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ACCOUNTABILITY AND AUDIT IN THE
SAUDI ARABIAN GOVERNMENT SECTOR

by

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A Thesis Submitted for the Degree of
Doctor of Philosophy of
The University of Kent at Canterbury

November 10, 1977.

B.M.N. Quota,
Eliot College,
The University,
Canterbury,
Kent.

To the country which I love and which I hope in a very short time will be one of the most advanced nations within the Islamic countries. To my dear country, the Kingdom of Saudi Arabia, I present my humble research.

ACKNOWLEDGEMENTS

I wish to express my deep gratitude and sincere thanks to Professor Peter Bird for his sustaining advice, enthusiastic guidance and encouragement over the past three years. I would also like to thank Mr. A.D. Chambers for kindly consenting to examine this thesis.

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Bakur M.N. Quota

Canterbury, Kent.
November 10, 1977.

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ABSTRACT

"An information scientist coming to work in Saudi Arabia for the first time soon discovers that he is working in a unique environment". (Ziauddin Sardor, Times Higher Education Supplement, 21 October, 1977)

The Kingdom of Saudi Arabia was founded in 1932 by King Abdul Aziz who led the people of Arabia from a state of nomadism and tribal rivalry to a settled agricultural community, relatively poor but with a sense of citizenship. Less than fifty years later oil has made this nation one of the richest in the world, with a strong sense of urgency to use those riches wisely, but with a severe shortage of skilled manpower.

This thesis is a study of the system of accountability and audit in the government sector of Saudi Arabia to-day. The analysis shows that the system is not able to meet the demands made upon it. A scheme for reform is suggested, drawing upon a comparative study of Anglo-American experience of control of "big government", but taking account also of the unique Saudi situation.

In Chapter I, the system of government and administration in Saudi Arabia is outlined. In Chapter II, the regulations governing financial control and auditing in the Saudi government sector are studied in more detail. In Chapter III, evidence is reviewed relating to how this financial control system works in practice; sources include the writer's own experience as an auditor and financial manager, the annual report of the General Auditing Bureau, some correspondence between the General Auditing Bureau and the writer, as a financial manager, and a questionnaire answered by 43 respondents, (auditors, financial comptrollers, financial managers, chief accountants) and interviewing ~~other~~^{some} government officials. Chapter IV, is a comparative study, especially of Anglo-American systems, and a consideration of their relevance to the Saudi situation. Chapter V draws out the weaknesses of the present Saudi system and suggests a programme of improvement; the key factor in this is the breaking of the "vicious circle" of lack of time and of skilled personnel to improve systems because they are overworked operating existing cumbersome and ineffective systems.

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CHAPTER I

System of Government and Administration

1. The Government of Saudi Arabia

Saudi Arabia is a monarchy and the King both reigns and rules. The ultimate power and authority is vested in the King. However, his rule is circumscribed by religious and social requirements and traditions. Aside from the Hijaz Constitution, "The Fundamental Instructions of the Kingdom of Al Hijaz", issued in 1926, the Koran is the only constitution of the country. The Hijaz Constitution provides that the King is bound by the laws of the Shariah (the Islamic law) and that the laws of the Kingdom must always conform to the Koran.¹

"In essence the government is based on religious and traditional forms of law and institutions and it operates according to principles deeply imbedded in the consciousness and understanding of the people. Such institutions and principles function as a constitution in a broad sense and tend to give greater strength and solidity to the existing political order than could be achieved through lip service to a formal constitution."

Saudi Arabia is an Islamic state, and as the birthplace of Islam, the laws of Islam occupy a prominent place in the country. Besides regulating religious questions, these laws provide a system of private

¹ George A. Lipsky, Saudi Arabia, New Haven, Conn., Hraf Press, (1959), p. 106.

law as well as civil and penal codes, and underlie the whole legal system and the political concepts of the country.

It is erroneous for any one to think that this system is similar to such constitutional monarchies as that of Britain, for instance. The system of government in Islam does not recognise a King who reigns but does not rule. It recognises the Imam who reigns to rule, provided that his rule is at all times directed towards the public good and that he is accountable to God and to the people, because the Imam is a shepherd, and "every shepherd is responsible for his flock". The concept of government in Islam is illustrated by Omar Ibn Al Khattah's saying: "Were an animal to fall off the bank of the Euphrates, I should be held to account on the Day of Judgement for having failed to make a safe path for it."

Furthermore, Saudi Arabia was in its early days a nomadic pastoral community which could be ruled only by a strong monarchy, both because of tribal rivalries, and because the only feeling of citizenship among the people was their respect for religion and observance of the Sharia law. If a constitutional monarchy had been set up, the Arabian community would have returned to its previous state of discord; robbery would have regained its prevalence as a major source of living for the Bedouin in the desert, and King Abdul-Aziz would not have been able to transfer the people of Arabia from the stage of nomadism and tribal rivalries to a settled agricultural community with a sense of citizenship.

It is erroneous to apply western terminology to the Saudi Arabian government system. To say, for instance, that the system of government established in Saudi Arabia when this Kingdom was first set up is an "autocratic" form of government would be completely inconsistent with the essence of the system. An "autocratic" regime is a despotic regime in which the head of the state regards himself as representing the will of God on Earth. He can do no wrong and there is no limit to his will. He is not accountable to anyone, and consequently he cannot be deposed, nor can his powers be restricted. Such a form of government has never been known in the Arabian Island, "Saudi Arabia", because the founder was invested with the Imamate before he was proclaimed King. Investiture in its Islamic sense is a kind of free election requiring certain basic conditions to be fulfilled by the person chosen to rule as Imam. Any failure to fulfil these conditions entails the revocation of the investiture and the deposition of the Imam. This means that the system of government in Saudi Arabia does not confer absolute powers on the King-Imam. His duties are defined by the terms of the Sharia law, and any action outside the limits of his powers entails not only deposition but also personal punishment. Similarly, neglect of his duties as prescribed by the Sharia law entails his deposition. For this reason, the Saudi regime has never known the system of hereditary monarchy. It recognises the investiture of the Crown Prince in the lifetime of the reigning monarch, but with so many conditions, that in practice the monarch can do nothing more than make recommendations. The matter is then examined by the religious leaders and others in authority and is subject to approval by both the Council of Ministers and the Council of State, after which, the Crown Prince receives general investiture from the people.

Systems of government are not to be transplanted because they inevitably suffer distortion in their early stages of application, ending in utter failure. The only government system that is viable in any community is that which the community feels is of its own making. Any development in the system of government which outpaces the development of the community itself is a premature leap in the air. It is persistent effort in the field of social and economic development, rather than leaps in the air, which develop communities or raises the standards of backward peoples.

In the early stages Abdul-Aziz held the entire executive power. When the community advanced somewhat and its needs began to become diversified, a Ministry of Finance was instituted which had authority over a large number of state departments, the exception being the "Political Bureau", which later developed into the Saudi Arabian Ministry of Foreign Affairs. Later, although his word remained final, the King chose ministers and advisers who held periodic meetings to decide on state matters.

2. Politics in Saudi Arabia

As far as political life is concerned, the limited political activities are centred mainly on local affairs. It is at the local level only where the people of Saudi Arabia use the ballot for the election of municipal councils. The social and political interests at the national level may be expressed through informal channels, such as counselling or through petitions. Petitions, in different forms, are widely used and

they are submitted to the King and to all other officials in the ministries and provinces. Usually, as is the case with the houses of the provincial Emirs, the Royal Palace has a form of "Open House", for a few hours each day, for the public to come and meet the King. Petitions are usually submitted in person, orally, or in writing, at these open houses. Taxes have been repealed and highways have been constructed or modified as a result of such petitions. The public also has easy access to the offices of all high officials.

The major forces which could be distinguished, so far as political power at the top level is concerned, are: the King; other members of the Royal Family and other related families; the heads of the powerful tribes and a few of the influential Ulmas, (jurists of the Islamic jurisprudence). The apparatus at the high governmental level could be considered an additional force. Generally speaking, the Ulmas represent the "conservative" wing in Saudi Arabia. Most of the people consider them the most conservative element in the country. In fact, there are few people in the country who are more conservative than the Ulmas.

Besides trying to please the heads of the powerful tribes and keeping in contact with them, to ensure their loyalties, the government also tries to maintain a balance between the different regions. An illustration of this is the way in which the projects are allocated for the different parts of the country. Such a balance is in the minds of the governmental officials even in designating the locations of the final games of the annual soccer contests.

However, the most serious task, as is the case in any traditional society in the twentieth century, is to strike a balance between the "liberal" forces and the "conservative" ones. Quite naturally none of these forces are completely happy at any given time. The liberals think the government is not doing enough, especially in the social and political areas of development; the conservatives, who are more influential, (though the writer tends to believe that they are in the minority), think that the government is going too fast.

As a part of the Arab world, Saudi Arabia is very much influenced by the developments, politics and events in the neighbouring Arab countries. A number of important governmental decisions are as much a response to domestic demands, as to politics and events in the Arab world. Saudi Arabia is also a part of a wider circle, that is the Islamic world. Pan-Islamism, as anyone may expect, is a strong force in the country where Islam was born. Pan-Islamism means different things to different people, but generally it includes a close cooperation among the Islamic countries and the concern for the welfare of Muslims all over the world. As an example, it is the policy of the Saudi Arabian government to open its borders to all Muslims whose countries are occupied by foreigners or by any power considered to be hostile to Islam. This policy was applied in the cases of a number of Asian and African countries before they got their independence. It is still applied now for Muslims from Eritrea and Soviet Republics of Central Asia.

The internal mass media are almost all controlled by the government. The government owns and operates the radio and television stations all

over the country. The government also has strong, though indirect, control over the press. All imported foreign newspapers and magazines are censored. Every author or publisher who intends to publish a book, even a textbook, has to present his original draft and two copies to the Ministry of Information, Department of Publication, to have it read by some official, who stamps every page, and then decides whether to issue an authorisation letter for publication.

3. The Council of Ministers

On October 9, 1953, a decree was issued by the founder of Saudi Arabia, King Abdul-Aziz, just one month before his death on November 9, for establishing the Council of Ministers. The Council actually began functioning in March, 1954 after the issuance of a decree by King Saud that provided relatively more elaborate organisation for the Council. The executive body, which once existed under the name of Council of Deputies, was never given powers comparable to those of the Council of Ministers. The Council of Deputies was established in January 1932, to include, besides the president, the Viceroy in Hijaz, the Deputies of the Foreign Affairs and Finance Ministries and the Deputy of the Consultative Assembly.

The Council of Ministers has been given the authority to set the internal as well as the external policies of the country. Among other things the jurisdiction of the Council includes the approval of the annual budget, supplementary appropriations and the closing accounts. This change, namely the vast legislative and executive powers given to

the Council of Ministers, enhanced the power of the Minister as a member of the Council.

Attendance at the Council of Ministers meeting is confined to members and to the Secretary-General to the Council. The attendance of any state official or expert is subject to the approval of the Council at the request of the Prime Minister or any of the Ministers.

According to the statute, the Council's deliberations are secret, but its resolutions are made public unless the Council itself decides to regard a particular resolution as secret.

4. Provincial Council's Session

The Council holds a session each month at the instigation of the Governor of a Province, who may also call the Council to a special session. A session may not be adjourned until all items on the agenda have been debated. The Council's deliberations are not valid unless attended by at least two-thirds of the members. Resolutions are adopted by the majority of the present members, the chairman having a casting vote.

Where a quorum is not attained, the meeting is adjourned for a minimum of three and a maximum of seven days, during which time the absent members are called to the next meeting. At such a meeting the Council

resolutions are valid, regardless of the number of members present, provided that the agenda of the adjourned meeting is followed.

The regulations governing provincial councils are issued by the Council of Ministers. Each council may lay down its own regulations as long as they are compatible with the general regulations adopted by the Council of Ministers and are approved by the Minister of the Interior.

During its first regular session each year, the provincial council designates standing committees to conduct its business and specifies the number of members and the terms of reference of each committee. Committee members are elected by secret ballot and by relative majority, and each committee chooses a chairman and a recorder from among its members. Ex-officio councillors are also members of the committees whose terms of reference include matters falling within the scope of their respective Ministries. The committees may enlist the services of experts but they do not have the right to vote. Each committee submits its findings to the provincial council for appropriate action.

5. Powers of the Prime Minister

The statute provides that the Prime Minister is responsible for directing the general policy of the state. He undertakes the direction of work among the various Ministries and ensures cooperation among them and among the Council of Ministers. He receives the King's directives, signs the Council's resolutions and makes sure that the authorities concerned

are notified of these. He has supervisory powers over the Council of Ministers and the various Ministries and public administrations.

The Grievance Bureau, the General Personnel Bureau, the General Auditing Bureau, the Consultative Assembly, the Superintendance and Investigation Commission and the Disciplinary Commission are all directly responsible to the Prime Minister. (See Figure 1, p. 11)

6. Powers of the Council of Ministers

The functions of the Council are "to lay down internal, foreign, financial, economic, educational and defence policies and to handle all public affairs of the state", with power to supervise the execution of such policies. The Council also passes "legislative, executive and administrative authority". (See Appendix I, Article No. 18, p.26)

Treaties and international agreements are not valid unless approved by the Council of Ministers. The Council's decisions are final, except where a Royal Order or Royal Decree is required under the statute.

According to this statute, before taking any action on a draft submitted to it, the Council of Ministers must study and vote on the draft article by article and must then vote on the draft as a whole.

Each Minister is empowered to propose to the Council of Ministers draft statutes, on matters pertaining to his Ministry, or any matter in which he thinks discussion would be useful.

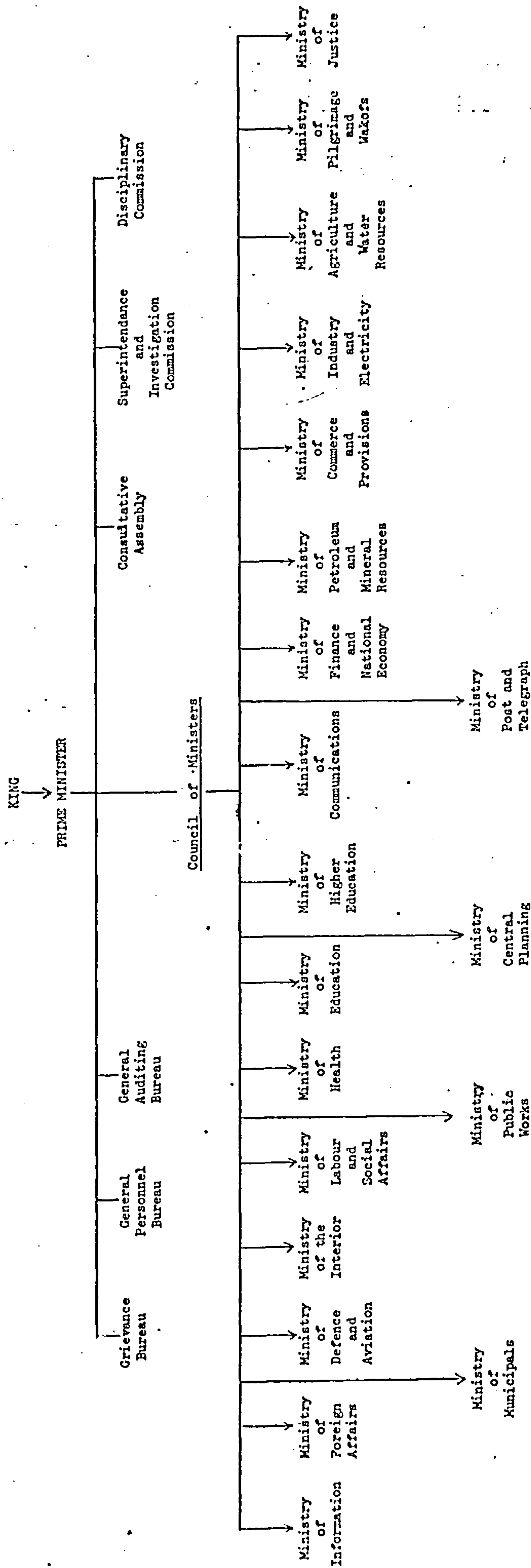


Figure 1 Organization of Saudi Arabian Government
Ministries and Major Organs, 28 June, 1976

7. Organisation of the King's Powers and Prerogatives

The King has the power to return to the Council of Ministers any draft statutes submitted to him for signature, giving his reasons so that the Council may discuss them. Where the Royal Diwan (office) fails to return the draft to the Council of Ministers within thirty days from the date of receipt, in the event of the King's withholding signature, then the Council may take what action it deems appropriate, and advise the King accordingly.

All decrees must be published in the Official Gazette and have to be put into execution from the date of publication, unless it is provided otherwise in the text.

Thus the Council of Ministers has become the direct executive authority. It is also considered to be the authority of original jurisdiction to take any action which it deems to be in the country's interest. It is provided in the statute that the Council's powers shall include the supervision of the execution of statutes, the creation and organisation of public services, and the appointment, dismissal, promotion and retirement of service chiefs and public officials of Grade XI or above. The Council of Ministers is also empowered to constitute committees of enquiry into the conduct of affairs in the Ministries and public services in general, or into any particular case. These committees must submit their findings to the Council of Ministers within the prescribed time limit, whereupon the Council will take action in respect of these findings in accordance with the terms of the statutes.

The Council of Ministers has authority to assume full control of all administrative matters in accordance with statutes enacted for this purpose. (See Appendix I, p.21)

8. Financial Affairs

The financial affairs of the state are placed under the authority of the Prime Minister. The statute prohibits the levy of taxes or other fiscal charges except by statute, and provides that the collection of, and exemption from, taxes shall take place only in accordance with statutory provisions. No monopoly, concession or exploitation of any of the Kingdom's resources may be granted, except by special statute, with due observance of the public interest.

Loans may be contracted only with the approval of the Council of Ministers and the promulgation of a Royal Decree.

The Government is forbidden to undertake any commitment entailing the payment of amounts from the State Treasury except under the terms of the State Budget or by special statute.

All state revenues are handed over to the State Treasury, and are entered in the books. No salary may be allotted, reward granted, or amount disbursed from the Treasury except in accordance with statutory provisions or by a decision of the Council of Ministers.

9. State Budget

The State Budget is approved by the Council of Ministers each year. It must contain an estimate of receipts and expenditures. It is submitted to the King for approval at least one month before the commencement of the fiscal year. If, for emergency reasons, the Budget is not approved before the commencement of the fiscal year, the Budget for the previous year must be followed until the Budget is promulgated. No increase in budgetary appropriations is allowed except by statutory provision or by a decision of the Council of Ministers.

The State Budget must follow the same procedure laid down for the enactment of statutes, and must be vetoed chapter by chapter.

10. Audit of Public Accounts

The statute requires the General Auditing Bureau (GAB) to verify state accounts. It requires the Ministry of Finance to submit to the Council of Ministers the closing account of its financial administration for the expired year for approval within the first three months of the new fiscal year.

The budgets of agencies which are not attached to any of the Ministries are subject to the same rules as those governing the State Budget and its closing account. (See Figure 2, p. 15 and Figure 3, p. 16)

Figure 2 Schedule "A" Revenues⁽¹⁾

Main Account	Chapter	Budget of 1976-1977 in Saudi Riyal	Budget of 1975-1976 in Saudi Riyal	The Difference	
				Increase	Decrease
8000	Oil Production	19582930000	15080000000	4778760000	275830000
8005	Profit Partnership	1874720000	22481000000	-	20606280000
8100	Income Tax	65701900000	56871000000	8951900000	121000000
8300	Tax on Oil Products	3000000	93000000	-	90000000
8400	Customs Duties	375000000	400000000	-	25000000
8500	Transport Taxes	300000	75300000	-	75000000
8600	Public Service Fees	318000000	321200000	57000000	60200000
8700	Stamps and Sale of Government Forms and Publications	31150000	30300000	850000	-
8800	Sale of Government Property	14000000	12000000	2000000	-
8900	Rent and Installment Payments	8000000	6200000	1800000	-
9000	Miscellaneous Revenues	7911000000	2861000000	5055000000	5000000
10000	Zakat	27000000	16000000	11000000	-
	Total of Revenues	95847000000	98247000000	18858310000	21258310000
	From the Government General Reserve	15088000000	-	15088000000	-
	TOTAL	110935000000			

(1) £1 = S.R.6.08 (According to Midland Bank Limited on 6 January 1977)

Source : The Saudi Arabian Government's Budget 1976-1977, p.17
In Arabic, translated to English by the writer.

