MAPPING A CULTURE OF INTEGRITY

Management Association of the Philippines
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Ma. Gracia M. Pulido Tan
Chairperson, Commission on Audit

Thank you most sincerely for inviting me to share with you today my thoughts and aspirations on a truly challenging but very timely topic, one that strikes at the very core of what I have long set out to do with my very life as a daughter, sister, wife and mother; a puny creature of God; an ordinary citizen; a professional; and now, as public servant once again.

On my first day of office, I expressly declared my bottomline, and that is to bring to our countrymen the COA that our Constitution has meant it to be, and properly deliver to them their constitutionally mandated right to a full and proper accounting of public funds which, after all, is theirs, yours and mine.

I thus laid out our immediate tasks:

1. **Revisit our mandate and assess our directions;**

2. **Evaluate our organizational structure and management and business processes and undertake all necessary reforms to institute best practice for efficiency and effectiveness in carrying out our tasks and strengthening our independence;**

3. **Continuously upgrade our capabilities, specially in the areas of forensic accounting, fraud audit, and properly documenting our findings so they will stand in the courts of law;**

4. **Engage citizen participation in the audit process and keep them informed of the workings of the Commission within the bounds of due process and confidentiality requirements, and,**

5. **Most of all, fastidiously work on ourselves and strive to grow each day in professionalism, patriotism and integrity.**

This is my roadmap at the Commission. I hope you will agree with me that it is a roadmap to a culture of integrity.

I firmly believe that this is the only way to go, specially in light of the crucial role of the COA in the fight against graft and corruption and in restoring credibility to and confidence in our government which has been inflicted with deep wounds of untold excesses and brazen raids on the treasury.

You and I know these all too well, as practically each day, the media carries banner stories of this sad and sordid state of affairs.

I hope you will also agree with me that sound management policies and practices are imperative in delivering on these tasks. I must confess, however, that apart from my degree in business administration and accountancy, I have had no other formal education in management.

But I have laid my vision, and draw the audacity to move and shake from my long years of law practice and intermittent stints in government and international consultancies, where I have had the privilege of entering the corridors of decision makers and managers at the highest levels, and which honed my instincts to a great degree.

Most of all, I derive strength from my faith in God, whom I firmly believe directed me to this new chapter of my life and therefore equips me with the moral courage for the job.

So how have we done at the COA in the three months that I have been at the helm? Let me share with you some highlights.

<u>Mandate, Organization, and Processes</u>

A cardinal rule for me is that structures and practices that have a high potential for compromising integrity must go.

<u>Pre-audit</u>

I am pleased to inform you that last week, we at the Commission Proper resolved to do away with pre-audit.

While its intentions were laudable, its implementation courted some dangers. For one, its very nature and purpose - which is essentially an approval process of a transaction before it can be carried out - gave rise to myriad reports that a *quid pro quo* between the agency and our auditors take place every now and then, for without COA's approval, the transaction cannot proceed.

On the other hand, it has placed a big burden on auditors who are genuinely cautious and thorough, and thereby bide for time to make a decision, resulting however in delays in certain government projects and consequent penalties. In this sense, the COA has been perceived as an "obstructionist" or, at the other end of the spectrum, "nagpapapresyo." So either way, damn if we do, damn if we don't.

Pre-audit also partakes more of a management function, a task that could compromise the independence and attest function of the COA and estop us from revisiting or changing position where circumstances would otherwise warrant.

Pre-audit has also taken a considerable portion of our auditors' time that would otherwise have been devoted to meticulous regular audits.

Our review of pre-audit reveals that in the almost two-year period that it has been in place, more than 500,000 transactions were pre-audited, involving an aggregate value of more than PHP 535B. 87% of these were given "outright approval;" 11% were "approved after compliance with auditor requirements", and only about 1% were denied.

These figures would indicate that for all the effort, we managed to "save" government of about PHP 5.35B only. Surely, there must be less invasive and burdensome ways by which to achieve the same result, if not better. The very high percentage of outright approvals would also show that the concerned agencies may have been generally fiscally responsible, after all.

Accordingly, except in agencies whose internal control systems are weak or perhaps, even non-existent, pre-audit must go. We shall issue and publish a Circular to this effect shortly, as soon as we finalize the transitory provisions and other details.

