

Assessment of audit institutions performance in 2004

2004 PAF Indicator:

Area	Objective	Indicator	Target 2004	Target 2005	Target 2006
Auditing	Improve coverage and function on internal and external audit	Review functions of internal and external audit institutions	Review	Start implementation	

Summary

Performance of audit institutions in 2004 is mixed.

Progress has been made in the review of the **internal audit** functions. This review was launched in the context of the new Sistafe legislation creating the sub-system of internal control, and giving to IGF a specific supervision and coordinating role in this sub-system. The Ministry of Finance (MoF) presented the following relevant documents: a diagnostic study on the situation of the internal control institutions at national level, a 2006-2010 strategic plan for the internal control subsystem, a 2005 activity plan and the related budget. Although the delivery of these documents has been delayed due to the initial unsatisfactory results of the field work, they provide a relevant explanation of the functional organisation and of the weaknesses of the internal control subsystem and a presentation of its short and medium term strategic objectives and activities. Nevertheless, financial support to cover the proposed activities to be implemented as from 2005 is not foreseen in the State budget. In addition to the support coming from UTRAFE, there is the possibility that one IGF's international partner would provide financial resources to support the subsystem of internal control during the current year. However, IGF is looking also for eventual additional support from other partners.

Concerning **external audit**, the discussion on the indicators and targets for 2005-07 could not take place. The government informed the donors in the meeting held on the 16 February 2005 about its agreement on the relevance of this aspect of public finance management and hence its intention to establish a constructive dialogue with the Administrative Court (TA) through high level consultation before technical discussions on the proposal of new PAF indicators for 2005-07 would start. However, so far no step forward has been made in this regard. This is a very concerning issue from the PAPs' point of view. Therefore, they urge the government to pursue their initial proposal or to propose other options to allow for a regular monitoring of this importance aspect of public finance management.

1. PAF Indicator

1.1 Internal Audit:

1. Regarding the review of the internal audit functions, the Ministry of Finance elaborated during 2004 a diagnostic study on the situation of the internal control institutions at national level. On the basis of its main findings, the MoF elaborated three relevant documents: the 2005-2009 strategic plan, the 2005 activity plan and the budget of the internal control subsystem. These documents have been made available in March 2005.

Although their delivery has been delayed due to the initial unsatisfactory results of the field work, the documents provide a good explanation of the functional organisation of the internal control subsystem as well as of its short and medium term strategic objectives and activities. However, it should be underlined that they do not refer to the IGF *per se*, but to the new functions given to IGF within the context of the June 2004 SISTAFE Decree, by which IGF has a role of supervising the internal control sub-system.

2. The **diagnostic study on the internal control subsystem (SCI)** gives a quite comprehensive presentation of the major problems faced by the internal audit institutions, while the strategic and activity plan suggest appropriate solutions for the medium and short term.

Main weaknesses of the existing internal control institutions can be summarised as follows:

- Limited capacities to comply with the SISTAFE reform implications;
 - Specialised members of the OCI staff often move to the private sector where better incentives and work conditions are provided;
 - Low education level and insufficient training courses among large parts of staff in the OCIs;
 - Inexisting codes of conduct for public auditors/inspectors as well as a practical guide to implement the audit/inspection functions in a correct and harmonised way at different levels and sectors;
 - Most Ministries have not yet created their body of internal control and when they did, the OCI usually do not work in a coordinated and efficient way. Within the ministries, the OCIs should be reinforced in order to decentralise the task of controlling the management of the public resources inside the sector ministries;
 - Inappropriate financial support to OCIs.
3. The **strategic plan of the Internal Control Subsystem for 2006-2010** is the result of the field work made during the diagnostic study. It defines the main activities that the SCI should implement in coordination with the other SISTAFE subsystems. For each activity is indicated the respective deadline of implementation. As a result the following strategic actions should be undertaken by the SCI:
 - Ensure the institutionalization of the OCIs in each sector by enabling them with adequate resources and a “privileged” role in the Ministry. The SCI should be responsible for the monitoring and supervision of the OCIs establishment process;
 - Promote the professional development and competences of the SCI components;
 - Plan and implement auditing/inspection activities in coordination with other institutions of internal control, the Administrative Court and SISTAFE subcomponents.
 - Create audit committees and regulate their functioning taking into account that, through them, the subsystem of internal control will be able to contribute to the good management and circulation of professional, updated and timely information for managers from different levels., and will, in particular, ensure the effective implementation of the recommendations of the audit reports. The discussion with the Administrative Court should start soon on this area.