Figure 3 Budget Estimates 1395 - 1396 (1976 - 1977)

Schedule "B" Expenditures

Budget Head	Nomenclature of Expenditure - Title -	Chapter 1 Salaries and Emoluments S.R.	Chapter 2 General Expenses S.R.	Chapter 3 Others S.R.	Chapter 4 Projects S.R.	Total 1395-96 S.R.	Total 1394-95 S.R.
1	Royal Cabinets i. Royal Cabinets ii. Special Bureau iii. Office of the Crown Prince iv. Royal Protocol v. Bedouin Affairs Office vi. Special Affairs Office	5169420 4698640 1557700 3962620 797580 1364660	4869000 5260000 2098000 3107500 438500 2610000	15000 50000 5000000 - - -	- 8227988 8437171 69083000 - -	10053420 18236628 17092871 76153120 1236080 3974660	5953380 12643440 9505120 36738020 815130 -
2	Presidency of the Council of Ministers i. Office of the Presidency of the Council ii. General Secretariat of the Council iii. Military Division iv. Administration of Technical Assistance Agency	8969500 8360360 800110 1255960	7513000 4722000 562500 475000	20000 - - 10030000	1950000 1912272 - -	18452500 14994587 1362610 11760960	11849400 10546692 884320 14401680
3	National Guards	795584000	305695800	17006250	1494739663	2613025663	1295774569
4	Intelligence Department	74284546	13135000	14315000	119711074	221445620	95768116
5	Consultative Assembly	2058680	147600	-	-	2206280	1601700
6	General Personnel Bureau	22753820	4295000	8170000	9000000	44218820	28664120
7	Central Planning Agency	8714120	21395000	36067816	32328397	98506833	33436064
8	General Auditing Bureau	22169020	3908000	215000	9183294	35475314	20270327
9	Grievance Bureau	3987708	869500	-	800000	5657208	3454730
10	Superintendance and Investigation Commission	17448100	3800000	1050000	39068410	61366510	19214980
11	Rectifying Commission	3159940	763000	40000	-	3962940	2739200
12	Public Works Department	29499580	6170000	715000	185747317	222131897	136046151

Budget Head	Nomenclature of Expenditure - Title -	Chapter 1 Salaries and Emoluments S.R.	Chapter 2 General Expenses S.R.	Chapter 3 Others S.R.	Chapter 4 Projects S.R.	Total 1395-96 S.R.	Total 1394-95 S.R.
13	Ministry of Information	80958480	68870000	16120000	636650634	802599114	321840300
14	Ministry of Foreign Affairs	93410280	53200000	40000000	140565589	327175869	221540421
15	Ministry of Defence and Aviation						
	i. General Office	13440000	6927000	12263000	-	32630000	19542200
	ii. The Army	1306509000	375550000	57960000	7147516506	8887535506	4129399936
	iii. The Air Force	381393000	130125000	63800000	4832923876	5408241876	2363366467
	iv. The Navy	51168000	22433500	41526000	2206862749	2221990249	239831760
	v. The Ministry Factory	40098000	7172000	2600000	640027495	689897495	298027191
	vi. Civil Aviation Department	69556600	161292000	6225000	4469904331	4706977931	1297394537
	vii. Meteorological Department	18607040	19629000	820000	182568889	221624929	60539273
	viii. King Abdul Aziz Military College	17342000	15259000	4830000	12861499	50292499	36808753
	ix. King Faisal Air Force College	28037000	14454100	1970000	11388725	55849825	31376200
	x. Medical Services	79019000	87576000	13055000	1168984822	1348634822	337005903
16	Ministry of Interior						
	i. General Office	36686000	23250000	60650000	88715073	209301073	200793130
	ii. General Security	764496147	264358054	47400000	686365023	1762619224	812531752
	iii. National Defence	127479420	24857000	1300000	271355588	424992008	160199194
	iv. General Investigation	179251718	35776008	5930000	101412386	322370112	138489892
	v. The Guard of Frontier and Coast	357000000	53870000	2904000	646220780	1059994780	484865835
	vi. The Internal Security Force College	12681740	5388000	4380000	18681767	41131507	25449806
	vii. The Private Security Force	24171504	8007100	130000	519400	32828004	14831001
	viii. The Council of National Security	5962000	2290000	140000	-	8392000	-
	ix. The Municipal's Affairs	98000000	60490000	1016229021	13221559423	14396278444	4293887785
	x. The Immigration and Passports Office	94877338	22158546	3388000	36730995	157154879	85597625

Budget Head	Nomenclature of Expenditure - Title -	Chapter 1 Salaries and Emoluments S.R.	Chapter 2 General Expenses S.R.	Chapter 3 Others S.R.	Chapter 4 Projects S.R.	Total 1395-96		Total 1394-95				
						S.R.	H	S.R.	H			
17	The Warriors Department Riyad Princedom Mecca Princedom The Princedom of East Zone Medina Princedom Haile Princedom Northern Frontier Princedom Kassim Princedom Assier Princedom Tabok Princedom Jof Princedom Baha Princedom Kereyat Princedom Jezan Princedom Najran Princedom	48491996	2339000	4510000	7123462	40	62464458	41340828	40			
		40484000	14705000	-	60753180	21	115942180	74922318	21			
		33908000	14171000	-	68150618	86	116229618	71537353	86			
		19504000	7509000	-	64234929	30	91247929	30460094	30			
		16807000	5575000	1500000	46990527	89	70872527	38202038	89			
		13546400	6360000	500000	61774848	20	82181248	29480494	20			
		7339660	1726000	-	5308950	77	14374610	7063615	77			
		19257940	5785000	1400000	48840901	48	75283841	41182795	48			
		23219000	9590000	400000	34405240	86	67614240	35597598	86			
		13854140	4897000	-	22165400		40916540	15017600				
		8894000	6171000	-	2255000		17320000	-				
		10854020	5655000	-	1000000		17509020	-				
		12657640	8075000	-	17916075		3848710	-				
		13960020	7806770	-	5145000		26911790	-				
		12419560	8695000	-	5195000		26309560	-				
		Ministry of Labour and Social Affairs										
			i.	1301460	908000	-	-		2209460	1611720		
			ii.	60538870	25087000	23315000	424937756	60	533878626	117424364	60	
			iii.	40811430	32589000	31898536	88819909	32	194118875	77313396	32	
		iv.	23066580	8534000	545270000	28752470		605623050	463717520			
		18	Ministry of Health	557426870	551211085	27071500	2061623691	43	3197333146	1162997089	43	
		19	Ministry of Education									
				i.	1908173280	1634390000	388500000	4980721288	06	8911784568	2068365379	06
				ii.	3823937	4191300	6000	20062835	56	28084072	14868914	56
			iii.	3214500	2645500	30000	40583056		46473056	18116767		
20	Girls Education Agency Girls Education Colleges	i.	512319520	157454000	14140000	1173107566	79	1857021089	859772844	79		
		ii.	21615980	19874000	6000000	-		47489980	18441180			

Budget Head	Nomenclature of Expenditure - Title -	Chapter 1 Salaries and Emoluments S.R.	Chapter 2 General Expenses S.R.	Chapter 3 Others S.R.	Chapter 4 Projects S.R.	Total 1395-96 S.R.	Total 1394-95 S.R.
29	Ministry of Justice	111964020	25810000	430000	103530882	241734902	138922682
30	Researchs Affairs, Muftis and Religious Institute	22015700	8027000	6638879	19000000	55681579	26072201
31	Religious Organisation in Najd	26458720	3966644	1300000	-	31725364	22374100
32	Religious Organisation in Hejaz	14164960	2637000	1300000	2000000	20101960	13669938
33	Religious Supervision Headquarters in Holy Mosque	3316880	858675	283000	-	4458555	3418951
34	General Youth Services Agency	24447540	9650000	133019973	866104070	1033221583	142872783
35	King Abdul Aziz Library	1931300	1500000	580000	-	4011300	2911080
36	Public Allocations	-	-	348600000	-	348600000	278600000
37	Government Contributions for Pensions	-	-	1522750000	-	1522750000	603650000
38	Subsidy for Public Corporations	-	-	9747484005	79	974748400	4158795880
39	Electric Affairs	-	-	150000000	-	150000000	150000000
40	Emergency Expenses	-	-	1500000000	-	1500000000	601730730
41	Islamic Affairs	-	-	100000000	-	100000000	100000000
42	Subsidy for Arabian Support	-	-	660000000	-	660000000	660000000
43	General Budget Contingency Reserve	-	-	2000720971	29	2000000000	2000000000
44	Emergency Projects	-	-	-	3000000000	3000000000	1000000000
45	Reserves for General Investment Treasury	-	-	-	1600000000	1600000000	3000000000
46	External (Foreign) Subsidy	-	-	1867399000	-	1867399000	988000000
47	Subsidy for Essential Commodities	-	-	1000000000	-	1000000000	800000000
	TOTAL	9344179783	4906603002	2230462924	7437954290	11093500000	4574300000

Appendix I

A translation of the

Organic Statute of the Council of Ministers in

Saudi Arabia

Royal Decree No. 38, dated Shawwal 22, 1377 A.H. (May 11, 1958)

(Translated by the Writer from Arabic)

General Provisions²

1. This Organic Statute shall be called the Organic Statute of the Council of Ministers.
2. The headquarters of the Council of Ministers is in Riyadh; however its sessions may be held in other parts of the Kingdom.
3. No one but a Saudi may be a member of the Council of Ministers, nor may anyone who is of ill repute, or has been convicted of any felony or misdemeanor offending religion or honour, be a member.
4. After the promulgation of this Organic Statute, the members of the Council shall not assume their duties until they have taken the following oath:

"I swear by God Almighty to be loyal, first to my religion, and second to my Kingdom and my country; not to divulge any secret of the state; to protect its interests and uphold its statutes; and to discharge my duties with veracity, honesty and integrity".

5. A member of the Council may not combine membership of the Council with any other government office, unless the Prime Minister decides this is necessary.

² In making this translation the writer depended on the translation of Mr. H. St. J.B. Philby which was published in The Middle East Journal Vol. XII, No. 3 (Summer, 1958), pp. 318-323. This translation could not be accepted as a whole by the writer, because some technical terms would not be understood by anyone except a Saudi Arabian; what the writer actually did was to select what he thought to be more accurate portions in Mr. Philby's translation and add what he thought to be some improvements.

6. No member of the Council of Ministers, during the currency of his membership, may, directly, or through an intermediary or at public auction, buy or rent any government property. He may not sell or let any of his property to the government; nor may he undertake any commercial or financial activity or accept membership on the board of directors of any company.
7. The Council of Ministers is a constitutional body whose meetings shall be held under the presidency of the Prime Minister or his deputy. The Council shall carry out its activities and conduct its functions in accordance with this organic statute and its internal statute.
8. Every minister is responsible to the Prime Minister for the activities of his ministry. The Prime Minister is responsible to His Majesty the King for his own activities and the activities of the Council. The Prime Minister may request His Majesty the King to relieve from office any member of the Council of Ministers. The resignation of the Prime Minister entails the resignation of all the members of the Council.
9. Each minister shall be regarded as the direct head of, and final authority over, the affairs of his ministry. He shall exercise his duties in accordance with the provisions of this Organic Statute and the Internal Statute (the organising statute) of his ministry.

10. Only a minister may deputise for another minister, and only in accordance with a Royal Order issued on a recommendation by the Prime Minister.

Organisation of the Council

11. The Council of Ministers shall be composed of:
- (a) The Prime Minister;
 - (b) The Deputy Prime Minister, who shall be appointed by a Royal Order based on a recommendation by the Prime Minister;
 - (c) Ministers in charge of ministries, who shall be appointed by Royal Order based on the recommendation of the Prime Minister;
 - (d) Ministers of state, who may be appointed members of the Council of Ministers by Royal Order, based on the recommendation of the Prime Minister;
 - (e) Advisors to His Majesty the King, who may be appointed members of the Council of Ministers by Royal Order, based on the recommendations of the Prime Minister.
12. Attendance at the meetings of the Council of Ministers is a right belonging exclusively to its members and to the Secretary General of the Council of Ministers. At the request of the Prime Minister or one of the members, and upon approval by the Council of Ministers,

an official or an expert may be permitted to attend the sessions of the Council, in order to present such information or explanatory material as he may have. However, the right to vote belongs exclusively to the members.

13. The Council shall not be considered in session unless two-thirds of its members are present, nor shall its decision be valid unless made by a majority of those present. In the event of a tied vote, the side on which the Prime Minister votes shall carry.
14. Except when necessary, the Council shall not decide on any subject related to the activities of any of the ministries unless the minister concerned, or someone acting for him, is present.
15. The Council's deliberations shall be secret; but its decisions shall, as a rule, be made public, with the exception of those which are regarded as secret by a decision of the Council.
16. Members of the Council of Ministers shall stand trial for any offences they commit in the course of their official duties. Such a trial should be in accordance with a special law which will include a statement of offences and lay down the procedures for impeachment and trial and the manner of constituting the tribunal.
17. The Council of Ministers may form committees of its members and others to study a subject on the Council's agenda, in order to

submit a special report thereon. The Internal Statute of the Council shall set forth how many committees there are to be and how they shall operate.

Jurisdiction of the Council of Ministers

18. The Council of Ministers shall lay down the policy of the state with respect to internal and foreign affairs, finance, the economy, education, defence and all public affairs and shall oversee the execution thereof; and shall have the legislative authority, the executive authority and the administrative authority. It is the final authority for financial affairs and for all matters related to the various ministries of the state and other agencies, and shall decide what measures should be taken therein. Treaties and international agreements shall not be regarded as effective until they are approved by the Council. The decision of the Council of Ministers is final except for those which require the issue of a Royal Decree or Order in accordance with the provisions of this Organic Statute.

Legislative Functions

19. All laws, statutes, treaties, international agreements and concessions shall not be promulgated except in accordance with Royal Decrees, drafted after the approval of the Council of Ministers.

20. Laws, statutes, treaties, international agreements and concessions may not be amended except by a law or a statute to be issued in accordance with Article 19 of this Organic Statute.
21. The Council shall rule on the draft bills submitted to it, article by article, then vote on them as a whole, in accordance with the procedures prescribed in the Internal Statute of the Council of Ministers.
22. Every minister has the right to present to the Council, for decision, a draft bill that lies within the scope of his ministry's activities, and the Council may approve or reject it. If the Council rejects a proposal, the proposal may not be submitted to it again unless necessary. Every member of the Council of Ministers is entitled to propose any matter which he may consider expedient for discussion in the Council.
23. If His Majesty the King does not sanction a Decree or Order submitted to him for signature, it will be returned to the Council for discussion, along with a statement of the reasons thereof. If the Decree or Order is not returned from the Royal Divan (Private Secretariat) to the Council of Ministers within thirty days from the date of its receipt (by the Royal Divan), the Prime Minister shall take whatever action he deems appropriate and advise the Council accordingly.

24. All Decrees must be published in the official gazette and they shall come into effect from the date of their publication, unless a specific period is stipulated.

Executive Functions

25. The Council, in its capacity as the direct executive authority, has full ascendancy over executive matters. It has the prime responsibility for taking all measures it considers necessary in the interests of the country. The following matters are within the scope of its executive jurisdiction:

- (a) Supervision of the execution of resolutions and laws;
- (b) Establishment and organisation of public agencies and official posts and the appointment, dismissal or promotion of directors of agencies and officials of grade eleven and above, and sending such officials into retirement;
- (c) The Council of Ministers may decide to form committees of inquiry to investigate the operations of the ministries and agencies in general, or any particular case. The committees of inquiry shall submit the results of their investigations to the Council within the time limit fixed by the Council. The Council shall rule on the result of the investigation in accordance with the law.

Administrative Functions

26. The Council of Ministers is the direct authority for the administration of the country, and it has full ascendancy over all administrative matters. The various provinces throughout the Kingdom shall be administered in accordance with laws enacted for this purpose.
27. Municipal affairs shall be administered in accordance with a special statute, to be called "Statute of Municipalities", which will define the categories and duties of municipalities, the organisation of municipal councils, and others related to the functions of the municipalities.

Financial Functions

28. The Council of Ministers is the final authority for the financial affairs of the state.
29. No taxes or duties may be imposed except in accordance with a law.
30. Duties and taxes shall be collected in accordance with provisions of the laws and regulations, and no exemption from them is allowed except in accordance with law.
31. No state property may be sold, rented, or otherwise disposed of except in accordance with the law.

32. No monopoly, concession, or right to exploit any of the country's resources may be granted except in accordance with a special law and with due regard for the public interest.
33. The government may not incur any debt except with the approval of the Council of Ministers and after a Royal Decree has been issued that permits it to do so.
34. No undertaking made by the government that involves payment of funds from the public treasury may be made except in accordance with the provisions of a duly approved budget. If such an undertaking is not covered by the items of the budget, it shall be made in accordance with a special enabling law.
35. All receipts of the state must be deposited in the consolidated public treasury; their entry and disbursement must be in accordance with the procedures prescribed by the laws and regulations.
36. No salary may be allotted nor any reward granted, nor any sum disbursed from the state funds except in accordance with the law or by a resolution in the Council of Ministers.
37. The Council of Ministers shall each year approve a law for the state budget which will include estimates of revenues and expenditures for that year, and which will be submitted to His Majesty the King for approval. The budget shall be approved at least one month prior to the beginning of the fiscal year. If the fiscal year begins and

compelling reasons have prevented approval of the budget, the budget of the preceding year must be applied in the proportion of one-twelfth per month until the issue of the new budget.

38. Any increase to be made in the budget shall be made only in accordance with the law or by a resolution in the Council of Ministers.
39. The procedures for approving the budget shall follow the established procedures for promulgating the laws, and the budget shall be voted upon section by section.
40. The financial laws now in effect will continue to be observed until new laws amending them are issued.
41. In accordance with the provisions of its own statute, the General Auditing Bureau shall audit all government accounts and ascertain that receipts and disbursements have been entered correctly.
42. The Ministry of Finance shall submit, with the first three months of the new fiscal year, to the Council of Ministers, the closing account of the fiscal administration for the preceding year for the purpose of having it approved by the Council.
43. Budgets and closing accounts of agencies not attached to any ministry shall be governed by the same provisions as govern the state budget and closing account.

Presidency of the Council of Ministers

44. It is the Prime Minister who directs the general policy of the state, and ensures the proper direction and coordination of and cooperation among the various ministries, and ensures continuity and uniformity in the activities of the Council of Ministers. He receives royal directives from His Majesty the King in order to work in conformity therewith. It is he who signs the resolutions of the Council and orders their communication to the various ministries and agencies. He supervises the Council of Ministers, the ministries and agencies, and it is he who oversees the execution of the laws and resolutions issued by the Council of Ministers.

Administrative Arrangements for the Council of Ministers

45. The administrative arrangements of the Council of Ministers includes the following sections:

- (a) The Divan, Secretariat of the Prime Minister;
- (b) The Secretariat General of the Council of Ministers;
- (c) The Experts Section.

The Internal Statute of the Council of Ministers shall set forth the organisations and jurisdictions of these sections, and the manner in which they are to conduct their operations.

46. The Grievance Board and the General Auditing Bureau come under the Prime Minister, in accordance with their respective statutes.

Concluding Provisions

47. The Council of Ministers shall approve this Organic Statute and submit it to His Majesty the King to obtain royal approval. The Organic Statute shall be promulgated by His Majesty and the Prime Minister.
48. After this Organic Statute comes into effect, the Council of Ministers shall start making the following statutes and laws:
- (a) The Internal Statute of the Council of Ministers;
 - (b) The Internal Statute for each of the ministries;
 - (c) The Law for the Administration of the Provinces;
 - (d) The Statute of the municipalities;
 - (e) The law for the trial of ministers;
 - (f) The law for the sale and lease of state property.
49. This Organic Statute shall come into effect as of the date it is promulgated and published in the official Gazette.
50. This Organic Statute shall abrogate the Organic Statute of the Council of Ministers promulgated on 21 Rajab, 1373 (25 March, 1954) and all other laws, statutes and resolutions conflicting with its provisions and every other provision that conflicts with it.

CHAPTER II

The Financial Control and Auditing in the Saudi Arabian Government Sector

The function of the components of the system of financial control in Saudi Arabia, as in any control system, can be classified in three categories:

- (a) Standards that represent desired performance;
- (b) Comparisons of actual results or actions under consideration against the established standards;
- (c) Corrective actions.