<u>Residency Audit</u>

As you know, we use the residency audit approach, where audit teams hold office in their assigned agencies. This is designed to facilitate the ongoing review of the agency's operations, programs and activities, specially because we audit them yearly.

You are also well aware of the consequent problems we have had in this regard. Remember the Garcia affair?

While the COA has a residency rule of three years, this has not been implemented consistently. One consideration, I was told, is that a good level of familiarity with the operations of the agency is required for a good audit. But wasn't it familiarity that was precisely at the root of the Garcia affair?

The residency approach is definitely under high-priority and urgent review. It is taking a little longer than pre-audit, though, because we have about 7,000 people on the field. Initial findings – and the increasing number of complaints that we have received – strongly indicate, however, that we may have to consider doing away completely with this approach, and instead adopt a visitorial system.

This would mean recalling every resident auditor to home office, and scheduling field work from time to time, pretty much how external auditors in the private sector do. Of course, there are logistical concerns and we may just pilot

some agencies first. To test the waters, we have resolved to adopt the visitorial audit in one agency, and we are now in the process of fleshing out the details.

Meantime, we issued COA Circular No. 2011-001 specifying the items all heads and concerned officials of all our auditees are legally obliged to provide our resident audit teams. This Circular also reminds them of the prohibition against paying our personnel any honoraria, allowance, bonus or other emoluments. COA Circular No. 2011-001 was published on July 13, 2011 in the Inquirer, Philippine Star and Business World.

We are also reviewing the residency period of our auditors in their present assignments so we can forthwith rotate those who are clearly overstaying.

<u>Organization and Processes</u>

Under the COA organizational structure (adopted in 2008), audit observation memos and reports are signed and released by the Supervising Auditor. Notices of disallowance, suspension or charge are also issued by the Supervising Auditor, thus making an audit team virtually autonomous in its assigned agency.

This has resulted in the inconsistent application of compliance standards and interpretation of transactions among agencies. One audit team may find an expense irregular in its agency, but the audit team in another agency may find a similar expense regular.

The general perception created is that the "lenient" auditor may be on the take. On the other hand, the agency with the "strict" auditor would request replacement. Imagine the delicate balancing act we have to make.

Autonomy has also resulted in what I would call a "fragmentation" of transactions that involve, or cut across, several units or agencies. Either the "money trail" is not followed to its conclusion, or the multi-agency projects are not evaluated as a whole, but only in parts, resulting in different interpretation or characterization of the project because each audit group would only be looking at the part that involves their agency.

As an interim measure, I have therefore asked that all audit teams of agencies involved in a multi-agency project or transaction coordinate closely and work together to have a common understanding and appreciation of the entire project and its component parts – from origination, stages of development, approval, financing and implementation; validate their observations with one another to ensure consistency; and issue one special consolidated report for a better understanding of the various stakeholders.

A good example would be the MRT, which involves not only the DOTC but the NEDA, DOF, BTr, GFI's and GOCCs. Another would be the Malampaya

Funds, which not only involve the DOE, but all agencies which have received them and funded projects out of the proceeds. Call it a package audit, if you will, and I hope it would not only provide a complete picture but also serve as a check and balance among our auditors.

Capacity Building

Another sound management policy, I believe, that will promote integrity is to bring out the best in our human resource and build their confidence in themselves and in their professional capabilities.

International Linkages

I am pleased to inform you that our auditors are among the world's best. Presently, we are the External Auditor of the Food and Agriculture Organization based in Rome. Last May 19, in contention with heavyweights - Germany, France, Spain and Malaysia, we were elected External Auditor of the World Health Organization in Geneva. We are now working on our bid to be the External Auditor of the International Atomic Energy Agency based in Vienna

For about 20 years until 2008, we were in the Panel of Auditors of the United Nations, and maintained an office for the purpose in New York. We intend to get back in 2014 and reclaim the honor of being the premier supreme audit institution in Asia, if not the world.

Why all these efforts to take on overseas assignments, you may ask? Is there not enough work at home? There is definitely more than enough, specially at these crucial times, when we are re-tooling, as it were, and re-engineering our business processes.

