmental Department has not achieved any success in reduction of air pollution in Tehran after 6 years.

Audit recommendations:

a) According to international standards in industrialized countries for every one million inhabitants, 1000 buses are needed for public transportation. In developing countries the number is 600. Since Iran stands between industrialized and developing countries, the number of busses needed will be 800. Accordingly for Tehran with 12,000,000 inhabitants, almost 10,000 good buses are necessary. Adoption of principles and practices derived from scientific principles and accurate design of urban streets and consequently providing a comprehensive public transport system and develop inter city rail transport will help the traffic management in Tehran.

b) One of the main ways to reduce air pollution is to reduce the travel demand. Most travels in Tehran are for administrative purposes. This could be reduced through providing on line services to customers. Obviously Internet websites as well as e-government decreases the problem.

c) Building awareness among the public is one of the main factors in reducing air pollution. The authorities must teach people to act in away that the city belongs to themselves and it is in such situation that they can live more comfortably and happily. Education plays a significant role in this regard and although in recent years good measures have been taken by the Media especially the state T.V to inform citizens, education must be taken more seriously by the city authorities.

d) The problem of air pollution needs a unified, efficient and strong management so that the problem is solved soon. Urban management unit is one of the issues raised by experts and officials. Resolving the problem of traffic jam and air pollution depends on the realization of this important matter.