This does not mean that the components could be neatly classified as such. The reason is that each component has more than one function; each of these functions may fit into a different category. The budget and accounting systems, though essentially providing standards, may also provide corrective measures. The main role of auditing is to compare proposed actions or actual results against the established standards. Considerable corrective action is also achieved by these three components.

1. Budget System and its Development

This discussion about the State Budget will not be complete unless we cast a look at the elements which constitute the country's revenue and

affect its development. If we look back at the resources which were available to the Founder of Saudi Arabia, from the time he first went into action, until his final triumph, they did not enable him to provide for mere subsistence, much less for the development of the new state inhabitants, raising their standards and creating new resources to provide for their needs, because the areas which he freed and unified were in a state of extreme poverty and were in need of everything. They had almost nothing which might help King Abdul-Aziz to undertake his great task. If we translate Saudi Arabia's financial situation in its early years into figures, we find that the first budget in the history of the Kingdom, in 1934, two years after its proclamation, did not exceed 11 million Saudi Riyals (£1,809,210.2), a figure which was not sufficient even to meet the basic needs of the new administration. Consequently, no appreciable amount could be spent on community services, much less on development projects.

By comparing the figures of the first budget laid down in Saudi Arabia and those of 1976-1977, we find an enormous difference in figures. The present budget totalled 111,935 ~~thousand~~ million Saudi Riyals (See Figure 3, p.16).

The method of preparation of the budget in Saudi Arabia has passed through two stages. At first, it followed the traditional method adopted by many countries of the world in the preparation of the annual budget. This consisted of having each Ministry estimate its needs for the new financial year, these estimates were then discussed with the Ministry of Finance. Finally, the various individual budgets were merged together to

form the general State Budget, which was then submitted to the Council of Ministers for approval. Once approved, the budget was promulgated by Royal Decree and duly put into effect.

The disadvantage of this method was that it confused the expenditure of each Ministry with that of the others, without paying particular attention to construction and development projects and without distinguishing between productive and unproductive expenditure. Moreover, in some cases this method could not balance the Treasury's actual receipts and annual expenditures, a situation leading to financial deficit, with the ever attendant danger of monetary inflation if the State should attempt to fill the deficit by resorting to internal or foreign loans. The State's inability to repay such loans when due could tempt it to issue new currency without proper cover, in which case the currency would depreciate in value, prices of commodities would rise, and the State would be unable to obtain the hard currency required for its purchases from foreign markets.

Saudi Arabia introduced a radical measure of reform to the concept of budgets and their preparation. The budget, according to the new concept, rests on the principle of assessing in detail the receipts which the State will probably realise during the new financial year. This assessment is presented to the Council of Ministers in a report, containing an analytical description of the various phases of the budget, the volume, distribution and trend of the various chapters of expenditure and their relation to actual receipts, a description of the gaps encountered in the implementation of the previous budget, and recommendations for improvement

derived from the country's development needs in the light of its economic and social circumstances as a growing country. This report is studied and debated in detail by the Council of Ministers, which may introduce into it any changes consistent with the objectives of that stage in the life of the Kingdom. This means that the Council of Ministers has approved the general policy of the State in its new year, thus facilitating the task of the various ministers in preparing their new budgets on that basis.

In 1945, two new resolutions (Resolutions No. 273 and No. 274) were issued by the Minister of Finance for organising the "State Budget", beginning with the budget (actual budget) of the fiscal year 1364 A.H., (17 December, 1944 - 6 December, 1945). The first resolution, No. 273, though using the word budget for the expenditures, re-emphasised the principle of issuing a unified budget for the State, covering expenditures of all governmental agencies. This resolution required that the budget be classified by chapters and items. The second resolution, No. 274, provided in detail the contents of each chapter and item including both revenues and expenditures. These resolutions apparently did not have more success than the regulations of 1939 in providing the country with an actual unified State Budget. However, the classification of the budget into chapters and items which these resolutions provided has been applied in all the budgets, records and accounting books. They did, at least unify the form of the budgets and recording systems.

This is not to say that in this period the agencies were independent in their financial and budgetary matters. The complete opposite was true.

The Ministry of Finance had a complete and direct control of all financial and budgetary matters in the period under consideration. In spite of this, a unified budget for the State as a whole was almost absent in this period.

The so-called budget in this period was merely a practical means for administering the public treasury, a way to limit the expenditures over a certain period of time to a certain amount, and a tool to signal when these limits were going to be exceeded. Its classifications provided uniform procedures for recording and accounting, but it was far from being a means of financial control.

Finally, in 1954, the principle of a systematic annual budget for the State as a whole was actually put into practice, and has been observed since then. Probably the substantial reorganisation of the whole government structure which took place in 1954, as well as the gradual increase in revenues, required this departure from previous practice. At this time a number of general directorates, which were in the most part under the jurisdiction of the Ministry of Finance or under the Ministry of Interior, were separated and raised to the ministry rank.

The ministries were given the authority to prepare estimates and to execute their budgets after they had been approved. The ministries were also empowered to draw their funds directly from the Monetary Agency (the Central Bank) within the limits of their budgets. The new arrangements relieved the Ministry of Finance substantially of its exclusive control over the public treasury. At the same time the General Auditing Bureau was established to assume part of the responsibility of control over the public treasury.

To suit the changed circumstances, a new means of control was developed to replace the former direct and rigid control by the Ministry of Finance. The most important of these new means are the financial comptrollers, and the new budget system.

In 1957, new regulations, "Financial Instructions for the Budget and Accounts", were jointly issued by the Ministry of Finance and the G.A.B. These new regulations replaced the outmoded "Instructions Concerning the Accounting and Recording System in the Treasuries of Saudi Arabia" of 1939, and have continued in effect to the present.

A few months before the end of the fiscal year, the Ministry of Finance circulates directives outlining over-all financial policies, as well as major procedures, which the ministries and agencies are to follow or consider in preparing their estimates for the coming fiscal year. In these directives the Ministry of Finance usually repeats or refers to the essential regulations concerning methods of estimating expenditures and revenues; elaboration and detailed explanations for these rules are usually offered. These directives carry some weight because the Ministry of Finance has the power to change the budget before it is presented to the Council of Ministers.

After listening to the points of view of the ministries through their representatives, in special hearings held by the Budget Committee, the Ministry of Finance organises and collates the estimates of the ministries and agencies and prepares the proposed State Budget in final form. There is no formal way of restricting the power of the Ministry,

however, the political power and personality of the heads of the agencies asking for the appropriation have considerable weight in influencing the decisions of the Ministry of Finance. Also the Ministry of Finance takes into consideration the development plan, the general policies and desires of the Council of Ministers and the King. These development plans, general policies and desires may have been expressed in previous resolutions, statements or memoranda. The final form of the proposed budget prepared by the Ministry of Finance is the one to be submitted to the Council of Ministers.

In the execution stage of the budget, the Ministry of Finance assumes the responsibility of pre-audit through the financial comptroller. In order that the budget fulfills its controlling role, the Ministry of Finance, at this stage, guards against two major possibilities which will render the whole budgetary process meaningless. The first possibility is that the ministries and agencies may exceed the appropriation provided by the budget, and the second possibility is that the appropriations may be used for purposes other than the ones intended by the law makers.

The financial regulations, within certain limits, allow the transfer of funds from one object to another, and transfers of funds are very frequently used by the ministries and agencies. It is among the important jobs of the Ministry of Finance to see that these transfers have been made within the prescribed limits and according to the procedures specified by the regulations. The transfer regulations are based on the classification of the budget. A word on this classification is helpful in understanding the transfer regulations.

The Saudi Arabian budget at the present time is classified according to departments and objects. The budget has two schedules, A and B; A for revenues and B for expenditures. Schedule A is classified into chapters and each chapter is divided into heads. Schedule B is divided into titles; a separate title is assigned to each ministry and independent agency. The title for each ministry or independent agency includes one section or more. A section is usually assigned to a major department or bureau; sometimes with semi-independent status. Each section is composed of four chapters. Chapter I is devoted to salaries, compensations, allowances and similar personnel expenses. Chapter II is called "General Expenditures" and includes items such as travel expenses, transportation, utilities and furniture. Chapter III is termed "Other Expenses" and usually includes items such as overseas medical treatment and university fees and student grants, and some private sector subsidy. Chapter IV is almost entirely concerned with new construction projects. Chapter I and II are divided into a number of heads, and most of the heads contain a number of sub-heads. Chapter III may or may not be broken down. In Chapter IV, each project is considered under a separate head. (See Figure 4, p. 42)

Decree No. M/15 of 24 October, 1965, which enacted the budget of the fiscal year 1965-1966, introduced changes in the transfer regulations, apparently with two purposes in mind. First, to relieve the Council of Ministers of some of its supervision over transfers. Second, to give the Ministry of Finance more control over the shifting of funds among the heads of Chapter II (General Expenses). This decree permits the transfer of funds from Chapter IV (Capital Projects) in one section or title to Chapter

Figure 4 Budget Classification in Saudi Arabia (An Illustration)

Schedule "A" (Revenues)

Chapter(s)

Head(s)

Schedule "B" (Expenditures)

Title(s) (Ministry or Independent Agency)

Section(s) (A Major Department or Bureau)

Chapter I (salaries, compensation, allowances, etc.)

Head(s)

Sub-head(s)

Chapter II (general expenses)

Head(s)

Sub-head(s)

Chapter III (other expenses)

Head(s) (may or may not exist)

Chapter IV (new projects and constructions)

Head(s)

IV in another section or another title with approval of only the Ministry of Finance. Obviously this assumes an agreement between the ministers concerned when the transfer involves more than one ministry. The decree also permits the transfer of funds within the same title from one section to another and from one chapter to another with the approval of the Minister of Finance (with the exception of Chapter IV). If such approval is denied then the approval of the Prime Minister can be requested. But if such a transfer is going to be made within the Ministry of Finance, the approval of the Prime Minister must be secured.

Prior to decree M/15, a minister could transfer funds with Chapter II from one head to another. But under the decree a minister does not have the power to make such a transfer. Decree No. M/47, paragraph A, of 28 June, 1976, which enacted the budget of the fiscal year 1976-77 permits the transfer of funds between heads of Chapters I, II and III with the approval of the Minister or the Director of the independent agency, and he can transfer this authority to the head of a major department or bureau (See Figure 4, p. 42) who is under his jurisdiction. Paragraph B, permits the transfer of funds from one section to another and from one chapter to another with the approval of the Minister of Finance. If such approval is denied then the approval of the Prime Minister can be requested. Paragraph C, permits the transfer of funds from unexpected projects, section number 44, to heads of Chapter IV with the approval of the Minister of Finance. Paragraph D, permits the transfer of funds from the budget reserve section number 43 to any section in the budget with the approval of the Prime Minister, on the recommendation of the Minister of Finance.

Transfers used to take place even during the first month of a new fiscal year. The writer faced, personally, this kind of problem during his service as a financial manager at King Abdul-Aziz University, where funds had been transferred from head X to head Y and after a short time funds were transferred from head Z to head X. This obviously reflects the haste in which some of the transfers were made.

The controlling power of the Ministry of Finance, through the budgetary process, is furthered by the fact that most of the budgetary questions reaching the Council of Ministers are referred to the Ministry of Finance for study and recommendation. Also the ministries and agencies themselves sometimes ask for advice and opinions from the Ministry of Finance on budgetary as well as other financial matters.

The budget also serves as an important tool of control for the Council of Ministers which has the power to approve the annual budget and prepares the decree that enacts it. The Council, in its capacity as the main legislative and executive body, finds in the budgetary process a means through which it may discharge a major part of its responsibility. The Council directs the main activities of the government and steers the governmental vehicle in the direction that it desires by way of the annual budgetary process. The annual budgets the frame within which each ministry or agency can operate during that budgetary period. With minor exceptions, no ministry or agency can expend any funds not approved in the budget, or expend any funds for purposes other than those specified by the budget, except with the approval of the Council.

Although the budget is prepared outside the Council, in fact the statements of policy issued by the King, as well as the desires of and the resolutions passed by the Council, tell the ministries, in part, what should and should not be put in proposed budgets. Especially influential are those setting priorities for projects or areas of expenditure. At the same time, these policy determinations tell the Ministry of Finance, in part, what it should and should not approve in its reviewing function. The Council also uses the budget for a host of purposes which are outside the scope of this research such as economic development.

2. Accounting System

Before 1954, when the Ministry of Finance had complete and direct control over all financial matters in the government, there were fewer problems in maintaining unified accounting procedures. Implementation of the accounting regulations and procedures, embodied in the "Instructions Concerning the Accounting and Recording System in the Treasuries of Saudi Arabia", was directly supervised by the Ministry of Finance. The accounting system in that period provided the Ministry of Finance with a simple means of controlling the flow of cash in and out of its central treasury, as well as the scattered branches of the treasury in the outer regions of the country. The Ministry of Finance then knew where and when cash was needed and where and when cash was available.

The treasury branches received their printed forms and recording books from the Ministry of Finance along with instructions for their use.

In most cases the directors and the ranking employees in the branches had spent the major part of their careers in the central offices of the Ministry of Finance at Mecca.³ These employees carried with them the traditional recording and accounting practices and routines of the Ministry.

The departmental reorganisation of 1954 changed this situation. After the reorganisation each ministry had its own financial and accounting division which was not under the direct control of the Ministry of Finance. A number of the treasury branches were closed since the field offices of the different ministries dealt directly with their respective ministries on financial and accounting matters.⁴ The reorganisation thus changed the role of the accounting system.

The main objective of the accounting system in its new role is to ensure that the financially semi-independent ministries and agencies are complying with the financial laws and regulations and are following certain accounting procedures. The Ministry of Finance, alone, or jointly with the General Auditing Bureau, lays down the principal accounting procedures, records and reports to be used by all the ministries and agencies. This power of the Ministry of Finance, to design the over-all accounting system and to change it any time it sees fit, enables the Ministry to influence the financial administration in all the ministries and agencies.

³ The Ministry of Finance was based in Mecca until 1956, when all ministries were moved to Riyadh.

⁴ The function of the treasury branches was partly taken over, in some cities, by the branches of the Monetary Agency, which provides banking services.

A major part of the accounting instructions are included in the "Financial Instructions for Budget and Accounts" of 1957, to which a number of amendments have been made. These instructions specify the accounting procedures which should be followed by all of the ministries and agencies. They specify and describe in detail the accounting books which should be used and the way in which the recording should be done. No other books can be used, not even the existing ones if modified, without the permission of the Ministry of Finance.

For example, the instructions tell the financial officers in the ministries and agencies how to close their daily, monthly and yearly accounts. Each ministry or agency is required to report monthly on its accountings, using a special form, (Schedule of Monthly Accounts, Form No. 20). A copy of Form No. 20 must be sent monthly to the Ministry of Finance and another copy, accompanied by supporting documents and Form No. 19, must be sent to the General Auditing Bureau.

Following the closing of accounts of the fiscal year, a yearly report must be filed within a period specified by the Minister of Finance. Three copies of this yearly report are required, one copy must be sent to the Ministry of Finance, one copy to the General Auditing Bureau and the third copy is kept by the reporting agency or ministry.

The Minister of Finance is empowered to withhold the salaries of the minister and all responsible officials in any ministry or agency that fails to send its reports in on time. Actually, this power has never been used in spite of the constant and continuous failure of most of the

ministries and agencies to comply with the reporting requirements. One of the most serious problems of the accounting system in Saudi Arabia is the failure of most, if not all, of the ministries and agencies to file the required accounting reports. For many years the accounts have never been closed.

3. Pre-audit System

It is difficult to trace the origin of the system of financial comptrollers in Saudi Arabia; the system may be better understood if reference is made to the circumstances which existed at the time the system was initiated and to the similar systems that existed in other countries which probably served as a background for the Saudi Arabian system.

Before 1953 there were only four ministries in Saudi Arabia, the Ministries of Foreign Affairs, Finance, Defence, and the Ministry of the Interior and Health. Almost all governmental services were distributed among these four ministries. In late 1953 and early 1954 new ministries emerged from a number of general directorates previously under one or other of the four original ministries. In late 1953 the Ministries of Communication, Education, and Agriculture were established. In early 1954 the Ministry of Commerce and Industry was founded and the health service was separated from the Ministry of the Interior and Health and became an independent ministry.⁵

⁵ Since then many other ministries and agencies have been created such as the Ministries of: Petroleum and Mineral Resources; Labour and Social Affairs; Pilgrimage and Wakof; Information; Higher Education; Central Planning; Post and Telegraph; Justice; Superintendance and Investigation Commission and the Disciplinary Commission. (See Figure 1, p. 11)

At that time the decision makers were probably faced with the problem of reconciliation between two factors:

- (a) To give each minister the complete responsibility of developing his own area and logically to give him the authority to enable him to carry out his responsibility. This meant that considerable financial authority had to be granted to each minister.
- (b) To reserve the essential authority of the Ministry of Finance to supervise the revenues and expenditures of the governmental body as a whole.

Taking into consideration the fact that some of the ministries were just evolving which meant that they were facing, for the most part, new programmes of which they had no previous experience with financial divisions which were also newly established. This suggested that it was not advisable to leave the ministries to handle their financial affairs entirely on their own. At the same time, keeping the whole control of financial matters in the hands of the Ministry of Finance, would not suit the responsibilities given to the ministries, nor the powers which the ministers have as members of the new Council of Ministers.

It was apparent that a middle of the road measure was needed, and the decision makers found their answer in the financial comptroller system, (a system whereby the Ministry of Finance and National Economy assigned an official of this division to each ministry and agency). Though there

were a good number of Egyptian advisors in Saudi Arabia at this time, the decision makers did not completely copy the Egyptian example, in which the financial and accounting officials in each ministry and agency are themselves employees of the Ministry of Finance, and the minister or the head of the agency where they are assigned has no direct control over them. Under the Egyptian system, the financial comptroller, the chief accountant and his deputies, who actually control the fiscal matters in each ministry or agency, are employees of the Ministry of Finance. Probably the reason why the decision makers did not copy the Egyptian system in this aspect was the relatively more powerful position of the Saudi Arabian minister than his Egyptian counterpart. As indicated before the Saudi Arabian minister is, at the same time, a member of the highest legislative and executive organ in the country. However, the Saudi Arabian financial comptroller has been given a position similar to that of the comptroller in Egypt and to that of the "Controleur des Depenses Engagees", in France.⁶

"In the fact that in France the public comptable agent of the Ministry of Finance, is not a simple cashier, he is also a paying officer charged, under his personal responsibility, to exercise before payment a control of regularity over the official ordering payment (the ordonnateur), that is to say, over the administrator. In judging the account and rejecting an expenditure or ordering collection of a receipt item, the Cour enforces and lends power to the control by the comptable over the administrator; it thus effects an administrative control at one stage removed, a control of regularity to which is increasingly added a control of efficiency, of the good use of voted funds."

⁶ E.L. Normanton, The Accountability and Audit of Governments, Manchester University Press, Frederick A. Praeger, New York, (1966), pp.69 and 92.

The role of the Saudi Arabian financial comptroller is closer to that of the French "Controleur des Depenses Engagee" than to the Egyptian controller. The French "Controleur des Depenses Engagees", is an official of the Ministry of Finance located in the headquarters of each ministry and agency as a representative of the Ministry of Finance. The following duties of the French counterpart may cast some light on the function of the financial comptroller.⁷

"(1) The Comptroller gives his opinion on financial aspects and implications, but not on the substance, of every scheme, measure or decision requiring the approval of the Minister of Finance, and on any budgetary proposals put forward by the ministry to which he is attached.

(2) The Comptroller keeps his own accounts which enable him to follow the use to which the ministry puts the appropriations granted to it. Every appropriation granted to the ministry is recorded by chapter in the accounts of committed expenditure. From the first day of the budget year, all permanent and certain expenditure is entered against these appropriations to show the funds which are available against which future expenditure can be charged as and when it arises.

(3) The most important duty of the Comptroller is the certification of every commitment entered into and payment order issued by the ministry concerned:

(a) Commitments are examined by the Comptroller from the point of view of allocation of the expenditure, availability of funds, accuracy of the estimate and conformity with existing legislation. If he considers the proposed commitment irregular, he refuses to certify it, and in this case it cannot be undertaken without the approval of the Minister of Finance;

(b) No payment voucher may be submitted for signature to the authorising minister until it has been certified by the Comptroller. If the Comptroller finds any irregularities in the voucher, he endorses it to that effect and it cannot then be paid unless authorised by the Minister of Finance.