The strategic plan establishes performance indicators and critical factors for each strategic objective. It has been proposed that the SCI strategic plan will be presented to all line Ministries in a workshop at national level. For the time being, the document has been approved by the Ministry of Finance. After an appropriate divulgation between the OCIs of the different Ministries, an approval at Council of Ministries level will be sought.

4. The **activity plan and the budget for 2005** are operational tools of the strategic plan of the SCI. The main short term activities of the SCI include:

- Following the recommendations by the Coordinating Committee of the Internal Control Subsystem (CCSCI), each OCI should elaborate its own activity plan and submit it to the CCSCI;
- Create an audit committee for four pilot OCIs (Ministry of Health, Education, Agriculture and Public Works) at central level. This is a pilot exercise for broader audit committees that should involve all OCIs;
- Identify priority OCIs needing qualified staff and start the recruitment process on the basis of the available financial resources. New people should be trained in 2005, therefore adequate funds should be taken into account in the 2006 budget;
- Improve the information flows within the internal control subsystem.

5. **Issues of the subsystem of internal control to follow up:**

- The main concern for the implementation of such strategic and activity plans regards the limited number of qualified personnel and the shortage of financial resources. In addition to the support from UTRAFE in 2005 (110.000 USD ?), there is the possibility that one IGF partner will provide financial resources to the subsystem of internal control during the current year. However, IGF is looking also for additional support from other partners;
- There is a need to engage more the sectors in the SCI reform process; different ways to achieve this objective should be thought by IGF in coordination with UTRAFE;
- No reference to specific actions for the implementation of the strategic plan for the internal control subsystem has been made neither in the PES 2005 nor in the BPES 2004. It is recommended that this area will be taken into account at appropriate level in the future planning and reporting documents..

6. **IGF**

IGF being the focal institution of the SCI, its performance is also part of the SCI context, although not directly linked to the 2004 PAF indicator. Main issues in 2004 were:

- According to the last budget execution report, IGF budget execution in 2004 was quite low (36.6%). There are mainly two reasons for this:
 - 2004 has been the first year in which IGF had its own budget. Funds to IGF have been made available late, so that the salaries of the first quarter of the year have been actually paid through the funds provided by the department of human resources of the MoF. In 2005 this problem should be resolved.
 - 35 new people should have been contracted by IGF in 2004. However, the new IGF organigramme has not yet been approved; hence only part of the allocated budget has been used.
- In 2004 IGF foresaw to implement 141 inspections. However, 45 have not been implemented/started and 30 have not been concluded yet. This is mainly due to the insufficient collaboration with the audited parties in the creation of adequate logistical and working conditions and to the late availability of relevant information.

Plans for 2005 are:

- IGF has the clear objective to support the development of the SCI, through assisting the functioning of the CCSCI and strengthening its collaboration with other OCIs and its complementarity with the Administrative Court.
- Promote training courses in order to increase the professional and technical qualifications of IGF personnel

- During 2005 IGF foresees to implement:
 - 174 inspections against the 141 planned in 2004. In general terms, this means an increase by 23%.
 - 113 audits of public institutions
 - 44 activities, including 11 audits and 33 opinions, in municipalities
 - 4 audits of public enterprises.
- Although prioritisation of audit for the following year along certain criteria is annually made by IGF, its work is mainly subject to high level specific requests or donor driven requests coming during the year, as is the case in 2005 for example due to new Ministers taking up duties, that implies a constant adaptation of the agreed plan of activities.

7. Design of future indicators to monitor internal audit performance

In order to have a more comprehensive view of the situation of the progress and performance of the internal audit institutions in Mozambique, it is important that in the design of future indicators takes into account the entire SCI and IGF as the focal institution. As a result, it has been agreed that more precise indicators 1) for the SCI and 2) for IGF, should be proposed at the Mid-year Review for the following years.

1.2 External Audit:

Concerning the external audit institution, the discussion on the indicators and targets for 2005-07 could not take place. The government informed the donors about its agreement on the relevance of this aspect of public finance management and hence its intention to take initiative towards establishing a constructive dialogue with the Administrative Court. However, so far no step forward has been made yet in this regard. This is a very concerning issue from the PAPs' point of view. Therefore, they urge the government to pursue their initial proposal or to propose other options to allow for a regular monitoring of this importance aspect of public finance management.

2. Non-PAF issues

The MoU foresees the delivery of 3 annual audits:

➤ Value for Money Audit (VfM):

- VfM Audit for the Road Sector: This audit, expected for the end of November 2004, has been released in draft version in March 2005. The scope and quality of the work appear satisfactory.