But we need international exposure to build confidence and pride among our auditors, and encourage everyone in the organization to do her or his best at home so she or he can take a shot at an international experience. It opens us up to best practice and knowledge sharing . It is the best training program and impetus for continuous professional development. And if one takes professionalism seriously, one will have no qualms about living out a culture of integrity.

Fraud Audit and Forensic Accounting

Our focus now is to develop greater capacity in fraud audit and forensic accounting.

The complexity of financial transactions, rapid advances in technology, and the ever-changing legal and regulatory landscape require so. Given the highly trained and handsomely paid think tanks and craftsmen in many government units and agencies today, it is imperative that we be at par, if not a step ahead.

I am sure our staff will appreciate the attention we are putting into this highly specialized training, and will respond with a commitment to apply it without fear or favor.

Prosecution and Evidence

It has certainly been a disappointment that big cases where we thought we had the "smoking gun" have not prospered, not because they were not meritorious but because of technical or procedural errors and/or on evidentiary grounds.

It is therefore important to encourage our auditors so they will not lose heart. Obviously, they need to see that their hard work pays off.

Hence, we shall strengthen and intensify cooperation and coordination with the Ombudsman. The appointment of Justice Carpio Morales, who is well known for her probity and no-nonsense stance, is certainly most welcome, and we eagerly look forward to working with her.

We shall provide more intensive training, preferably from well known legal experts with a solid track record in successfully prosecuting graft cases, that our auditors may be better equipped and further inspired. I am looking at tapping the local legal community for this much needed assistance and already, several volunteers have come forward.

Citizens' Participation

This is a priority program, founded on the premise that public accountability can prosper only with a vigilant and involved citizenry.

Accordingly, we have established a text hotline directly under my office where they can call in complaints or concerns. This, of course, is in addition to regular mail, fax and e-mail. The hotline and email facilities are on the COA website.

We have also taken measures to expedite the uploading of all audit reports in our website so that any one interested can readily access them.

Citizens' participation is not to be merely confined to complaints. We are in the process of developing a comprehensive program that will integrate people's organizations, the media, the clergy and business chambers, among others, in various aspects of the audit process: determining audit focus areas, validation of documents, gathering information from the field, verifying the physical existence of projects, checking on our auditors and assisting in their security.

We will have information campaign and training on procurement rules, implementation of budgets, disbursements, basic accounting, and understanding financial reports. It is a tall order but we are committed to see it through. Target launch of the citizens' participation program is by this year-end.

This idea came when I was discerning whether or not to accept the position. I was so taken by it, and heavily influenced my decision to accept. I was pleasantly surprised that shortly into the job, I received an invitation from the INTOSAI to attend a Symposium in Vienna, precisely on the topic of "Effective Practices of Cooperation between SAIs and Citizens to Enhance Public Accountability." Little did I know that citizens' participation has become a hot, contemporary issue elsewhere in the world, and I took that to mean that yes, we are on the right track.

<u>Growing in Professionalism, Patriotism and Integrity</u>

This has been the most challenging "deliverable" so far. Indeed, how does one grow in professionalism, patriotism and integrity at this stage of life?

Surely, I have not quibbled on letting the ax fall where it must. I have not hesitated to authorize the administrative investigation of those who have been *prima facie* found to have acted improperly, and to file appropriate cases in court where warranted.

These are hard, painful decisions, but these I must do in order to instill professionalism, patriotism and integrity at the COA. I am fully aware that these are the hazards of my trade.

On the other hand, I have asked our Human Resources to come up with a hiring and recruitment program for fresh graduates from state universities and colleges to join our force.

We need at least 1500 accountants, lawyers, IT personnel, engineers and other technical professionals by next year, not only because of our intensified work program but to address the rapidly aging population of the COA. I believe that it is best to work on the young, and appeal to their idealism and patriotism.

A culture of integrity is truly a formidable and inclusive process. It requires the active cooperation and involvement of all stakeholders. Each of them must want it, and accept and own their respective roles in both the vision and the process. The ultimate responsibility of the leader is to lead by example. Mapping a culture of integrity therefore starts with him.

I can only hope that with what we have laid out to do and have already worked on, we have set the tone and demonstrated that change can happen and it starts from within.

I can only pray - and I ask you to pray for me and the COA, as well - that I will continue to have the moral strength to carry on.