⁷ United Nations, Department of Economic Affairs, Government Accounting and Budget Execution, New York, (1952, reprinted 1966), pp.34-35. See also: Guy Lord, The French Budgetary Process, p.58; Ridley and Blundel, Public Administration, p.183; Pallez, Finances Publiques, pp.272-277; Kerjolis, La Direction, pp.100-113.

Violations of the rules concerning the control of committed expenditure give rise to personal sanctions against the offenders. The absence of endorsement by the Comptroller nullifies the order of payment but not the commitment.

(4) At fixed dates and in accordance with prescribed conditions, the Comptroller of Committed Expenditure furnishes reports on the financial administration of the ministry concerned. The purpose of these reports is to enable Parliament to control more precisely the execution of the budget; they are also used by the central administration and the Audit Court for their a posteriori control"

To ensure that the comptroller enjoys the independence necessary for effective control of the ministry to which he is attached, it is provided by statute that the comptroller shall be directly responsible to the Minister of Finance and not to the minister whose accounts he inspects nor to any other administrative control.

4. The Function of the Financial Comptroller

Because of the overlapping of the financial and administrative matters, the area which the financial comptroller is required to cover is wide indeed. The simple fact that most activities of governmental organisations are likely to involve money makes the function of the financial comptroller, at least in theory, a broad one. Included in the financial comptroller's responsibilities are the following:

- * the collection of taxes, fees and other types of revenues;
- * overseeing the way in which these revenues are accounted for, recorded and entered in the public treasury;
- * Salaries, allowances and other compensations for personnel;

- * purchasing of materials, supplies, space and other services;
- * warehouses;
- * any action which may result in financial obligation or loss on the part of the public treasury;
- * accounting and recording procedures in general;
- * treasuries and payment procedures;
- * financial planning for the future, in other words budgeting and programming;
- * closing the accounts
- * the interpretation and implementation of the financial regulations;
- * supervision of personnel in the financial, accounting and warehouse divisions.

In theory, the financial comptroller is concerned only with the legality of the transaction; ensuring that it is in accordance with the existing financial statutes and regulations. It is ^{not}~~now~~ his duty to pass judgement on the wisdom of an action. This is similar to the function of the French "Comptroller of Committed Expenditures" whose duty also does not include an assessment of the advisability of an expenditure.⁸ All he has to do, at least theoretically, is to verify that decisions involving financial commitments and payment orders have been correctly made in accordance with the prevailing legislation. However, if a ministry or agency goes beyond what the financial comptroller considers to be "reasonable limits" he does try to intervene. The financial comptroller, using his prerogatives, under the cover of legality, tries sometimes to

⁸ Normanton, op. cit., pp.67-69 and p.92.

prevent what he considers to be inefficient practices or extravagant actions. However, the major areas in which the financial comptroller has a role to play in participation with the official of the agency, are budget preparation, accounting, purchasing, treasury, personnel, financial employees, warehouses, revenues, and interpretation of the financial regulations and instructions.

Though there is always a gap between what the statutes and regulations say or intend, and the actual practice, such a gap is very wide as far as the financial comptroller is concerned. One should add that this fact is not peculiar to the financial comptroller in Saudi Arabia. In the following paragraphs the writer hopes to distinguish, as far as possible, between what the statutes say and what the writer noticed being practised.

(a). Budget Preparation

Under the first statute of the financial comptroller issued on 7 December 1954, it was mandatory for the financial comptroller to assist the ministry or the agency to which he is assigned in preparing its annual estimates. Each ministry and agency was also obliged to include the financial comptroller in the preparation of its budget. A resolution by the Minister of Finance, establishing the Department of Budgetary Affairs in the Ministry of Finance in October 1955, required that the study and examination of the estimates of each ministry and agency should be in the presence of the financial comptroller assigned to that ministry or agency. In January 1958, a second statute for the financial comptroller was issued transferring the financial comptroller corps from the Ministry of Finance to the office

of the General Auditing Bureau. Although this statute did not mention anything concerning the role of the financial comptroller in budget preparation, the previous rules remained unchanged.

The change in his role came when the present statute of the financial comptroller was issued in March 1961. Under this statute the financial comptrollers came once more under the jurisdiction of the Ministry of Finance. Apparently some members of the Council of Ministers took the opportunity of this change to reduce the powers of the financial comptrollers. Under the present statutes a ministry or an agency is not obliged to include the financial comptroller in the discussion of its financial programmes or the preparation of its annual estimates. The financial comptroller is required to give his advice on the budget preparation only when he is requested to do so by the ministry or the agency to which he is assigned.

Apparently the financial comptroller has never had any role in programming or budget preparation. They have never participated even when it was obligatory for them to do so, under the previous statutes, nor have they been invited by the ministries or agencies to assist them in planning their budget under the present statutes which gives the ministries and agencies the choice if they so desire. This is in spite of the fact that most of the financial officers in the ministries, who were interviewed by the writer, were in favour of such participation by the financial comptroller.⁹ All the financial comptrollers and the financial officers in different

⁹ The writer prepared and circulated a questionnaire, as part of this research. The result of the questionnaire will be discussed in Chapter III. (See Appendix VI and Appendix VII on pages 148 and 162)

ministries and agencies who answered the questionnaire, produced and circulated by the writer, agreed that the financial comptroller did not have any actual role in budget preparation. The majority of the financial comptrollers who were interviewed by the writer mentioned that they never took any part in budget preparation.

(b) Accounting

Though the financial comptrollers are required in general to examine regularly all the accounts and recording books, (See Appendix II, Article No. 11(c), p.75), two accounts are very much emphasised. These are the special trust account and the advance payments account. These two accounts are the sources of the major difficulties of the whole accounting system of Saudi Arabia. They are the main reasons why the accounts have not been closed for a good number of years. The special trust account includes accounts such as the deposits posted by the contractors, unpaid wages which have been earned and encumbrances from appropriations of previous years which have not been paid yet. The main items in the advance payments accounts are the imprest funds which the ministries and agencies make available to their regional offices to enable them to meet their expenses. This account includes also such advances as those made to employees departing on an official journey and to be charged to what the treasury will owe later in travel expenses.

The financial comptrollers are required specifically to examine these two accounts every three months and to report their findings to the Ministry

of Finance. It was noticed from the files that the Minister of Finance, more than once, sent circulars ordering the financial comptrollers to examine these two accounts and to file their findings with him. These circulars themselves may indicate that the financial comptrollers are not doing what they are required to do by statute, or at least not as often as required. Judging from the answers given to an oral question asking financial comptrollers how often they examine the accounting books, it seems that such an examination is seldom, and done only when necessary so far as the majority of the financial comptrollers are concerned.¹⁰

The financial comptrollers are also required to examine the closing accounts and review the accompanying reports (See Appendix II, Article No. 11(d), p.75). Actually, the financial comptrollers have not had to do that, simply because no such accounts were ever presented by the ministries or agencies.

(c) Purchasing

The regulations specify four major methods of how the ministries and agencies may procure the commodities and services they need:

- (1) By a general sealed bidding; to be announced in more than one newspaper.
- (2) By a local sealed bidding; by writing to at least five firms or businessmen who are dealing in the commodity or service required.

This could be done for not more than S.R. 50,000 (£8,223.68).

¹⁰ When interviewed, some of the financial comptrollers referred to what the statute said without indicating whether they followed it. Some of them said they did follow the statute when necessary and time allowing.

- (3) Open bidding; by inviting at least five dealers to a meeting in which they could bid on the supply or the service needed, provided that each transaction is not more than S.R. 20,000 (£3,289.47).
- (4) By direct purchase from any dealer in the market, provided that each transaction is not more than S.R. 5,000 (£822.36).

There is no limit on purchasing by general sealed bidding except the usual limitations. The financial comptrollers are required to participate in the committees that review the bids, examine them and submit their recommendations to the officials who have the authority to make the decision as to whom a contract will be awarded to. Such an official may be the minister, the head of an agency, the under-secretary, or the general director, as the case may be. It seems that the financial comptrollers do participate in these committees at the ministries and agencies where they are assigned. It seems also that the view of the financial comptroller in these committees bears considerable weight.

The regulations require that the bid should be awarded to the lowest bidder among those who are eligible. In a few cases when the bid is not awarded to the lowest bidder on grounds of his ineligibility or inability, then a disagreement may take place between the financial comptroller and the administration. The general rule for all purposes is that whenever a disagreement takes place between the financial comptroller and the administration, the matter is to be presented to the minister or the head of the agency with the two opposing views. If the latter does not approve

the views of the financial comptroller, the financial comptroller has to comply with the instructions issued by the minister or the head of the agency and to report the matter promptly to the Minister of Finance and the General Auditing Bureau. If either of these two organs does not approve the instructions issued by the minister or the head of the agency, the Minister of Finance or the General Auditing Bureau has to submit the case to the Council of Ministers.

In the period between January 21, 1958 and March 10, 1961, the rule was that if the minister or the head of the agency did not approve the views of the financial comptroller the transaction had to be stopped and the matter had to be reported to the General Auditing Bureau. If the General Auditing Bureau sided with the financial comptroller the transaction could not take place without the approval of the Council of Ministers. The minister or the head of the agency involved had to take the case to the Council of Ministers if he so chose. But this rule has been changed to the one above. The point to be made here is that the minister has been given more power than before.

In the case of an emergency a minister or a head of an agency has the power to order, on his own responsibility, the expenditure of not more than S.R. 50,000 (£8,223.68) even without consulting the financial comptroller. If either the Ministry of Finance or the General Auditing Bureau does not approve such action later on, the matter has to be presented to the Council of Ministers.

(d) Treasury

It has been mentioned earlier that each ministry and agency has its own treasury. They can draw cash from the monetary agency by cheques. The main responsibility of the treasury lies on the shoulders of the treasurer who is a bonded employee. Though the treasuries are inspected by the inspectors of the General Auditing Bureau, from time to time, the financial comptrollers are required to examine these treasuries as well as their records and books.

In the questionnaire the question "Is an inventory made at least once a month of the treasury?" produced a positive response from only 14 financial officials out of 43. This means that in the majority of instances the treasury has been left for a long period of time without examination.

(e) Personnel

The General Personnel Bureau was established in March 1939; it was a division of the Ministry of Finance. The jurisdiction of the Bureau covered all the state civilian employees; only the police and the military personnel were excluded. Even after the departmental reorganisation of 1954 and the assuming by each ministry and agency of its own personnel administration the bureau continued to have overall supervision. It was around the middle of 1958 when the General Personnel Bureau was transferred from the Ministry of Finance to become an organisation directly under the Prime Minister.

With this background the reader finds that the financial comptroller is very much involved in personnel matters. Though the present statute of the financial comptroller does not specify the personnel matters, they come under Article No. 4, which covers a very wide area. This article states that it is the duty of the financial comptroller to supervise all transactions involving revenues or expenditures and to verify that such transactions comply with the existing statutes and include nothing that violates instructions or regulations in force. Under this provision the financial comptroller has to see that the civil service statutes, regulations and instructions are observed by the ministry and the agency where he is assigned. For example, he has to object to the payment of salaries in cases of illegal appointments and to the payment of allowances for promotions that did not fulfill the requirements demanded by the civil service statute.

(f) Financial Employees

The previous statute of the financial comptroller required expressly that the employees of the financial division, as well as those in the accounting, purchasing, and personnel divisions should be under the functional supervision of the financial comptroller who was assigned to their ministry or agency. Such employees were required not to make any expenditures or enter into any obligation, except in cases of emergencies, without the approval of the financial comptroller. Such employees were to remain, however, in the formal line of authority in the organisational structure of their ministry or agency. The present statute, which has the

general tendency of reducing the powers of the financial comptroller that existed under its predecessor, repeated almost the same provision but with a milder and vaguer tone.

Apparently such functional supervision never materialised in the way the statute had intended to make it; neither under the previous statute nor under the present one. Only what are considered to be very essential requirements are observed. For example, the financial comptroller makes sure that the newly appointed financial employees are bonded if they are going to hold positions that the statutes require to be bonded, and to make a follow-up from time to time, to see that such bonds are actually in effect. Also the treasurers usually insist that the signatures of their superiors be countersigned by the financial comptroller before making actual payment, as required by the statute.

(g) Other Duties and Responsibilities

The financial comptroller is also required to keep an eye on the warehouses in order to see that incoming inventories are correctly entered, and the outgoing inventories are properly discharged; also to see that the forms and records are kept in accordance with rules and regulations. It seems that unless something unusual takes place, such as an accident, the financial comptroller very seldom examines the warehouses. The dependence is more on the periodical inspection which is conducted mainly by the inspectors of the General Auditing Bureau. But the most valuable and expensive warehouses - such as, the warehouse of the Railroads, the

Ministry of Defence, the Ministry of Health, the Ministry of Communications and the Saudi Arabian Airlines - are far from being adequately inspected by either the Ministry of Finance or by the General Auditing Bureau. In answering the question "Are all classes of inventory physically inventoried at least once a year?" only 8 financial officials out of 43 answered "Yes".

It is the duty of the financial comptroller to help the ministry or the agency in interpreting and understanding the financial regulations. As an agent of the Ministry of Finance and being in constant contact with its officials he is able not only to forward the new regulations and changes but also to explain them and the purposes they intend to serve.

The emphasis in this paper has been on the expenditures, and revenues have been rarely mentioned. This actually reflects the picture of the functions performed by the financial comptroller; the bulk of their work is concentrated on the expenditures. The reason is that more than eighty-five per cent of the revenues come from the oil companies in the form of oil production, dividend, income tax and royalties. This is mainly the responsibility of the Ministry of Petroleum and the Bureau of Income Taxes and Zakat. A little over seven and a half per cent of the revenues come from investment, profits of the Petroleum and Mineral Resources Agency (excluding oil), penalties and fines and other revenues. A little over four per cent of the total revenues is constituted by customs duties. This is taken care of by the General Directorate of Customs which has its own controllers and inspectors. The remaining revenue, which is a little over four per cent, is collected by all ministries and agencies and is supposed

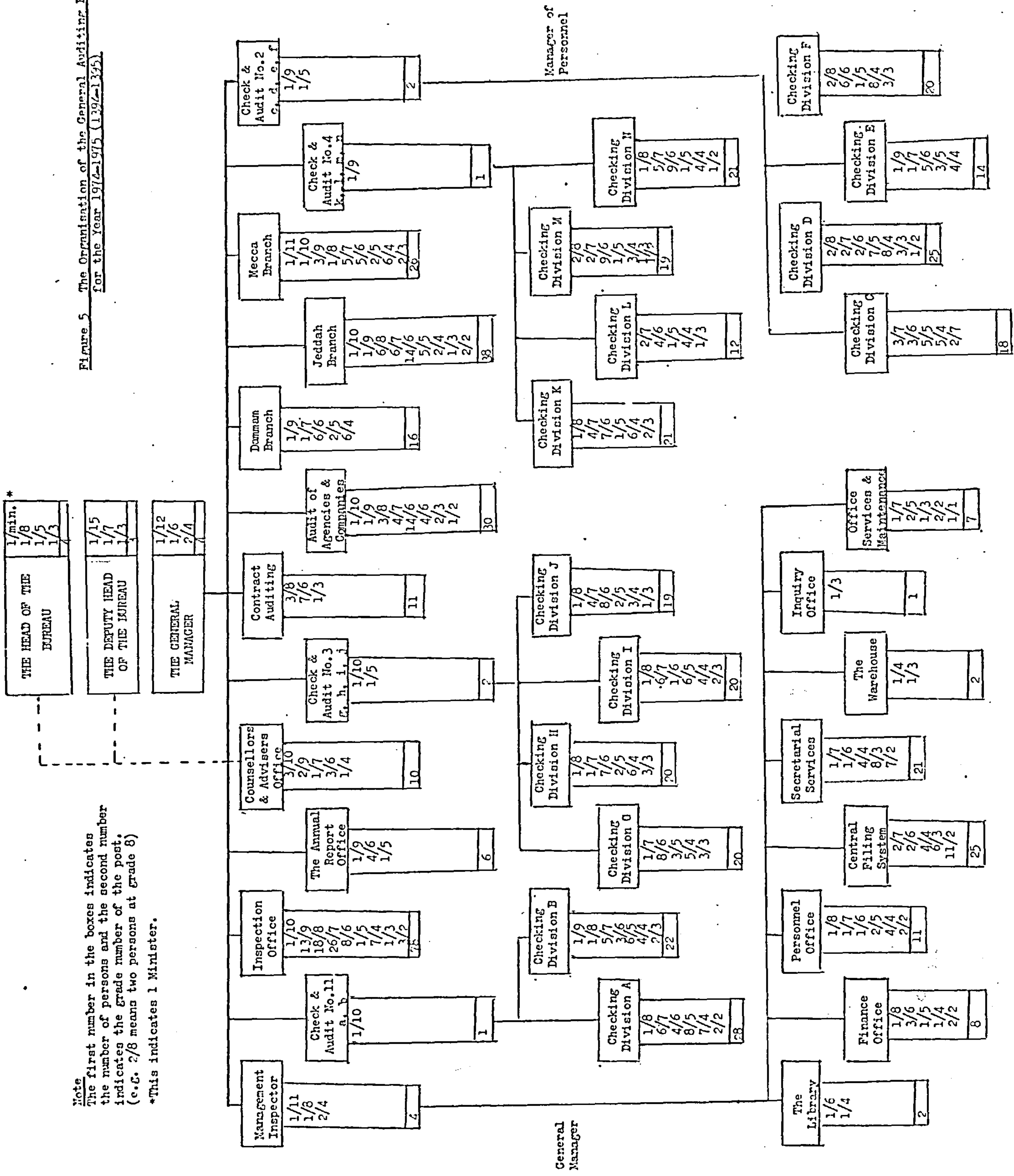
to be audited by the financial comptroller. Some of these revenues are in forms of public service fees, stamps and sale of government forms and publications, sale of government property, rents and installment payments and transport taxes.

5. Post-Audit

The post audit function in Saudi Arabia is vested in the General Auditing Bureau (G.A.B.). This function did not exist before late 1954. As indicated earlier, until 1954 the Ministry of Finance was responsible for all financial matters. The decree issued 17 March 1954, organising the organs of the Council of Ministers, provided for the establishment of a unit called the General Auditing Bureau. (See Figure 5, p.65) The office was actually organised in December 1954. The head of the bureau has been given a grade and salary equal to that of a minister. He is empowered to audit accounts and supporting documents of all ministries and agencies supported in whole or in part by state funds. The G.A.B. also sends inspectors to such ministries and agencies to physically inspect books, treasuries and warehouses. This function will be discussed later.

For some time, even the pre audit function was under the jurisdiction of the G.A.B. This situation existed in the period between 21 January 1958, when the financial comptrollers were attached to the G.A.B., and 10 March 1961 when the financial comptrollers were brought back under the jurisdiction of the Ministry of Finance. The reason for transferring the financial comptrollers back to the Ministry of Finance,

Figure 5 The Organisation of the General Auditing Bureau for the Year 1974-1975 (1392-1395)



Note
The first number in the boxes indicates the number of persons and the second number indicates the grade number of the post. (e.g. 2/8 means two persons at grade 8)
*This indicates 1 Minister.

was that it became difficult to question the ministries and agencies about violations discovered during the auditing process. This was because if such a violation did occur it might be said, "If such action was illegal, why did your 'own' financial comptrollers approve it ?".

6. The Function of the G.A.B.

A look at the internal instructions of the G.A.B. reveals that the post audit carried out by the G.A.B., in most part, duplicates what is supposed to be done in the pre audit function. Besides checking the arithmetic of the accounts, the auditors are instructed to see that the transactions have been done in accordance with the budgetary and other financial regulations. They are required to examine the supporting documents to see that they are in order according to the budgetary and financial rules and limitations; and to see that all formalities have been observed.

