

SAIs and the National Integrity System

Panel Discussion

(Mr. Shashi Kant Sharma, CAG of India)

Mr. Chairman

Esteemed members of the panel

Heads of SAIs

Friends from the oversight community

Ladies and Gentlemen

Good Morning.

1. At the outset, I wish to congratulate Prof. Chaisit Trachoetham, the Chairman of the State Audit Commission of Thailand and the Officials of the Auditor General of Thailand on the centenary anniversary of the Audit Office and wish them continued success and glory in the coming years.
2. I also thank the Chairman of the State Audit Commission, Thailand for inviting me to present my views in this panel discussion. I would also like to acknowledge the warm hospitality and excellent arrangements made by our gracious hosts for the ASOSAI GB and this symposium in this beautiful and historic city of Chang Mai.

Importance of Integrity and problems of corruption

3. If we are to achieve sustainable development, establish the rule of law and improve the quality of life of our citizens, we have to continuously strive to improve our governance system. Integrity is the very foundation of good governance. Integrity means, that those entrusted with the power to govern, use this power properly for the public good and not misuse official position for private gains. Most importantly, integrity means acting according to the needs, demands and expectations of the public. Integrity also signifies an administration which is just, ethical and responsive.
4. Corruption or lack of integrity has become a major governance challenge in today's world. Whether it is in the form of misuse of authority, conflict of interest, misappropriation of public resources for private interests or bribery; it has permeated various organs of public life. Hence, the organisation of this symposium on the National Integrity System could not have been more appropriate.
5. From an economic perspective corruption distorts competitive markets. From a social perspective it undermines the rule of law and public trust in politicians, public servants and business leaders. From a development point of view it negates development efforts and increases disparity in living standards. The World Economic Forum has estimated that, every year corruption adds as much as 10% to the total cost of global business. It has also estimated that 5% of the total global GDP is

lost to corruption. The ill-effects of corruption was best summed up by the UN Secretary General, Ban Ki-moon in his recent address, where he said – “Peace, development nor can human rights flourish in an atmosphere of corruption”.

Benefits of The NIS approach

6. Given the importance of integrity to governance and the dire consequences of corruption, it is quite evident that corruption needs to be addressed as part of the overall development strategy. The concept of NIS has therefore emerged in the last decade as a holistic approach to understanding and promoting integrity in the governance system.
7. The popular erstwhile belief was that fighting corruption was the job of the anti-corruption agencies. The NIS approach on the other hand looks at integrity in terms of the totality of institutions, regulations, systems, processes and people involved in the running of the nation. Besides the organs of the state, it includes all stakeholders to the governance process - the citizens, private sector, civil society and media. The NIS therefore presents a comprehensive approach that targets the root causes of corruption and aims at systemic reforms.
8. The NIS approach is also useful because it emphasises horizontal accountability across various agencies through a system of checks and balances, instead of focusing on a few oversight institutions. It recognises the fact that addressing a single

element of the system in isolation is ineffective. For instance, mere strengthening of the SAI will not be efficacious if the Public Accounts Committee does not give due importance to timely deliberation of audit reports and enforcing executive accountability through these reports.

NIS in India – Legislation and Role Players

9. A slew of legislations deal with different aspects of integrity in India. Some of these are the Prevention of Corruption Act, Prevention of Money Laundering Act, Central Vigilance Commission Act, Right to Information Act, Whistleblowers Protection Act and the Lok Ayuktas (Ombudsman) Acts in various states.
10. These legislations are administered by the Vigilance Commissioners, Central Bureau of Investigation, Information Commissioners, Lok Ayuktas, the Directorate of Enforcement and other role players. In addition, Ombudsman in various sectors, statutory regulatory bodies like the Securities Exchange Board of India, Insurance Regulatory and Development Authority, Central Electricity Regulatory Commission, Telecom Regulatory Authority of India and many other such regulatory bodies created under statutes passed by Central and State Legislature are there to oversee the orderly functioning of the regulated activities. Further, various non-government organizations/voluntary agencies doing charitable voluntary work, print media, films, televisions and the emerging area of

social media also greatly influence the ethical behaviour of people in the country.

11. While there is a multitude of legislation and numerous role players in the NIS in India, the SAI has a unique role to play and I will be happy to elaborate SAI's role.

Role of SAI in the NIS in India

12. Whether the SAIs should indulge in fighting corruption or not, has been a matter of debate for some time. Generally, addressing corruption is not an explicit mandate of Supreme Audit Institutions and it is the domain of anti-corruption and anti-fraud agencies. In India also, there are separate agencies to combat corruption.
13. However, most of the fraud and corruption arises out of financial transactions, be it procurement of goods and services, assessment and collection of revenue or auctioning of public assets. SAI's are mandated to scrutinize all public financial transactions. Even matters like recruitment, promotion, travel and personal claims which are highly vulnerable to fraud and misuse are covered under public audit. Every dollar spent in the public sector passes through the eye of the public auditors. The anticorruption and other enforcement agencies do not enjoy such advantage as their work is largely reactive in nature, triggered by complaints or source information. They investigate limited and specific transactions focussed on the role of individuals.