The main objective of the Performance audit of the road sector is to assess the effectiveness of the management and control of this sector. In summary, the audit report states that:

1. There has been an improvement as to the allocation of funds that are based on the fuel taxes, during the recent year. However, action needs to be taken to develop and maintain a more regular and sustainable monthly cash flow situation. There exist problems on how the VAT should be handled in relation to the donor funds.

2. The present systems for financial control and accounting are not sufficient to assure an efficient management of the sector. One serious disadvantage at present is that the Road Fund is not able to efficiently monitor the whole financial flow including the bank balances of the road sector, since substantial funds from the World Bank and the African Development Bank are not channeled through this institution. Payments to contractors have to a large extent been delayed which have resulted in extra costs. The audit report strongly recommends channelling all funds through the Road Fund.
3. Due to the size and complexity of the financial operations of the road sector it is evident that the road authorities have a great need for more advanced accounting systems including well elaborated budget systems and systems for budget analysis as well as controllers and accountants who can handle these systems, otherwise satisfactory financial control will not be possible. Existing information systems in the provinces based on spreadsheets should be replaced by a uniform standard accounting system of quality permitting necessary reconciliations and audit trails.
4. It is recommended to establish an audit committee linked to the boards of the Road Fund and ANE. The audit committee should assist the board to establish and monitor the financial and accounting controls, monitor financial reporting, coordinate the various audit activities, and assure the implementation of audit recommendations.
5. According to the more technical oriented part of the report, it is concluded that it is not possible to measure to what extent Roads 3 has or has not contributed to the achievements of the PARPA objectives, except in the most general terms.
6. Periodic maintenance and rehabilitation targets were not met and the target proportion of roads in good or fair condition was unlikely to have been achieved. The Roads 3 programme may have been over-optimistic, as it is now significantly delayed by up to two years. This is mainly due to under-performance in management and other areas by ANE. Other than the recent Mid-Term Review there is no single place where overall and specific performance is assessed on a routine basis, and there is no formal annual reporting system.
7. As for the future, the recommendation is that the MOPH is required to ensure that comprehensive and effective monitoring of PARPA objectives vis a vis Roads 3 is undertaken. The MOPH needs as well to hold the ANE Board to account and resolve any on-going problems associated with the current performance of ANE management.
8. As to the Road Fund, there is good reason to believe that the Fund has performed well in recent years and that it is most likely that this will be sustained in the future.
9. The ECMEPs are inadequately prepared for a viable commercial future and it's necessary to take urgent action in order to implement the planned commercialization process. The private local contractors have made some progress at provincial level, but it's necessary to do a lot more. .
10. Finally, the report states that the recent reported progress in the Road sector needs to be confirmed and that the overall value for money is unclear and probably very uneven.

A workshop with government, the audited parties and donors is foreseen in May in order to reach an agreement on the final version of the audit report.

- VfM Audit for the Drugs Sector: CMAM, the Pharmaceutical department of MISAU, provided comments about the 116 recommendations, suggested in the VfM Audit for the Drugs Sector. IGF is now going to follow-up with the sector.
- The planning for the VfM Audit for the Water Sector is under preparation. IGF provided the PAPs with the proposed ToRs, budget and calendar. The Netherlands has been identified as possible donor financing this audit that should be ready before the MyR of September 2005.

➤ Audit of the Financial Records of the Programme Aid:

PAPs received a draft copy of the 2004 financial audit. Donors are now waiting for the delivery of the final report, in both English and Portuguese.

Donors have not received the final MB10 Complementary Audit yet, although strong concerns were expressed in this regard. A draft version of the document was released in February. This audit has been carried out through the work done by KPMG that assures that programme's funds were actually transferred from the Forex Account in Frankfurt to the MB10 account and the work done by IGF that checked the transactions from MB10 to the Central Treasury Account.

➤ Audit of the State General Account:

The Administrative Court audits annually the General State Account. This year PAPs received both the report and the opinion by TA on the CGE 2002-2003 in October 2004.

All documents contain a wealth on information and the 2003 one was produced within the new time limits set by the law. This was especially a big effort for the Administrative Court which had to deliver two reports within three months. However, the external audit made by the TA could gain in strength if apart from the strictly legal questions whether the budget has been executed according to the law, the TA would also check more what has happened on the ground, check some of the accounts and not limit itself to a desk study. In February 2005 the main conclusions of these reports have been discussed between the Ministry of Finance and PAPs in the dialogue of PFM issues. This dialogue on the TA report is seen as positive and should be followed up in the future.