The post audit function in the G.A.B. is carried out by four divisions each being responsible for a group of ministries; and each office is responsible for agencies and companies subsidised by government funds; there are three branches, in Jeddah, Mecca and Dammam. Besides these divisions and branches there are some important offices, such as the office of contract auditing. (See Figure 5, p.65)

When the office discovers an irregularity or a violation of the budgetary or financial regulations, it sends its comments to the ministry or agency involved. The office asks for corrective action to be taken if

such action is required. In many cases, probably most of them, the comments result in a long back and forth correspondence between the G.A.B. and the ministry or agency involved.¹¹ In addition to informing the minister or the head of the agency when a violation has been committed, the G.A.B. may also report the case to the Prime Minister. These measures are completely ineffective, according to His Excellency Sheik Abdul Aziz Deghostani, the Deputy of the Head of the Bureau.¹²

The G.A.B. is required to submit an annual report to the Prime Minister concerning the revenues and expenditures of the state in the previous fiscal year. In this report the G.A.B. is required to evaluate financial operations of the ministries and agencies to pin-point efficient and inefficient performances, to indicate those responsible for such performances and to record achievements; also pin-point any irregularity or violation of the budgetary or financial regulations for each ministry and agency individually. This report is a highly confidential document, addressed to the King and to the Council of Ministers.¹³ The G.A.B. has an office responsible for preparing this annual report. (See Figure 5, p.65)

¹¹ See Appendix IV, p.93 - A translation of some correspondence between the General Auditing Bureau and the writer when he was financial director of King Abdul Aziz University, Jeddah, Saudi Arabia, during the period 1971 to 1974.

¹² The writer visited Shiek Abdul Aziz Deghostani in his office in Riyadh, during Ramadan 1976, when he was conducting his questionnaire.

¹³ The writer was able to copy some extracts from the G.A.B. report, "Evaluation of the Financial Operation of the Ministries and Agencies", in the recent annual report for the financial year 1972 to 1973. (See Appendix V, p.137) It will be used as official evidence in this research where it is appropriate.

7. Financial Inspection

Financial inspection was the sole responsibility of the Ministry of Finance until this responsibility was shared with the G.A.B. after its establishment in late 1954. Before creation of the latter, inspectors of the Ministry of Finance were active in inspecting accounting books and records, treasuries and warehouses, throughout the governmental establishments. They were required to review all financial transactions in the agencies and in the regional treasury branches of the Ministry of Finance during their inspection tours. The financial inspection statute issued on 28 February 1945, (and still valid, though largely in theory only), instructs financial inspectors to audit all revenues and expenditures of the agency or treasury branch under inspection. The purpose is to see that all taxes, fees, tithes and other forms of revenue have been properly collected, accounted for and deposited in the government treasury; also to see that expenditures have been made in accordance with valid instructions and within the authorised budget. The inspectors also are required to examine warehouses to see that they are properly maintained and that disposal of goods and materials has been done according to instructions.

Actually, the real burden of financial inspection has been shifted to the G.A.B. since its inception. The statute establishing this office granted the G.A.B. the right to inspect all of the ministries and agencies supported by government budget, in whole or in part. However, the statute stated that none of the powers given to the G.A.B. were intended to conflict

with the existing rights of the Ministry of Finance to audit, verify and inspect the state accounts. In theory at least the jurisdiction of the Ministry of Finance remained unchanged, but in practice its inspection role became very limited, and the G.A.B. took over most of the inspection functions.

Duties of the inspectors sent by the G.A.B. are spelled out in internal regulations issued by the G.A.B. in late 1957. In essence these regulations require the same inspection duties as those set forth in the Financial Inspection Statute of 1945, with some accommodation for the changes which took place subsequently. The regulations instruct the inspectors of the Bureau to see that revenues are collected, expenditures made and storehouses kept in accordance with the financial statutes and budgetary rules. In order to fulfill this duty, the inspector is required in theory to review accounting books and to examine treasuries of the ministry or the agency which is inspected. Warehouse contents and records are also to be examined on a sampling basis. But in practice their inspection is limited only to a discovery of any irregularity or violation, although they have the highest number (78) of staff.¹⁴

¹⁴ From the writer's experience, since King Abdul Aziz University was established until the present time, they have never had any inspector, although the University had had problems in the warehouses in Mecca and Jeddah. It was probable that the G.A.B. considered the University a highly academic one, and new in government business.

Appendix II

A translation of the

Statute of the Financial Comptroller in
Saudi Arabia

Royal Decree No. 471, dated 17.9.1380 A.H. (4 March, 1961)

(Translated by the Writer from Arabic)

The System of the Financial Comptroller

1. There must be a financial comptroller in each ministry and agency with a separate approved budget in the governmental system.
2. The financial comptrollers who are actually assuming financial comptroller duties shall be attached to the Ministry of Finance and National Economy. Their positions and appropriations presently in the budget of the G.A.B. shall be transferred to the budget of the Ministry of Finance and National Economy.

The Ministry of Finance and National Economy is responsible for instructing them and for their appointment, dismissal and transfer, in any way it may consider expedient, and in accordance with the legal requirements.

3. The Ministry of Finance and National Economy may assign a financial comptroller to more than one agency; such assignment does not entail additional compensation.
4. The financial comptroller shall supervise the operations concerning receipts or disbursement of funds, and shall ascertain that such operations are conducted in accordance with the statutes and that they do not include any violations of the instructions and regulations.

5. No expenditure of any amount in cash or by payment order can take place, nor any financial obligation be incurred without the signature of the financial comptroller in accordance with prescribed provisions of this statute.

6. The financial comptroller shall ascertain that appropriations are provided in the budget and that there is a statute, a resolution or an order from the proper authority approving the disbursement or the collection; otherwise he must refrain from signing the documents; reasons for such refrainment shall be stated in writing. If the ministry or the independent agency does not accept the financial comptroller's view of the matter, the matter shall be submitted to its minister or the head of the agency with the two views.

The matter will be resolved if the minister or the agency head approves the view of the financial comptroller; otherwise he must carry out the order of the minister or the head of the independent agency immediately and then inform the Ministry of Finance and National Economy and the G.A.B.

If such a situation arises in the Royal Cabinet, the head of the Royal Cabinet shall submit the matter to His Majesty for decision after receiving the opinion of the Minister of Finance.

7. On receiving the notification from the financial comptroller according to the previous article, either the Ministry of Finance and National Economy or the G.A.B. may submit their point of view to the Council of Ministers if either of them is not satisfied with the order given by the minister involved or the head of the independent agency.

8. The financial comptroller shall refrain from signing any payment order if there is no appropriation to cover that expenditure, or if the appropriation is going to be expended for a purpose other than the one intended, or if the expenditure is going to be made from funds kept in trust. The financial comptroller shall pay special attention to the commitments books and participate in supervising them.

9. The financial comptroller shall assist the agency where he is assigned in discussing its proposals and financial matters, if it is requested. He shall assist it in interpreting the provisions of the financial instructions in force, in cases where doubt arises he consults the Ministry of Finance and National Economy.

The ministries and agencies may ask the financial comptroller to participate in discussing their financial programmes. They shall offer him the facilities which enable him to perform his functions and provide him with all information he needs for this purpose.

10. The financial comptrollers are responsible directly to their superior in the application of the statutes and the financial instructions in force. The financial comptrollers shall supervise the work of the employees in the financial, accounting and purchasing divisions in the agencies where they are assigned so far as the execution of the statutes and the financial instructions in force are concerned.

All the employees in these divisions shall cooperate fully with the financial comptrollers in order to enable them to perform their duties properly. No one of these employees may authorise an expenditure or incur an obligation without the previous approval of the financial comptroller with the exception of the case provided in Article No. 15 of this statute. The Minister of Finance and National Economy may ask the minister concerned or the head of the independent agency to impose the appropriate punishment on the employee who violates these provisions.

11. The financial comptroller shall in particular perform the following duties:

- (a) If requested he shall advise the agency in preparing its budget estimates before sending them to the Ministry of Finance and National Economy;

- (b) He shall examine, periodically every three months, the financial condition of the ministry and its branches. The result of such examination shall be communicated to the Ministry of Finance and National Economy with a copy given to the ministry or the agency where the financial comptroller is assigned and another copy sent to the G.A.B.
- (c) He shall examine, periodically every three months, the outstanding amounts in the special trust account and the advance payments account in order to ascertain that none of these amounts remains in these two accounts without justification. The result of such examination shall be communicated to the Ministry of Finance and National Economy with a copy given to the ministry or the agency where the financial comptroller is assigned and another copy sent to the G.A.B.
- (d) He shall examine the closing accounts of the ministry and its branches to ascertain the accuracy of the data provided as justification for any deficit or surplus which has occurred during the fiscal year.
- (e) He shall supervise the forwarding of the documents and the schedule of monthly accounts on the given dates to the G.A.B. and a copy of this schedule to the Ministry of Finance and National Economy.

(f) He shall supervise the manner in which the employees of the warehouses are actually keeping their books to ascertain the proper entry and recording of all the incoming inventories; he shall also supervise the discharging of the outgoing inventories. His findings shall be communicated to the ministry or agency to which he is assigned as well as to the Ministry of Finance and National Economy and the G.A.B.

12. The financial comptroller shall be a member of the bids committees. These committees submit their recommendation to the appropriate authority for decision.
13. The financial comptroller shall participate with the ministry or the agency where he is assigned in examining the accidents that result in financial loss to determine whether the person responsible for such a loss should be charged with its value. Such accidents are to be reported to the Ministry of Finance and National Economy with a copy sent to the G.A.B.
14. Disbursement in each agency shall be carried out by the agency itself for all its operations within the appropriations provided in its budget. The disbursement takes place by payment orders drawn on the Ministry of Finance and National Economy signed by two officials, one of them the financial comptroller. The other official, whose grade must not be below the grade of general director, is to be

designated by the minister or the head of the independent agency; a maximum amount for each payment order that he can sign must be stated. Payment orders exceeding this maximum are to be signed (in addition to the signature of the financial comptroller) by the under-secretary or the minister as the latter decides. Such a decision is to be issued in the form of an Administrative or Ministerial Resolution communicated to the Ministry of Finance and National Economy accompanied by samples of the signatures authorised to sign the payment orders. The G.A.B. is to be informed accordingly.

15. Without obtaining the approval of the financial comptroller a minister may take the personal responsibility for incurring a financial obligation not exceeding S.R. 50,000 (£8,223.68) or may order an expenditure not exceeding this amount in urgent cases that can not be delayed. If the Ministry of Finance or the G.A.B. are not satisfied by the minister's action, they submit their views to the Council of Ministers.

16. As an exception to the general rule of sealed bidding, the ministries and the independent agencies in special cases, where such bidding cannot be conducted, may procure their needs of goods and services by one of the following methods and within the limits prescribed in this statute:

Firstly, by a local sealed bidding, which can be accomplished by sending registered letters to the largest possible number and no

less than five contractors and business firms registered with the commercial registrar and dealing in the goods or services required. Their bidding for providing the agency's needs must be submitted in sealed envelopes in accordance with the statutes and instructions covering this matter.

Secondly, by an open bidding, which can be accomplished by sending registered letters to the largest possible number and no less than five local contractors and business firms registered with the commercial registrar and dealing with the goods or services required. They are to be invited to participate in an open bidding for providing the agency's needs; this is to be conducted according to the statutes and instructions covering this matter.

17. The ministries and agencies may purchase their needs in small quantities in the open market with the limits prescribed in this statute. Such purchase may be accomplished by a direct order to a specialised dealer or contractor who will provide the agency's needs.
18. The authority to award a bid or to order a purchase is to be as follows:
 - (a) In the case of a general sealed bidding, the minister or the head of the independent agency may decide to whom a bidding may be awarded, regardless of the amount of money involved. He may delegate this power to the under-secretary

or the general director if the amount involved does not exceed S.R. 50,000 (£8,223.68). If it is a sole offer such delegation is valid only if the amount involved does not exceed S.R. 20,000 (£3,289.47).

- (b) The minister or the head of the independent agency may approve the conducting of a local sealed bidding and decide to whom the bidding may be awarded if the amount involved does not exceed S.R. 50,000 (£8,223.68), even if it is a sole offer. If the amount involved exceeds this limit, the matter is to be submitted to the Council of Ministers for approval. The minister or the head of the independent agency may delegate his power to the under-secretary or the general director if the amount involved in the local sealed bidding does not exceed S.R. 20,000 (£3,289.47). If it is a sole offer such delegation is valid only if the amount involved does not exceed S.R. 10,000 (£1,644.73).

- (c) The minister or the head of the independent agency may approve the conducting of an open bidding and decide to whom the bidding may be awarded if the amount involved does not exceed S.R. 20,000 (£3,289.47). If the amount involved exceeds this limit the matter is to be submitted to the Council of Ministers for approval. The minister or the head of the independent agency may delegate his

power to the under-secretary or the general director if the amount involved in the open bidding does not exceed S.R. 10,000 (£1,644.73).

- (d) The minister or the head of the independent agency may approve a purchase in the open market if the amount involved does not exceed S.R. 5,000 (£822.36). He may delegate this power to the under-secretary or the general director if the amount involved does not exceed S.R. 1,000 (£164.47). The minister also may delegate this power to a branch head if the amount involved in the open market purchase does not exceed S.R. 500 (£82.24).
- (e) The minister or the head of the independent agency may, after the approval of the Council of Ministers, order the purchase of equipment or technical apparatus from the sole agent or the sole producing company. The documents of such expenditure are to be accompanied by a technical report, from the specialists in the ministry or the agency and approved by the minister or the head of the independent agency, stating that the equipment ordered is the best available according to their actual experience, and that the price is suitable. The agency must ascertain that the agent is actually the sole agent who monopolises the import of this kind of equipment. The profit of the agent must not exceed the percentage prescribed by other

statutes, and his bills must be confirmed by the Chamber of Commerce in the manufacturing country and ratified by one of the Saudi Arabian legations.

19. The jurisdictions of the office of the G.A.B., as prescribed in the Royal Order of 12 Rajab, 1373 (16 March 1954) which included the old organic statute of the Council of Ministers, and as prescribed in the Royal Decree No. 38 and dated 22 Shawwal, 1377 (11 May 1958) which included the new organic statute, which continues to be in effect.
20. This statute shall abrogate the statute of the financial comptroller issued by the Royal Decree No. 30 and dated 24 Jumad the Second, 1377 (15 January 1958).

Appendix III

A translation of the

Statute of the General Auditing Bureau in

Saudi Arabia

Royal Decree No. M/9, dated 11.2.1391 A.H. (20 February, 1971)

(Translated by the Writer from Arabic)

THE SYSTEM OF THE G.A.B.

The Structure of the G.A.B.

1. The G.A.B. is an independent agency connected directly with the Prime Minister.
2. The G.A.B. consists of: the head of the Bureau, deputy and a sufficient number of staff.
3. The head is appointed by Royal Order, and he cannot be dismissed or made to retire unless by Royal Order. He will be treated in respect to his wages, retirement pension, bases of accusation and court order, as any minister.
4. The deputy is appointed by Royal Order of the 15th degree.
5. The head is responsible for the running of the G.A.B. and its administration and has the authority of a minister in his ministry. The rule of appointment of the staff will be that of the civil servants of the government unless otherwise stated in these regulations.
6. The head may delegate some of his authority to the deputy. The deputy shall have the complete authority of the head during the time of his absence.

The Duties of the G.A.B.

7. The duties of the G.A.B. are the surveillance of all the income of state, its spending, and also the surveillance of all movable and unmovable assets, and the observance of the proper use of these assets and their maintenance and custody.

8. According to the above article, the G.A.B. shall be responsible for drafting the executive bills and the endorsement of the Council of Ministers on these bills and the formation of the departments which shall provide the following services:
 - (a) To ascertain that all state incomes have been deposited according to the financial regulations and that all its expenditures have been made according to the annual budget and ongoing administrative, financial and authority regulations.

 - (b) To ascertain that all movable and unmovable assets shall be utilised according to the use for which they are provided. Those responsible for it have the authority to make proper use of these assets and its development and ascertain that it may not be misused or used for different objectives other than that which it is made available for.

(c) To ascertain that every department under the surveillance of the G.A.B. - according to Article No. 9 - practice the financial rules and bills of surveillance according to its own regulations which shall not be in any way contradictory to the rules of the G.A.B.

(d) To pursue the financial bills and rules practices and ascertain that they have been applied and make sure that they are developed according to the need of the civil management of the Kingdom, to point out shortcomings, and put suggestions forward to such development of bills and rules.

9. The following are under the surveillance of the G.A.B. according to the articles of these rules:

(a) All the ministries and government agencies and their branches.

(b) The councils, spring councils and water authorities.

(c) Public organisations and other agencies which have an independent budget to which the government contributes part of the state assets, either by way of help or investment.

(d) Every special establishment or company of which the state invests in its capital or provides a minimum of profit. The surveillance shall be established according to special methods drawn up by the G.A.B. and the Council of Ministers shall issue a bill showing the limits of this surveillance which should be according to the nature of the establishment and its financial relations with the state without hindering its activities.

(e) The Prime Minister of the Council of Ministers shall issue orders for the surveillance of any establishment.

The Practice of the Jurisdiction of the G.A.B.

10. All the departments under the jurisdiction of the G.A.B. must present all accounts and documents which help the G.A.B. to practice its jurisdiction according to this regulation and should extend all help to its representatives and inspectors according to the bills which are introduced to this effect.
11. The G.A.B. shall give its comments to the agencies concerned and shall request agencies to take the necessary steps. The agencies should inform the G.A.B. of the necessary steps taken within one month of the date of its comments.

12. The responsibility lies with the director of personal finance or the person who takes his place, unless another person is responsible for the following:
- (a) Any divergence from the Article II.
 - (b) The delay in sending the required announcement and the regular reports to the G.A.B. at its proper time.
13. If there is any difference of opinion between any agency and the G.A.B., the matter shall be referred immediately to the Prime Minister for final decision.
14. The G.A.B. shall be responsible that all its dealings with all agencies shall be kept secret.

Financial and Mathematical Misdemeanour

15. The following are considered to be misdemeanours:
- (a) Any divergence from the rules of this regulation or the executive bills which are issued according to it.
 - (b) Any divergence from the rules or bills of the state which ascertain that all movable and unmovable assets shall be used according to the use for which provided,

and regulate its financial state, like the budget, and the financial and mathematical rules and the bills of reserve.

(c) Any negligence or inadequacy resulting in loss of financial right to the state or endangering any section or what might result in such a condition.

16. In the events of discovering such misdemeanour the G.A.B. shall request, according to the degree of the misdemeanour, the agency to which the officer belongs, to conduct the necessary enquiry and punish the person or the G.A.B. shall take out a court order against the responsible civil servant with the agency concerned according to disciplinary rules.
17. All ministries and government agencies mentioned in (a), (b) and (c) of Article No. 9, shall inform the G.A.B. immediately when discovering any financial misdemeanour or any activity which may result in financial loss without any infringement of precautionary moves taken by that department.
18. It is not permitted to disregard any misdemeanour unless by order of the minister's council and only after consultation with the G.A.B. in the matter.

19. In exception to the previous article, the head of the G.A.B. has the right to disregard any small financial misdemeanour which does not amount to more than five hundred riyals loss to the public treasury. And only after the person responsible has returned the amount to the treasury and there had been valid reasons which satisfied the head of the G.A.B.

The Annual Report

20. The head of the G.A.B. shall submit an annual report for every financial year during the period not later than the last day of the ninth month of the next financial year. If that day is a public holiday the report shall be submitted next day and contain the following:

- (a) Assessment for the financial department of the state in general throughout that year.
- (b) Assessment for the financial department of every ministry and agency under the jurisdiction of the G.A.B. during that year.
- (c) Final statement of accounts for that year. If the final account from the Ministry of Finance is not submitted in time before the annual report, reasons for the delay and opinion of the G.A.B. on this matter and steps taken to remedy the delay to be submitted.

(d) A summary of statements about the work of the G.A.B. throughout the year.

21. The annual report mentioned above in the previous article shall be submitted to His Majesty the King, and a copy to each of the Council of Ministers and to the Ministry of Finance and National Economy.
22. The head of the G.A.B. - without contradicting Article No. 20 - may submit other reports during the year, either general reports or on special subjects or special matters.

General Rules

23. An original copy of import contracts, assignments, work and services in general, all contracts or agreements made by any ministry or agency mentioned in sections (a), (b) and (c) of Article No. 9 which may result in financial obligations for or against the state above the amount of S.R. 50,000 (£8,223.68) shall be sent to the G.A.B. as soon as signed and accompanied by all documents and other appendices.
24. The head of the G.A.B. shall put the necessary limits for the jurisdictions in reference to the organisations and agencies mentioned in sections (c) and (d) of Article No. 9, in conjunction with their financial rules and suitability to their activities in accordance to their independence.