14. Hence, the SAIs are best placed to detect fraud and corruption. In India, the CAG has exposed several high profile cases of corruption which led to investigation and prosecution of the high and mighty. Further, while our SAI may not be vested with the investigative powers of investigative agencies, this disadvantage is more than offset by the SAIs' closer familiarity and expert knowledge of finance and accounts of audited entities. Our auditors are thus in a position to detect anomalies and irregularities leading to corruption.
15. Corruption cannot be tackled solely through punitive action which is reactive, costly and time consuming. It is impossible for the anti-corruption agencies with limited resources and mandate to combat corruption in its myriad dimensions and manifestations. It needs to be supplemented by preventive action which is more efficient, effective and sustainable. Preventive anticorruption involves continuous assessment of the organisation, systems, procedures and people in an organisation so as to identify the vulnerabilities which provide scope for corruption. SAI India discharges this preventive anticorruption role through performance and compliance audits through which it identifies systemic weaknesses and aberrant action respectively and helps the management to take timely corrective measures.

16. I will elaborate further on the relevance of compliance audits conducted in SAI India to the enforcement of integrity. As part of our compliance audit, we assess whether

- Transactions are intra-vires the provisions of the Constitution of India and other applicable laws and regulations (legality)
- Transactions are judicious and wise (propriety and prudence)
- Rules, regulations, policies and procedures are comprehensive and ensure effective control over government receipts, expenditure, assets and liabilities (Adequacy) and are free from ambiguity and promote observance of probity in decision making (transparency)

17. The best results in the fight against corruption can be achieved if SAIs and the other anti-corruption, enforcement and oversight agencies synergise their efforts. The SAI's specialized know-how coupled with the investigating powers of enforcement agencies can be a powerful weapon against corruption. Audit need not make legal determinations of whether fraud or corruption has actually occurred. It can red flag issues and facilitate further investigations by appropriate agencies. We have realised the synergy that can arise through close cooperation with other government agencies in the field. We have issued clear guidelines in the SAI that requires red flagging audit findings having

corruption overtones to the anticorruption agencies for further investigations.

18. We believe that citizens who are well informed and vigilant play a vital role in ushering in greater integrity in the country. We have introduced several innovative measures for dissemination of our audit reports like a new website with user-friendly search facilities of audit reports, podcasts etc. which empowers citizens to enforce accountability of public officials. We are also engaging more closely with the citizens by inviting suggestions from general public while taking up important performance audits. For instance, we invited public comments/suggestions through a public notice in leading newspapers while undertaking environment related audits.

Emerging trends that impact SAIs

19. Having so far talked about the role played by SAI India in the NIS, I will flag a few nascent developments that would have a significant impact on the NIS and the SAIs role.
20. You would all agree that we are in a period of great flux. There is a marked shift in the role of government in economic activity. Governments see themselves more as regulators of economic environment and have allowed private sector to play a more direct role in all gamut of economic activity. Even in India, sectors that were earlier reserved for government like defence production have been opened up for private sector. Even where

Government is still involved in direct economic action, it is more in the nature of Public Private Partnerships (PPP) than 100 per cent Government intervention. Public resources like spectrum, rights to mining/oil exploration etc. have been sold to private players in return for share in profit/revenue. Given the economic significance of these issues, any integrity concerns in these contracts/agreements will have a strong ripple effects. SAI India's right to audit the accounts of private players relating to agreements for sharing profit/revenue in lieu of public resources allotted to them has been a matter of much debate and legal scrutiny. The modalities and skillset for auditing the PPP and the regulatory function of the regulators are still evolving in SAI India.

21. Another significant development has been the manner in which social programs and services are being administered by the government. E-governance has led to several social services like birth-death certificates, registration, payment for public goods like water/electricity etc. being made available online. Subsidies are being paid directly into the bank accounts of beneficiaries. While these are positive developments that enhance efficiency, they bring in new risks of abuse and as SAIs we need to be alert to their impact on integrity.
22. Lastly, big data has emerged as a boon to the SAIs to examine huge chunks of data from multiple sources, establish links between them and spot trends and patterns that are not

otherwise recognisable. Our initial attempts in using visual analytical tools to examine large chunks of data has been highly encouraging – for instance we identified excess payments on leave encashment. To reap full benefits of big data, we have recently formulated a Big Data Management Policy and have set up a Big Data Management Centre. However, much more work needs to be done both at the INTOSAI level and at individual SAIs to fully tap the immense power of big data.

Conclusion

23. SAI is one of the core pillars in the National Integrity System of a country. Its wide access to the government entities and the preventive role that it can perform through its compliance and performance audits, places it in an advantageous position in enhancing integrity in the country. However, if the SAIs are to remain in the forefront of integrity systems, they need to invest sufficient resources to ensure that their employees remain abreast of the latest developments.
24. It is for the SAIs to seize the opportunity created by greater public demand for accountability and to contribute more effectively towards shaping the national integrity to ensure better economic progress and improved lives of citizens.

Thank You.