25. (a) The head of the G.A.B. shall state the percentage of the investigation work to be undertaken by the G.A.B. and establish the rules for choosing the samples on scientific methods and according to the statistical methods, according to the needs and experience in reference to each type of document and operation the G.A.B. takes to investigate every section under its jurisdiction.
- (b) These percentages shall be limited by the head of the G.A.B. in secret bills issued for that purpose and stating the necessary conditions to safeguard its secrets.
26. The head of the G.A.B. after his recommendations and the agreement of the Prime Minister may give an encouragement reward to the members of the G.A.B. staff, who through their work may save large amounts of money for the treasury, on condition that the rewards shall not exceed three months' wages.
27. The head of the G.A.B. sets up the budget of the G.A.B. according to the rules of the governmental departments.
28. (a) The head of the G.A.B. and his deputy or any member of the staff during the period of his employment is not permitted to take any other governmental employment with pay or with

remuneration from the state treasury or may not accept any membership in a company or financial organisation with or without pay, or undertake any business or profession.

(b) In addition to the above section, the head or his deputy during their employment, are not permitted to buy anything from the state or may not sell or rent to the state or exchange anything.

29. An allowance, in addition to a normal salary, may be paid to members of the G.A.B. staff who are eligible for it because of professional or technical qualifications, if this is approved by the Council of Ministers on the recommendation of the head of the G.A.B.
30. The G.A.B. shall issue the executive bills to enforce these regulations and its endorsement from the Prime Minister.
31. The ministers' council is the only body who shall have the authority to interpret these rules.
32. The general regulations of the employment of civil servants shall apply in matters of which there is no mention in these regulations.
33. These regulations shall be effective from the date of their publication in the official newspaper. All regulations issued before that are cancelled.

Appendix IV

A translation of

Some Correspondence between the Writer and the G.A.B.

Saudi Arabia

(Translated by the Writer from Arabic)

The University received many letters dealing with observations from the G.A.B. The University answered these letters clarifying the observations. We include herewith a few of these letters for the benefit of our study.

The University paid a remuneration of 100 riyals to two soldiers who guarded the moon rocks which the University exhibited. The G.A.B. questioned our right to make this payment and sent the following letters:

<u>"Bill No.</u>	<u>Date</u>	<u>Amount</u>	<u>The Receiver</u>
5316	16.10.91	100	Ahmed Al-Zakrani
5346	16.10.91	210	Dr. Muhammad Anwar Shukri"

" H.E. The Director of Finance,
King Abdul Aziz University.

Dear Sir,

Peace and blessings of God be upon you.

We hereby return the two bills above for the month of Shawwal 1391 A.H. and would like you to complete the following:

- (1) For bill number 5316 to give the reference of the remuneration amount given to the two soldiers at the time they received their usual wages from the National Security and the reasons.
- (2) On bill number 5346 we notice the increase of the expenditure amount for Dr. Muhammad Anwar Shukri for his movements between Jeddah and Mecca at an average of 30 riyals per day. We request you to send us a copy of the established regulations fixing expenses for such a group of teachers.

We then request you to return the two bills to complete our investigation.

With our greetings,

On behalf of
The General Inspector for Organisations and Companies
Muhammad Abdull-lah Al-Ghayth. "

The University's answer to this letter was:

" H.E. The Director,
The G.A.B., Jeddah.

Greetings,

In reference to the letter of the General Inspector for Organisations and Companies No. 244/3/262 dated 17.12.1393 A.H. and in reference to the two bills number 5316 and 5346 for the month of Shawwal 1391 A.H. which we shall discuss herewith:

- (1) In reference to the bill number 5316 for 100 riyals paid to the two soldiers - Ahmed Mohammad Al-Zakrani and Jabir Abduh Al-Bishi - who were paid this amount in spite of their having been paid regular wages. We would like to inform you that these two soldiers did a lot of hard work in guarding the moon rocks which were exhibited at the University from Tuesday morning, 12.10.1391 to Thursday evening 14.10.1391. Also they controlled the traffic of visitors coming to see the rocks which were exhibited for the first time in the Kingdom. We are sure you appreciate the great interest of the public to see these rocks. Due to the great number of visitors, the two soldiers had to be on full attention and pay great observance during these hours. Due to their hard work and attention given the Director of the Student Affairs, who was responsible for the exhibition, recommended to the Principal General to pay them 50 riyals each, he agreed and appreciated the work done by the two soldiers. As we mentioned earlier to you the University authority was not fully aware of the financial procedures and we took the agreement of the Principal General as permission to grant this amount as it was the procedure before. Therefore, we request you to do the necessary to grant the bill.
- (2) As for bill number 5346 dated 16.10.1391 A.H. for the amount of 210 riyals; and according to the price increase of transport paid to Dr. Muhammad Anwar Shukri for his travel expenses to and from Jeddah and Mecca an average of 70 Riyals per day. We would like to inform you that this was paid according to the rule of the University when it was a private independent University. But an order number 596/92 dated 29.1.92 issued to limit the amount to 28 riyals as a return fare between Mecca and Jeddah. Because of this order and the presence of Dr. Muhammad Anwar Shukri at the University we were able to get from him 84 riyals and pay it into the account under payment number 70385/6 according to the above order, a copy of which is enclosed.

We hereby return to your Excellency the two documents with appendix and hope this will close the matter.

Director of Finance Department,
Bakur Muhammad Nour Quota. "

The G.A.B. answered, in the following letter, acknowledging satisfaction in what was written in the last letter, drawing attention to the fact that payment was made without the proper authority from the person concerned and that the G.A.B. endorsed it this time requesting that this should not happen again.

<u>"Account No.</u>	<u>Date</u>	<u>Amount</u>	<u>The Receiver</u>
5316	16.10.91	100	Ahmed Al-Zahrani (remuneration)
5346	16.10.91	210	Dr. Muhammad Anwar Shukri (travel expenses)"

" H.E. The Principal,
King Abdul Aziz University.

Greetings,

In reference to the letter of the Director of Finance Department number 1314 dated 27.8.1393 raising some questions in regard to the above documents. As your letter shows the justifications for payment to the two soldiers, and the return of 84 riyals from Dr. Muhammad Anwar Shukri by the receipt, number 7385/6 without mentioning the date, we return herewith the two documents mentioned above for the month of Shawwal 1391 after checking and stamping them, to be kept with you, remembering that you should not make any payments unless you get permission from the responsible person. And requesting you to send a copy of the receipt to the G.A.B.'s office in Jeddah which is numbered but undated to which we draw your attention.

Many thanks for your cooperation.

With our greetings,

Director General,
The G.A.B.,
Muhammad Tahir Sunbul. "

CHAPTER III

The Saudi Arabian Financial System in Practice

In the previous chapters we have examined the Saudi Arabian constitution, and the financial system as it is set up. In this chapter we will examine the Saudi Arabian financial system in practice, and we will continue by looking at evidence of how the legal framework actually works out in practice from personal experience, from documentary evidence and from a survey.

The writer has produced a translation of extracts from the General Auditing Bureau "Evaluation on the Financial Operation of the Ministries and Agencies", in the recent annual ^{report} for the financial year 1972-73. This translation is appended to this chapter.

In addition the writer conducted a questionnaire in 25 ministries and government agencies in Saudi Arabia, interviewing over 60 government financial officials made up of financial officers, chief accountants and financial comptrollers. 43 replies were received from these officials indicating a response rate of over 66%. Both the questionnaire itself and the questionnaire with results are appended to this chapter.

1. Budgetary Control

Budgetary control has primarily developed as an instrument of government financial control, by examining each proposed transaction prior to its authorisation to determine whether it complies with the financial plan and to highlight any deviations from it so that they may be examined in detail. The budgetary control system also facilitates internal audit and provides a framework for the independent audit verification of public revenues and expenditures.

Any control that exists in any system of budget execution may include some or all of the following procedures that indicate the possibilities for control. The following steps quoted are generalised procedures, they are not intended to be representative of any particular country:

- (1) The legislature authorises the chief executive to make expenditure authority available to administrative agencies.
- (2) The executive authority responsible for the execution of the budget (President, Cabinet, Minister of Finance, Bureau of the Budget) in accordance with legislative action, extends to the agencies authorisation to incur obligations, or opens credits to their account.

- (3) The heads of agencies, in turn extend to designated officials within the agency, the authorisation to incur obligations.
 - (4) Designated officials (fiscal officers) award contracts for goods and services and incur obligations for the payment of salaries.
 - (5) The central financial authority (Treasury, Ministry of Finance) places money at the disposal of disbursing officers.
 - (6) Fiscal officers within agencies prepare and certify vouchers to show that obligations are due and payable by disbursing officers.
 - (7) Orders for payment are prepared by fiscal officers and submitted to disbursing officers.
 - (8) Disbursing officers provide for the payment of cash (or cheque) to satisfy the liability.
- (a) What is a Budget ?

A budget, as an estimate of the whole of expenditures and revenues of the operating agencies over a certain period of time in the future, will fix the magnitude of the work to be done by each agency in that period.

Normanton says that:¹⁵

"Some sort of forward planning in finance has always been a necessity for any kind of systematic government. But the preparation of a comprehensive advance list of estimated receipts, expenditures and liabilities, for a full year and for all the central activities of the state, was a concept and a task on a very different scale. The practical difficulties of compilation were formidable, and yet such a list was essential as the basis of the financial law by which the legislature would establish its control. This law came to be called the national budget, a truly revolutionary instrument of government."

The term budget is used to describe a considerable number of different steps in fiscal procedure. Often it is used to designate a proposed or adopted financial plan. It is also used to designate a document which states the plan.¹⁶

The budget provides the whole picture of government operations for the decision makers. It brings the various activities of the political organisation into focus. Obviously, then, this tool provides the budget makers with a means to draw the outlines within which the operating agencies will operate.

The budget also serves as a communication device for decision makers, for exchanging views, for radical changes in the government plan, or as a vehicle for conveying power. It is a more wide ranging document than the formal reports.

¹⁵ Normanton, op. cit., pp. 5 and 6.

¹⁶ H.M. Groves, Financing Government, Holt, Rinehart and Winston Inc., New York, (5th Ed., 1962), p. 499.

The budget includes the revenues to be collected and the decisions as to what activities will be undertaken. It states the projects which would be carried out and specifies the limitations and boundaries within which public funds can be expended and some of the ways these funds might be expended.

The budget serves the system of financial control in two major ways:

- (1) It provides some of the standards which are essential to any controlling system. The budget usually specifies the sum to be collected and the amount of funds that could be spent on a certain project or by a given agency. Exceeding the appropriated amount is considered to be illegal.¹⁷

"In the annual budgetary cycle, which is the principal instrument of financial control in central and local government, spending in excess of budget on any expenditure category is strictly prohibited."



- (2) The budget is also a means by which corrective actions (another essential element for any controlling system) can be introduced for action taken, or lack of action in previous periods. Reports of previous performance may convince the decisions makers to increase or decrease certain appropriations.

¹⁷ Peter Bird, Accountability : Standards in Financial Reporting, Haymarket Publishing Ltd., (1974), p.48.

The budget also serves as an instrument of control to a number of hierarchical levels in the political organisation. By this instrument each level controls those which are under its jurisdiction, and measures accomplishment against goals and compares actual with planned outcomes.¹⁸

"Although the final budget almost inevitably reflects a compromise between expected future performance and the outcome of a political bargaining process, once set, they are frequently used as a means for motivating individual managers and employees. In this sense, the budget becomes a target intended to induce an active and possibly pressured organisational atmosphere which it is believed will result in higher levels of performance within the organisation."

(b) The Saudi Arabian Budget in Practice

The budget is classified on the basis of the object and character of expense. Consequently the budgetary appropriations for the most part are issued in the form of line items of personal service and objects of expense. As we mentioned previously, the budget could serve as an instrument of control to a number of hierarchical levels in the political organisation. The Saudi Arabian financial control system does not show how much each programme costs, or how much an agency is expending on certain activities. The system does not show how efficiently or poorly the different programmes are being carried out. The recent annual report for the financial year 1972-73, on the evaluation of the financial operation of the ministries and agencies, part six, the budget and projects execution, stated that all ministries and agencies were not

¹⁸ Anthony Hopwood, Accounting and Human Behaviour, Haymarket Publishing Ltd., (1974), p.57.

paying full attention to the assessment of income and expenditure, some allocations were uplifted by extra funds resulting in completely different budgets, and some projects were never undertaken and so no money was spent from the allocated funds. (See Appendix V, p.137) .

Furthermore, the statutes may not be applied in the first place. (See Appendix II, Article No. 6, p.72). This has been mentioned by most of the financial comptrollers whom the writer interviewed. In other words there is a gap between what the statutes say and the actual practice in financial matters.

The reporting systems should be modified accordingly to reflect any changes in the budgetary system. This modification would then keep the decision makers informed as to what funds were being requested and what funds were being spent on each major programme.¹⁹

"Budget reports are used to measure the performance of not only the organisational components as economic entities, but also of the managers responsible for their administration. They form an important part of the logic of superior evaluation and also self-review and control."

Thus they would be able to make more informed fiscal decisions and to introduce any adjustments which they desired. The questionnaire results show that reporting practice is poor. Question No. 10, part one: Does the department prepare reports showing the actual spending as specified

¹⁹ Hopwood, op. cit., p.44

in parts 1, 2, 3 and 4 of the Annual Budget ? indicated that up to 50% of the financial departments are not preparing this kind of financial report. Question No.11, part one: Does the department prepare a monthly report showing the movement of the budget from part to part ? indicates that more than 50% of the financial departments are not doing so.

Question No.3, part seven: Does your department prepare and issue a monthly written report on the financial position of projects financed from Chapter 4 in the Annual Budget ? indicates that up to 38% of the financial departments are not issuing any monthly written report. (See Appendix VI, p.148 and Appendix VII, p.162)

Instructions for financial comptrollers are found in the Council Resolution No.471 dated Ramadhan, 1380 (4 March 1961). (See Appendix II, p.70). These instructions obligated the financial comptroller to assist, if requested, the agency to which he is assigned in discussing its proposals and financial matters. He shall assist it by interpreting the provisions of the financial instructions in effect; in cases where doubt arises he should consult the Ministry of Finance and National Economy.

The ministries and agencies may ask the financial comptroller to participate in discussing their financial programmes. (See Appendix II, Article No.9, p.73). Also the financial comptroller shall advise, if requested, the agency in preparing its budget estimates before sending them to the Ministry of Finance and National Economy.

Considering the assistance of the financial comptroller and his participation, some of the financial officers whom the writer interviewed, saw no need for his participation, others referred to him when necessary. Some thought that his participation should be mandatory. Most of the financial comptrollers mentioned that in the present circumstances they could not participate. From the questionnaire results, Question No. 15, part one: Do you participate in budget preparation ? 29 respondents answered Yes out of the 43, 12 respondents showed that they never participated in budget preparation and 2 gave no answer.

2. Accounting and Record Keeping

Accounting is the procedure of recording and reporting the financial transactions involved in the operation of an administrative agency. Therefore, there are three elements of accounting: procedures, records and reports. All of these are dictated by laws and financial regulations. It is not necessary that they be in accordance with generally accepted principles of accounting.

(a) What is Accounting Control ?

Accounting control refers to those controls established by means of permanently recording government financial transactions through the system of accounting. The accounting system and the documents, books and files which it comprises, serve as the documentary and historical base of the governmental financial system. It services to assure the orderly

registration and classification of government financial transactions and permits the reporting of such transactions as well as the financial condition of the government.²⁰ Aristotle said:²¹

"To protect the treasury from being defrauded, let all public money be issued openly in front of the whole city, and let copies of the accounts be deposited in the various Wards ..."

The American Institute of Certified Public Accountants has defined accounting control as:

"... the plan of organization and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records and consequently are designed to provide reasonable assurance that:

- (a) Transactions are executed in accordance with management's general or specific authorization;
- (b) Transactions are recorded as necessary: (i) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and (ii) to maintain accountability for assets;
- (c) Access to assets is permitted only in accordance with management's authorization;
- (d) The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences."

²⁰ James P. Wesberry, "The Importance of Control over Government Cash", International Journal of Government Auditing, (January, 1976), p.5.

²¹ Aristotle, The Politics.

Burkead outlines the functions which government accounts might perform as follows:²²

- "(1) Accounting systems should be designed to show compliance with legal provisions;
- (2) Accounts that show the commitment and disbursement of monies must be related to budget accounts embodying requests for new expenditure authority. That is, budgeting and accounting must be components of an integrated system of fiscal control;
- (3) Accounts must be set forth in such a way as to permit a determination of the adequacy of custodianship of monies and assets under the responsibility of administrative officials;
- (4) Accounts must be maintained on a basis which will permit an independent audit extending to all records, funds, securities, and property;
- (5) The accounting system should provide a full disclosure of financial results, including the measurement of revenue and the costs of activities, programs, and organizations;
- (6) The accounting system must provide management at all levels with information for planning and direction. This includes, but is not restricted to cost measurement;
- (7) Accounting systems should incorporate effective procedures for internal audit and control of operations and programs;
- (8) Government accounts must be maintained in such a way as to provide information necessary for the economic analysis and planning of governmental activity. This information should be presented in a form that is useful for both executive and legislative purposes."

Accounting as a controlling device serves two major purposes. One is to provide a means for the current administrative control of operation.

²² United Nations, op. cit., p.4

The other is to serve as an instrument for measuring past performance: this, in turn, is the basis from which future budgets are planned and prepared.

In order to fulfil the first purpose, the accounting and record keeping sub-system is designed to meet two major conditions. Firstly, to be timely, its information being as up-to-date as possible; secondly, to reflect the exact current financial situation. To fulfil the other purpose, the measurement of past performance, the accounts and records should be classified according to the main activities of government, so as to provide the basis for the measurement of results and, at the same time, to provide for development and maintenance of an accurate and complete record of results for reference and audit purposes.

The authority of accounting and record-keeping is not completely delegated to the operating agencies. There is usually a central body that has the prime responsibility for laying down the principal accounting procedures for all of the operating agencies. An example of the general principles, and at the same time one of the common fundamental rules, is that persons who are in charge of accounting are not to have responsibility for original operations such as purchasing, storehouse keeping, receipt or disbursement of cash - in other words, the separation of accounting responsibility from custodianship of cash and materials.

A certain amount of unification in accounting for all the agencies of a political organisation is essential, in order that the central budget

makers and the central auditors can do their job on the basis of uniform records; the former in reviewing the estimates of the different agencies, and the latter in reviewing the closing accounts. The central accounting body may grant permission to a certain operating agency to deviate from the overall procedures if the nature of its operations requires such deviation. Also within the limits outlined by the central accounting body, each operating agency develops a sub-system of accounting that is suitable to its operations. The role of the central accounting body in developing a formula for an effective accounting system that covers all the operating agencies is not an easy one. The reasons are the complexity and diversity of the functions performed by the numerous operating agencies at their different levels, the low level of government accounting skills and the poor accounting education in comparison with the developed nations. Accountants cannot be expected to exercise natural judgement in their work.²³

Burkead maintains that the low level of accounting skills serves to perpetuate a cumbersome and inefficient accounting system:²⁴

"Many of the problems of economic development have been described in terms of 'vicious circles' - a situation in which under-development in one sector of the economy contributes to the under-development in a second sector and the second sector, in turn, accentuates under-development in the first. This kind of situation would seem to prevail in government accounting in many countries. The low level of accounting skills serves to perpetuate a cumbersome and inefficient accounting system. The accounting system, in turn, is so badly developed that it does not call forth a higher level of accounting skills. As in other areas, a comprehensive approach is needed if lasting improvements

²³ Dr. Dhia Al Haskim, "Accounting Control through Purposive Uniformity, An International Perspective", The International Journal of Accounting, Volume VIII, No. 2, (Spring 1973), p.32.

²⁴ United Nations, op. cit., p.20

are to be secured. In this case, the level of accounting skills needs to be raised; the accounting and reporting system should be improved at the same time. Neither, taken by itself, is likely to be adequate. The improvement of both can represent a valuable addition to social capital."

(b) The Saudi Arabian Accounting System in Practice

The accounting system is designed solely for regularity and accountability purposes, to ensure the legality of the expenditure and to reduce the possibilities of defalcation. The main aim of the accounting system is to ensure that there is enough appropriated money to cover an expense and that an approval has been issued from the proper authority. The system is also characterised by emphasis on uniformity, legality, and propriety of transactions, and follows cumbersome and antiquated control techniques revolving around the old warrant procedures and regulations governing disbursements. This resulted in a deadening effect on the development of accounting as an integral part of the management responsibility of each agency. Another neglected aspect in the government accounting system is that too much emphasis is placed on recording cash disbursements and receipts rather than on measurement of costs. Furthermore the writer's experience, and that of those whom the writer interviewed, indicates that there are inordinate delays in the compilation of accounts and delays in payments of government purchases. Simply because of the complicated procedures, and the considerable amount of paperwork which results in the 'bottlenecks' in the transactions with the public.

A number of factors undoubtedly contribute to this situation. The working of human factors (motivational influences, availability, and utilisation of skills) and the process factors (systems, procedures, methods and technology) lead to a situation where the product factors (quantity and quality of data) suffer severely. Eric Himsworth explains how this kind of weakness in an accounting system affects the efficiency and productivity in nearly all less developed countries.²⁵

"One of the major weaknesses in nearly all less developed countries lies in the accounting system. The first essential to any method of keeping accounts is that items of receipt or expenditure should be posted quickly - cash receipts or disbursements as they are made, ledger accounts preferably daily but at least weekly. A general weakness in any administrative system will nearly always betray itself in the circumstance that, notwithstanding the financial regulations, accounts are posted weeks and sometimes months after they are incurred. The minimum degree of supervision is lacking, and often disciplinary action cannot be taken against defaulting clerks because they hold their positions, as do the supervisors, at the pleasure of the minister in power. Closely allied with the failure to post accounts is the failure to report expenditures when completed at the periphery. It is obvious that, if a payment has been made to a contractor in some remote part of the country, the payment voucher has to be receipted, posted in an account book, and reported to some central authority. Failure to comply with the regulations at any one of these points means that accounts cannot be closed, and therefore that vital information, which the budget agency must have if it is to operate effectively, is not forthcoming. It is usually to this level that one can trace a decisive cause of ineffective financial administration in less developed countries. Vouchers are not posted to the appropriate cash books and ledgers; reporting to the central accounting authority is delayed and often incomplete when done, so that the collation and the production of periodic accounts become impossible. Accounts are less than complete when published and sometimes are not published at all. The net result is that a government can never be sure of its financial position at any given moment, and this is often a hindrance to the formation of decisive policies. On the other hand, it is worth noting that discipline in this mundane but important field can be attained."

²⁵ Eric Himsworth, "Financial Administration in Developing Countries", Finance and Development, No. 2, (1968), pp.31-34.

The recent annual report of the G.A.B., mentioned previously, noted weaknesses in the accounting department, misallocation in accounts, delays in posting to ledgers, mathematical mistakes, and misunderstandings in the implementation of general rules. (See Appendix V, p.137).

From another source concerning the Saudi Arabian accounting system, a report prepared by a government official, there is outlined the complication of accounting procedures, the considerable number of signatures required on payment requests, which need to be duplicated on the payment orders, the preparation of more than one payment order for the payroll, (i.e. one for the net payment for the cashier, one for the retirement bureau, one for the Riyadh bank for housing payments ... etc.). The report suggested the following points:²⁶

- "(1) Exchange the old record keeping system for an accounting card system;
- (2) Exchange the manual recording system for a mechanised recording system;
- (3) Simplify the accounting procedures."

Furthermore the questionnaire's results, (See Appendix VII, p.162), indicate that only 10 respondents out of the 43 supervise the accounting books and records, (Question No. 8, part four). The rest fail to do so because either they have no time to do so or do so only when they feel it is necessary. One of the most important accounting books in the Saudi

²⁶ Saudi Arabia, Unpublished report, in Arabic, prepared by the General Manager of the Financial and Budgeting Department in the Ministry of Defence, Riyadh, (1976).

Arabian accounting system is the commitment book which is used as a controlling device to keep disbursements under budgetary control. The result of the questionnaire shows that only 29 respondents out of the 43 keep accurate and prompt records in this book, (Question No. 6, part four). This could be due to either the lack of qualified accountants or the inefficiency of some of the bookkeepers.

One of the problems that is facing the financial officers, is the defraying of the petty imprest. It seems that more than 50% of the imprest does not defray at the right time, (Question No. 11, part three).

The questionnaire shows also that incorrect Journal entries can be made, (Question No. 4, part four) and also a charge can be misallocated to the wrong nominal account, (Question No. 3, part three). This might be because of the unavailability and lack of utilisation of skills.

It is essential that governments have financial information which facilitates analysis of the effects of government activities and the rest of the economy and provides the basis for fiscal and economic policy decision making. The American Institute of Certified Public Accountants defined the objective of financial statements as being to provide information useful for making economic decisions.²⁷

"The objective is not directed toward recording or reporting for their own sake. This basic objective requires that every accounting objective, standard, principle, procedure, and practice should serve user's needs."

²⁷ American Institute of Certified Public Accountants, Objectives of Financial Statements, (October 1973), p.13. See also Peter Bird, "Objectives and Methods of Financial Reporting", Accounting and Business Research, No. 19, (Summer 1975), p.162.

The need for such information has been further highlighted by the increasing use of long and medium term development plans and recognition of the importance of establishing proper links between such plans and the annual budget. This kind of information can be a meaningful feedback for comparison with actual accomplishments, but this may conflict with the view of budgets as playing a significant role in motivating performance and as a means for ensuring an active organisational atmosphere.²⁸

"Continuous feedback to ascertain that the communication is understood and that the information is in fact relevant to the requirements of the receiver."

The Saudi Budget Execution Regulation No. 3/12536, dated 30th June 1976, Article No. 2, stated that:

"A financial report has to be submitted to the Ministry of Finance, in the first half of every month (Form No. 2) indicating the financial position of projects financed from chapter four in the budget, and signed by the financial officer and the manager of budget and project (if any)."

It has been mentioned before that the questionnaire results indicate that up to 38% of the financial departments are not issuing any monthly written reports. (See p.104)

²⁸ Graeme Macdonald, Peter Bird and Tom Climo, Statements of Objectives and Standard Practice in Financial Reporting, Accountancy Age, (1976), Part I, Paragraph 5(vi).

3. Inspection

Accounting reports, or any other reports for this purpose, submitted by the operating agency cannot adequately replace personal first-hand acquaintance with the work. The written report is not a substitute for on-the-spot inspection. Accounting reports as a controlling technique are usually supplemented by some inspection practice, especially when cash or materials are involved.

Inspection is also an indispensable device to overcome the weaknesses of the written word. The written word is the most common vehicle used for communication between the top decision makers and the operating officers and vice versa. The financial rules and budgetary regulations, as well as the financial and accounting reports, are almost always communicated in the form of written words. The role of inspection then is to give a human touch to the communication sub-system.

Inspection may serve the following purposes:

- (1) To deter the employees from violating the financial rules and regulations as well as from being dishonest;
- (2) To check compliance with the financial instructions and to detect any violation of the financial rules or abuse of public funds or properties; and to undertake the needed corrective action or to suggest such action be taken by the central body;

- (3) To help the financial officers in the field in solving technical problems and to educate them by explaining the financial regulations and the purposes they serve;
- (4) To serve as a two-way communication media, downward and upward, and to keep the central controlling body informed about the performance of the operating agencies.

The Saudi Arabian Financial Inspection in Practice

The term inspection in Saudi Arabia refers to a method of securing internal administrative control over activities which are under direct administrative supervision of the agency employing the inspector. Most of the ministries in Saudi Arabia have staffs of inspectors who systematically visit the field and report their findings to their respective ministries.

For the purpose of this research, the term "inspection" is intended to mean a controlling device applied by the central organs of financial control to watch closely the financial activities of the operating agencies. Inspection in this sense is performed in the Saudi Arabian financial system.

It has been mentioned that responsibility of financial inspection is shared between the Ministry of Finance and the G.A.B. The inspector is required "theoretically" to review accounting books and to examine treasuries of the ministry or the agency which is inspected. Warehouse contents and

records are also to be examined on a sampling basis. But in practice their inspection is limited only to a discovery of irregularity or a violation. (See Appendix No. V, p.137)

It is sad to say that in Saudi Arabia a physical inventory does not appear to take place even once a year, as indicated by the replies to Question No. 6, part 6 of the questionnaire, where only 8 respondents out of the 43 answered positively. It might be because of the need to recruit extra staff for the operation for a period varying between 2-6 months. As one official mentioned to the writer, it took them more than 6 months to make an inventory for the storehouse of the Ministry of Information in Jeddah alone.

The agencies treasuries are receiving too little attention. The questionnaire results indicate that only 14 respondents out of the 43 have had an inventory regularly, once a month, (Question No. 27, part 6). The G.A.B. report (mentioned previously) discovered 34 cases of dishonesty and abuse of public funds in its inspection. This totaled 2,477,736 Saudi Riyals, (£407,522.37) and the G.A.B. could recover only 176,694 Saudi Riyals (£29,061.51). (See Appendix No. V, p.137)

4. Auditing

Before entering into any discussion, it is appropriate to start with the following remark on auditing as a managerial instrument.²⁹

²⁹ Neil Center Churchill, Behavioral Effects of an Audit, A Dissertation for the Degree of Doctor, University of Michigan, (1962), p.24.

"It examines and measures the performance of organisation and managements with an unjaudiced eye. It aims not only to conform operations to prescribed patterns but also to improve the patterns themselves. From time to time it questions, confirms or corrects, and strengthens its own methods of investigation and action by establishing standards and minimum performance tests through professional bodies it has established for itself, and by so doing attempts to provide a partial answer, at least, to the question: Who audits the auditors? It prosecutes its aims not by command but by reports that disclose, appraise, and recommend. Moreover as an always active, management-supported, and persistent element in the organisational hierarchy, its investigative potential may wield an influence as powerful as that resulting from actual investigation and reporting."

Thus auditing is the final stage of financial procedure, to measure and evaluate the effectiveness of other controls. The over-all objectives of auditing, besides enabling the auditor to form an opinion as to whether the accounts of the concern in question show a true and fair view of its state of affairs and its profit or loss,³⁰ is to make the organisation and all of its sub-elements more efficient and productive. It may take various forms, internal auditing, pre-auditing and post-auditing.

(a) Internal Auditing

An internal audit is a review of operations and records, sometimes continuously carried on by the organisation itself using its own employees. The main objective of an internal audit is to assure management that the internal checks and accounting system are effective in design and operation. In practice, the internal auditor may often be required to report also on whether the systems of accounting and the internal check are economical. It

³⁰ Peter Bird, A Casebook on Auditing Procedures, The General Education Trust of the Institute of Chartered Accountants, (1971), p.9. See also Spicer and Peglers, "Practical Auditing", Walter W. Bigg Filteon Education, HFL Publishers Ltd., London, (15th ed., 1972), p.3.

is a part of the whole system of internal control but does not by itself constitute a part of the internal check or the accounting system.

The Institute of Internal Auditors, described the nature of internal auditing as follows:³¹

"Internal auditing is an independent appraisal activity within an organisation for the review of operations as a service to management. It is a managerial control which functions by measuring and evaluating the effectiveness of other controls."

"Thus the objects of internal audit are:

- (i) To keep the accountancy records in all departments of the authority under review and ensure that those are accurate, complete and up to date and suitable for their purpose.
- (ii) To establish that chances of fraud, error and loss are reduced to a minimum through the installation of proper systems of internal check, by adherence to accounting instructions, and by compliance with financial regulations, where they are in force.
- (iii) To assist management by constant examination of financial procedures to ensure that they remain adequate for the purpose and that this purpose remains valid.
- (iv) To ensure that the financial affairs have been so conducted that maximum benefit has been obtained for the money spent.
- (v) To detect fraud, errors and loss as soon as possible."

In fact internal auditing is much more than a check of accounting records or a deterrent to fraud and speculation. It has a close affinity with organisation and methods, operational research, work study and systems analysis. Certainly it should extend to more than the sources of

³¹ Z. Brink, J.A. Caskin and Witt, H., Modern Internal Auditing, Ronald Press Company, New York, (3rd ed., 1973), p.741.

income of a public authority. Marshall stated that:³²

"Every local authority must ensure that its financial records are properly designed and operated, and that its cash and valuables are protected. Internal audit as originally conceived is one way of securing these ends; over the years, in local government and elsewhere, its scope has been extended, and internal audit is now also regarded as a management tool, evaluating the organisation's effectiveness in directions beyond those related to security and regularity."

(b) Internal Auditing in Saudi Arabia

Internal auditing so far as it is defined, does not exist in the ministries financial departments. There is no counterpart for the internal audit functions in the ministries. One reason for that may be to avoid duplicating what the financial comptroller is doing, since he is pre-auditing all such expenditures almost one hundred per cent.

However, it seems that internal auditing takes place in:

- (1) The agencies which receive financial assistance in full or in part from the government.³³ These are not audited by the financial comptroller, but are required by statutes to appoint their own internal auditor, who is a substitute for the financial comptroller and whose responsibility is similar to the financial

³² A.H. Marshall, C.B.E., Financial Management in Local Government, George Allen & Unwin Ltd., (1974), p.172.

³³ Such as Universities and similar academic institutions and public utilities and services departments.

comptroller. Its purpose is to enable the assisted agency to operate generally, or carry out specific tasks, without the day to day supervision or detailed control by the financial comptrollers or the G.A.B. and to avoid any government interference in their internal affairs.³⁴

- (2) The state departments where payment, other than those for state purposes, are handled. For example, the Division of Employment in the Department of Labour is developing its own internal auditing system for auditing the unemployment insurance payments.
- (3) The state departments, when the department is engaged in collecting a substantial amount of revenues or other kinds of money. For example, the Division of Taxation has its own internal audit system for auditing tax returns. Also the Department of Motor Vehicles recently developed its own internal auditing programme for auditing its receipts from vehicle registrations and driving licences. The Ministry of Petroleum and Mineral Resources has a very active department in Dammam to audit the revenues derived from the oil companies operating in Saudi Arabia.³⁵

5. Pre-audit

It is the central examination that takes place before the transaction

³⁴ Those agencies are required to submit Form No. 19 and 20 to the G.A.B. and all the financial documents. But the G.A.B. is required to audit according to their own internal financial statutes.

³⁵ The writer was a member of this department from 1963-1965.

is completed. Pre-audit consists of control prior to the payment of a government obligation.³⁶

"Pre-audit may assume a number of forms. It may extend to the advance determination of the legality of a particular transaction. This may be accomplished in connection with procedures for counter-signature of warrants or other documents authorising the incurrence of obligations. Pre-audit may also extend to the examination of vouchers directing payments of obligations and may embrace a determination that obligations were properly incurred, that goods were received, that the amounts certified are correct, that monies are available for the specified purpose, etc. The term pre-audit is customarily used to describe an independent control, that is, one outside the jurisdiction of the spending agency."

In the main it consists of two operations as follows:³⁷

- "(1) Determining whether the proposed expenditure is for a purpose that is not a violation of law or other regulations, and whether it was provided for in the budget for the period to which it applies.
- (2) If the proposed expenditure is found to be a proper one, determining whether the unencumbered unexpended balance of the appropriation to which it would be charged is sufficient to cover probable costs."

For the purpose of this study we will be examining the immediate context to pre-audit where there is a functional relationship between pre-audit and each one of the tools of control that we have discussed previously in this chapter in the light of the Saudi Arabian experience.

³⁶ United Nations, op. cit., p.7

³⁷ R.M. Mikesell and Hay, L.E., Governmental Accounting, Homewood, Richard Irwin, Inc., (3rd ed., 1961), p.632.

(a) Pre-audit and the Internal Audit

In a sense the relationship between pre-audit and internal audit is similar to the relationship between pre-audit and post-audit. While pre-audit serves as a controlling device within the executive branch, the internal audit is a means for financial control within a specific agency. Here also the standard of internal audit has its effect on the pre-audit system. An effective internal audit gives the pre-auditor confidence in the internal audit a number of details otherwise covered by the pre-audit. Freeing the pre-audit from such details will allow the pre-auditor to concentrate on the principal matters and to have more time for his advisory and counselling services. Thus, the pre-audit may become more constructive and less negative.

(b) Pre-audit and the Accounting and Record Keeping

Actually, in a sense, a great deal of pre-auditing takes place as a part of the usual accounting routine. Examination of records and checking of accounting procedures undertaken by supervisory personnel in any accounting department is a kind of pre-audit function, though it is not so termed in the definition established earlier.

The pre-audit function for the most part is a kind of double checking of the work supposed to be done by the supervisors of the accounting departments.³⁸ "In fact it is probably correct to state that pre-auditing

³⁸ Ibid., p.647.

is basically a special development of the control aspect of accounting." The pre-audit function includes the examination of books and records from time to time to see that they are kept in conformity with the statute and that the recording has been done in accordance with rules and regulations. For instance, to see that the expenditures and revenues have been debited and credited to the appropriate budgetary accounts. In this capacity the pre-auditors (financial comptrollers) not only contribute to the observance of the accounting rules but also to the unification of the accounting practices, as far as possible in different operating agencies. The function of the financial comptroller in the accounting books and records has been mentioned previously, and how their examination of the accounting books is seldom, and done only when necessary. (See pp.56-58).

The pre-audit function also includes assistance and advisory services in accounting matters. The pre-auditors, because of their experience, knowledge and continuous contact with the central body that lays down and interprets the fundamental accounting rules, are expected to provide technical help to the accounting departments in the agencies where they are assigned. Specifically they help in implementing any new accounting regulations accommodating them to the special circumstances of each operating agency. Their help may also be used in solving some of the unusual accounting problems which occur in daily fiscal operations.

(c) Pre-audit and Fiscal Inspection

The function of a fiscal inspector in general terms is to see that the inspected agency is observing the financial rules and regulations, books

and records are kept according to the statute, expenditures as well as revenue collections are made in accordance with budgetary provisions, and the public funds and properties are properly handled. In essence, the fiscal inspector and the pre-auditor are functioning in the same specific area. The main difference between the two, aside from the continuous nature of pre-audit and the periodical nature of inspection, is that the pre-auditor looks through the documents which he examines very quickly without digging into details, concerning himself mainly with the general picture and fundamental rules, while the fiscal inspector spends more time on the documents that he examines, going into some of their details to a considerable extent. Obviously the reason for that is the time allowed to each of them. The pre-auditor is under the pressure of not delaying the fiscal transactions; the inspector is not always under such pressure.

Because of the joint area in which the inspector and the pre-auditor operate, each of them influences the work of the other. An effective pre-audit system facilitates the inspector's job and lessens the problems which he may face. The opposite is also true, a weak pre-audit system may make the inspector's job more complicated.

The characteristic of the pre-auditor as outsider-insider (outsider because he represents a body outside the jurisdiction of the operating agency and insider because he works closely with the operating agency and is familiar with its daily operations) is important for the inspector. The pre-auditor with this dual position is a great help to the inspector who as

an outsider wants to examine the books, records, cash and so on of an agency in a relatively short time. The following are some of the services which the pre-auditor may offer to the inspector:

- (1) To help the inspector to comprehend the agency's financial circumstances in general;
 - (2) To provide the inspector with the essential information needed for his surveillance of the financial aspects of the inspected agency and to answer the questions which the inspector may have;
 - (3) To help the inspector in his duty to specify, on the spot, the measures necessary to bring the financial matters of the agency up to standard, if such action is found to be needed.
- (d) Pre-audit and the Budget

We have mentioned previously the function of the financial comptroller in the budgetary process, and his participation in discussing the agency financial programmes. (See pp.54-56).

In the execution process of the budget, pre-audit acts as a watchdog to see that the budgetary provisions are carried out as authorised by the decision makers. It is a primary function of pre-audit to see that the budgetary rules and limitations have been observed. The pre-auditor stops

any proposed expenditure not provided for in the approved budgetary documents, or if the proposed expenditure is going to be made for a purpose other than the one intended in the budget. The pre-auditor, as an outsider with firsthand knowledge of the financial operations of the agency, is also a valuable source of information when changes in the budget, such as a request for additional funds or a transfer of an appropriation from one title to another, are requested by the operating agency. The pre-auditors for all other purposes as well, keep the central body in charge of budgetary matters informed about the trends of budget execution. They report to the central body³⁹ any unusual phenomena observed while conducting their work. They also guard against disproportionate spending which is not justified, in order that the agency does not run out of money before the end of the budgetary period.

(e) Pre-audit and Post-audit

It appears that there are some duplications in the functions of pre-audit and post-audit; each has its own scope and is conducted from a different angle. However, in their reciprocal effect and organisation (G.A.B. and Ministry of Finance), pre-audit and post-audit shoulder the responsibility of guarding and smoothing the financial operations, and developing the whole financial system. co-operation between the two external auditing bodies may reduce the duplications in the function of pre-audit and post-audit, and the inefficiency. It is true that both the financial comptrollers and the G.A.B. work in the same audit field and approach their

³⁹ The Under Secretary of the Ministry of Finance, responsible for budgeting and accounting affairs and the financial comptroller corps.

work in a government routine way. There are, however, basic differences in responsibility, scope and approach. In spite of these it cannot be argued that they cannot co-operate harmoniously in a most beneficial way to the audited agency. The following points are suggested by the writer to obtain this close co-operation between the two systems:

- * Since a hundred per cent of the audit is done by the financial comptroller, the General Auditing Bureau having assessed the efficiency of the work that has been done by the agency in their financial affairs, may, to a considerable extent, avoid duplication and confine their efforts to the most vital audit work.
- * The financial comptroller's vast audit experience and knowledge of systems, gained as a result of the variety of their audit work, are of assistance to the work of the G.A.B.
- * The technical knowledge and peculiarities of the work possessed by the financial comptrollers as a result of their daily contacts in the agency, is of assistance to the G.A.B.
- * The financial comptrollers are always available to answer any queries and other points needing clarification that arise in the course of the G.A.B.'s work.

(f) The Saudi Arabian Preaudit System in Practice

We have examined the office of financial comptroller (as a pre-auditor) in Chapters II and III, and we will continue our discussion by examining the action that can be taken by the financial comptroller as a corrective audit action.

There are three types of action the financial comptrollers may follow in the way of corrective action:

(1) Advice and Guidance

The position of the financial comptroller and his financial background enable him to give advice to the officials of the operating agency and to help them solve their budgetary and accounting problems. His work also enables him to direct these officials and their employees to more effective ways and means of raising their financial actions and procedures to the required standards.

(2) Stopping a transaction

The financial comptroller may stop a transaction until an error is corrected. By refraining from granting his approval, the financial comptroller may stop or at least delay the payment. Though this action - or in-action - is negative in a way, it may be very effective in deterring the operating agency from failing to live up to the standards set by the statute, regulations and

the budget. Such an action controls the agency officials who know that their failure to meet standards may result in a halt or delay of their business. They know that without the approval of the financial comptroller they will not be able to pay the agency's creditors. The experienced contractors themselves try to be sure, before delivering their goods and services to any government agency, that there is no objection by the financial comptroller which may deny them payment. This power, which is granted to the financial comptroller, in some cases is limited. In certain circumstances the operating agency can spend money on its own responsibility without the approval of the financial comptroller. (See Appendix No. II, p.72)

(3) Reporting

The financial comptroller may report the matter to the top officials in the operating ministry itself, to his superiors in the Ministry of Finance and/or the G.A.B. But there are a number of loopholes in the accounting system which do not enable the financial comptrollers to do their essential job of reporting and hopefully preventing violations before they take place. One of the main loopholes is the imprest fund which has been referred to earlier. (See p.113)

The ministry or agency may spend from these funds on accounts which already have exhausted their appropriations without the knowledge of the financial comptroller. It is true that the financial comptroller can later stop the settlement of the imprest fund involved, but he cannot stop the actual spending. It happens sometimes that after an appropriation account is exhausted vouchers

relating to this account arrive from the regions. The ministry in such cases usually withholds such vouchers until additional funds for this account have been secured either by transfer or additional appropriation.

6. Post-audit

Post audit consists of control after the payment of an obligation. It may be broad or narrow. It may consist of an examination of documentation for each step in budget execution. It may centre attention at only one point in execution procedures. It is customarily, but not necessarily, conducted by an agency independent of the administration, and the results of the post-audit are generally reported to the legislature.

The form and scope of post-audit may vary among countries. There are three types of post audit that may be distinguished:

- (1) The traditional or legal post audit, which extends to the verification of documentation and the ascertainment that receipts and expenditures have been treated in accordance with statutory requirements.

Normanton describes this type of an examination of documentation (vouchers) which support the receipt and obligation of money:⁴⁰

"Each transaction must be 'vouched' that is to say that sufficient documentary evidence must be readily available to show its nature, its reality and its legality. No

⁴⁰ Normanton, op. cit., pp.57 and 58.

auditor will pass receipts and expenditures which are 'unvouched' at least without very full and detailed explanations and independent corroboration."

- (2) The post audit may extend beyond its traditional scope to embrace an examination of transactions in their relation to the administrative rules of an agency. This type of post audit is more likely to be conducted within an agency, by a unit attached to the head of an agency. It is useful for purposes of appraisal of internal administration.
- (3) The post audit may assume a substantive character - and examination of the effectiveness of administration as a whole, its efficiency and its adequacy in terms of the programme of the agency. This type of post audit may be conducted internally or externally; the findings may be reported to administrators or to the parliament.

This type of audit has been called the audit of efficiency by Normanton, who says:⁴¹

"The audit of efficiency is not a substitute for internal organisation studies but something largely different. It examines official structure, duties and performance, sometimes in a similar way, but at all levels including the highest efficiency audit has shown that it works, it has contributed to the productivity of administration and reduced its cost, whilst itself costing next to nothing. It has increased awareness by its reports which, almost for the first time, have held up before the public services a true image or at least an expert outsiders view of themselves."

⁴¹ Ibid., pp.252 and 257

The Saudi Arabian Post Audit System in Practice

We have mentioned in Chapter II, (p.66), that the post audit function in Saudi Arabia is vested in the General Auditing Bureau which is empowered to audit accounts and supporting documents of all ministries and agencies supported in whole or in part by state funds. The G.A.B. auditors are instructed to audit these documents and to see that they are in order according to the budgetary and financial rules and limitations, and to see that all formalities have been observed. If the G.A.B. is unsatisfied with a procedure that has been taken, the G.A.B. will send all the documents and his comments to the ministry or agency involved, asking for corrective action to be taken if such action is needed. The result is a long back and forth correspondence, (See Appendix No. IV, p.93), which can take months or years until the matter is settled. Then the G.A.B. will stamp the documents and send them back.

In some cases the G.A.B. may report a case to the Ministry of Finance and/or to the Prime Minister. The Prime Minister is empowered to constitute committees of enquiry to consider these cases. These committees must submit their findings to the Council of Ministers. Then the Council will take action in respect of these findings in accordance with the terms of the statutes.

The G.A.B. is behind in its auditing more than two years. When an irregularity or a violation of the budgetary or financial regulations is discovered it can be too late for a corrective action to be taken, and/or the action can be ineffective due to death, leave (particularly if the

employee is a foreigner), all the evidence of the irregularity may have been buried or destroyed or documents may have been lost in the mail by sending them back and forth.

It seems that the G.A.B. is more concerned with regularity rather than efficiency in its post auditing. This type of auditing is the traditional or legal post audit, which is the first type that we mentioned, (See p.131). It is concerned only with verification of documentation and the ascertainment that receipts and expenditures have been treated in accordance with statutory requirements.

7. Shortage of Qualified Staff

The human resources in any country are not only the vital factor of production, but are usually the most difficult to manage, the most resistant to change, and the most sensitive to external and internal conflict. In Saudi Arabia the qualified staff are likely to be in short supply. The government and private sector are depending on the assistance of the neighbouring Arab countries. In the mean time the private sector has been attracting the Saudi government employees in the last three years, offering them a very high salary in order to have permanently secure manpower. Nevertheless too little attention has so far been given in Saudi Arabia to the training of those who are working in the financial field, particularly the heads of financial departments or chief accountants.

It is generally agreed now that the progress in economic growth in Saudi Arabia depends upon semi-skilled and skilled manpower. Whereas in previous decades progress was thought to depend upon the discovery of oil resources and minerals alone. However since we now have the largest oil resources in the Middle East, our real need is, technology and the know-how. Semi-skilled and skilled manpower is the essential pre-requisite for Saudi Arabian economic advancement.

The quality of financial staff is the corner-stone in any attempt to improve or strengthen the financial system in Saudi Arabia. Without adequate staffing of the financial divisions in operating ministries and agencies, all efforts to improve any aspects of the financial administration in the country will be fruitless. These are the people who are actually doing the work. A special programme is required to intensify efforts to improve the efficiency of these financial divisions by the recruitment of better qualified people, in-service training, the adoption of incentive measures, and so forth. A.H. Marshall stated that even in the context of developed societies:⁴²

"Fully qualified staff are likely to be in short supply, and success depends in no small measure on training and using other staff. The idea of employing 'technicians' to economise on the professional staff's time therefore needs to be actively fostered. The main problem, therefore, is that of training the non-professional staff. In addition to gaining a knowledge of local government, they will need to understand the elements of book-keeping, both of which can be learnt at local technical colleges."

⁴² Marshall, op. cit., p.185.

Most of the financial officers referred in their answers to the weakness of their respective department and to the scarcity of qualified employees in these departments. The majority of the financial comptrollers referred to the same thing and some of them mentioned the difficulties they faced as a result. The same problem is facing the G.A.B. according to the Deputy Head of the G.A.B.

The questionnaire answers show that 18 respondents out of the 43 working in the government sector received a formal training in Saudi Arabia. 12 out of the 18 respondents who received training had only served in the government between 1 and 10 years, the other 6 respondents had served in the government between 1 and 20 years, but no-one who had served in the government for more than 20 years had ever received government training.

Questions No. 4, 5 and 6, in part one, showed that more than 50% of the respondents are dissatisfied with the level of qualifications of the personnel in their departments, more than 75% are having difficulty in finding suitable qualified staff and more than 50% of the respondents are dissatisfied with the overall performance of their departments.

Appendix V

A translation of extracts from the General Auditing Bureau's paper
Evaluation on the Financial Operation of the Ministries and Agencies
from
The Annual Report for the Financial Year 1972-73
Saudi Arabia

(Translated by the Writer from Arabic)

EXTRACTS FROM THE ANNUAL REPORT ON THE IMPLEMENTATION OF THE STATE BUDGET
FOR THE YEAR 1392/1393

Observations derived after the completion of the public projects

- A. The great saving resulted from some articles of the budget expenditures:
1. Most of the ministries and government organisations and departments were not able to fill the vacancies.
 2. Many financial allocations were not used.
 3. Expanding expenses on account of a promise without taking care to execute the documents necessary for the agreement.
 4. There was a great exaggeration in requests to include funds for some of the articles of the budget without a real need for it.
- B. Continuous inflation in amounts of deposit accounts.
- C. The financial confusion in the work of the small municipalities:
1. No accuracy in account allocation.

2. No reference is paid to the Budget.
3. Relaxation in obtaining duties and other resources.
4. Complicated account books and repeated mathematical mistakes, delay in closing the final accounts and the negligence in forwarding the documents and monthly tables to the G.A.B. in time; or even never sending them.
5. There were many misunderstandings in the implementation of the general rules of civil servants and other employees.
6. Different information on the demarcation of property for compulsory purchases for public benefit.
7. Not following regular methods in renting properties in accordance of the rent act:
 - a) The low standard of the offices and the non-existence of qualified personnel to work in most municipalities;
 - b) Inspections are not extended enough to cover the financial work of the municipalities especially in remote places;
 - c) Guidance:
 - i. The cancellation of the financial independence of the small municipalities which should be treated as branches and all its expenditures should be paid as continuous grants;

- ii. To reevaluate all the systems, paying attention to the training of these in order to uplift standards so that obligations could be fulfilled.
- d) The negligence in pursuing credit documents overseas;
- e) The infringements occurring in public tenders:
- i. Some quarters burden the public treasury with great losses as a result of not implementing the regular proceedings for the benefit of the treasury in accordance with article 43 of the regulations.
 - ii. Without verification of the abilities of contractors of tenders of works or repairs giving such contracts to individuals who have no qualifications and experience in the field of work given to them against article 20 of the tenders' regulations.
 - iii. Some of the government departments delay decisions on offers of tenders for a long period, exceeding one month, the period for the offer from the time of opening the envelopes as stated in article 20 of the regulations which ends the validity of the offer.
 - iv. Many ministries and government departments do not follow procedures laid down in the regulations for advertising tenders in the newspapers like advertising on consecutive days or advertising in one newspaper only, or without paying any attention to the period mentioned in the articles of 6 and 14 of the tender regulations.

- v. Some of the government departments sign some contracts without having a clear amount to the total price and cost of each section of the agreement in contradiction of the Royal Order, number 17715, dated 12.8.1380.

PART THREE

FINANCIAL DIVISION TO THE QUARTERS UNDER THE JURISDICTION OF THE G.A.B.

1. No care is taken to follow up the outstanding amounts in credit accounts and no real efforts are being made to pay these amounts, and neglecting the liquidation of the trust account from the funds for which there are no reasons for them to remain in these accounts.
2. The discovery of theft incidents and breach of faith and financial misconduct and loss of public funds accounts and negligence in bringing the government profits to the monetary fund office either through misconduct or putting it in a personal account in a bank and receiving a personal gain from it.

STORE HOUSES (Warehouses)

1. It has been proved that great quantities of many kinds of instruments and materials are stored in these storages and are not being issued and made use of either in areas named for them or in other areas.

2. Sometimes exceeding the buying of merchandise which is not needed for the work or which is more than what is needed.

G.A.B. OPINION

The weak supervision in some quarters and the negligence of the responsible person(s) to provide such supervision, or handing over the responsibility to persons who are not qualified or trained to do certain financial or accounting duties.

It was found that during the year 1392-1393, thirty-four cases of deficiency in some of the government departments amounted to a total of 2,477,736m Riyals. Any deficiencies which amounted to less than 100 Riyals were overlooked. The G.A.B. was able to recover the amount of 176,694 Riyals.

Secondly, mistakes and violations occurred in the accounts of some government departments:

1. Giving temporary loans from the funds available to them;
2. Giving personal loans to staff to be deducted from their salaries;
3. Depositing state money in commercial banks;
4. The use of funds for purposes other than what they were earmarked for;

5. Some of the treasurers were keeping funds in their office desk-drawers instead of in the safes;
6. Some of the treasurers are without guarantors which guarantee the safe-keeping of state funds.

PART FOUR

CASES OF THEFT AND MISCONDUCT OF STATE FUNDS

1. The theft of a large amount (287,500 Riyals) from Dhahran Air Base by falsification of soldiers' wages;
2. Theft of 203,150 Riyals by falsification of soldiers' wages;
3. The selfish utilisation of state funds in illegitimate ways and depositing it in banks in their own names, or lending it to friends, relatives or staff;
4. Not mentioning the amount of 110,486 Riyals exceeding the expenses allocation of 'students' board and lodgings';
5. The mishandling of wakof funds (religious endowments) in Jeddah. A deficiency was found in the wakof fund amounting to 190,658.50 Riyals. Also another deficiency was found in regard to one collector amounting to 36,330 Riyals.

GOVERNMENT STORAGES

1. No care was taken in storing merchandise and keeping same in proper places in order that they may not get spoiled e.g. films, x-ray negatives, medicines, tablets, clothing materials or inflammable items;
2. Deficiencies in some articles registered in storage and despatched to branches;
3. Failing to give full descriptions of valuables such as unique articles, carpets and rugs, specifying type and identification marks and prices in the appropriate books and failing to mark it with the departmental stamp, that it might be referred to in case of loss, destroyed or replaced;
4. Many articles are left for long periods without being used either by selling or passing on to other government departments in possible need of it.
5. Negligence in book-keeping and other paper work;
6. Carelessness in proper methods of handling and receiving merchandise at the time of transferring members of long-term staff at the store houses;

7. Providing articles through buying in large quantities in excess of what is needed for the reason of spending money allocated in the budget.

THE G.A.B. PROPOSES THAT:

1. Great care should be taken in choosing storage supervisors, and other staff known to be honest, able and trained in storage work;
2. Preparing training programmes for staff of the storage departments who have had no previous training in order that work is carried out properly and efficiently;
3. Making sure that every store supervisor has the backing of a guarantor. This may keep government funds in good hands;
4. Clearing storages from left-over merchandise either by selling, lending or giving it away as gifts;
5. Consideration to be paid to the average useage of consumer goods such as fuel, oil, etc., from the storages;
6. Taking good care of accounts books, other relevant books, records documentations which shall satisfy the inspector to the store house;

7. No carelessness should occur in the method of handling and receiving merchandise at the time of transferring members of staff (working at the store houses). In case of deficiency in funds full amounts should be obtained from the person responsible at the time of the transfer.
8. To ensure that medicines are in perfect condition before being despatched to hospitals;
9. To repair all equipments, articles and cars and make sure they are being used or disposed of if unuseable;
10. Taking care of quoting descriptions and measurements of merchandise to be bought in order to ensure suitability for the actual need without exceeding needs;
11. Strict measures of internal inspections of goods at the storage houses should be taken on a regular basis. Yearly stock-taking either partly or wholly should be undertaken;
12. Speeding up the introduction of new regulations and executive bills issued for government storages.

PART SIX

THE RESULTS OF THE BUDGET AND PROJECTS EXECUTION

There are general aspects common between all ministries:

1. Not paying full attention to the assessment of income and expenditure according to the regulations of the assessment which resulted in great differences between estimate and amount fixed resulting in great savings. Wide movements of funds and some allocations were uplifted by extra funds resulting in completely different budgets. It was also found that many state projects were never undertaken and so no money was spent from the allocated funds. Other projects were delayed a great deal which all resulted in not fulfilling the aims of these projects.

THE G.A.B. RECOMMENDATIONS

Taking good care and personal interest in persons working in finance, management and stores in order that they may take good care of public funds under their control. It depends on the human elements:

1. If the final accounts are produced by accurate financial results;
2. The success in fulfilling the duties at the store depends on training of the human elements to provide the right amount of material and commodities necessary for the fulfillment of work, and their efforts to keep them in a proper way and in a proper place.

Appendix VI

A translation of

The Questionnaire Compiled By the Writer And Used To Conduct Interviews With

Financial Comptrollers, Financial Officers, G.A.B. Auditors and Accountants
in the Financial Departments of the Saudi Arabian Government

PART TWO

SECURITY

1. How would you describe the co-operation between yourself and the Financial Comptroller at work ?

2. Does the F.C. discuss with you any unusual cases ?
IF YES
At what stage ?

Yes

No

No Answer

3. How does the function of the F.C. affect the work in your department ?

4. On average, how long does it take to send a payment order to the F.C. and receive it back

5. In your opinion what is the purpose of auditing before events ?

6. In your opinion is this purpose accomplished in the developing countries like Saudi Arabia ?

Yes

No

No Answer

7. In your opinion how could the auditing function carried out by the F.C. be improved in order to be made more effective ?

- | | | | |
|--|--------------------------|--------------------------|--------------------------|
| 7. Has the role of the department been defined in writing ? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | Yes | No | No Answer |
| <u>IF YES</u>
Please give a statement of this definition: | | | |
| 8. Are the duties of the various members of the staff clearly stated in writing ? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | Yes | No | No Answer |
| 9. Does every person know to whom and for what he is responsible ? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | Yes | No | No Answer |
| 10. Does the department prepare reports showing the actual spending as specified in Parts 1, 2, 3 and 4 of the Annual Budget ? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | Yes | No | No Answer |
| 11. Does the department prepare a monthly report showing the movement of the budget from part to part ? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | Yes | No | No Answer |
| 12. Is non-accomplishment reviewed with top management ? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | Yes | No | No Answer |
| 13. Has work been subdivided ? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | Yes | No | No Answer |
| 14. Does anyone have complete control over any record or transaction ? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | Yes | No | No Answer |
| 15. Do you participate in budget preparation ? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | Yes | No | No Answer |
| 16. Do you take part in planning projects ? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | Yes | No | No Answer |
| 17. Are there any particular areas or problems in the department which you would like us to discuss in detail ? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | Yes | No | No Answer |
| <u>IF YES</u>
Please specify: | | | |

8. What are your major comments on the financial control system as a whole ?
9. One of the recent developments in government auditing is audit of efficiency. In your opinion could this scientific approach have the solutions to the Saudi Arabian government financial problems ?
10. Do you consider that the auditing and control procedures used at present give assurance that money is being used effectively and efficiently ?
IF NO
 What changes would be necessary to provide this assurance ?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Yes	No	No Answer

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Yes	No	No Answer

PART THREE

PROCEDURES

1. What important steps do you take before signing a payment order ?
 (Please list in order of importance)
2. Can payments be made if they are not properly supported ?
3. Can charges be mis-allocated to the wrong nominal account ?
4. Are disbursements under budgetary control ?
5. Do payments of invoices require the approval of the General Manager ?
6. Does the person in charge of disbursements review vouchers for approval, etc. before payment is made ?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Yes	No	No Answer

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Yes	No	No Answer

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Yes	No	No Answer

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Yes	No	No Answer

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Yes	No	No Answer

7. Are procedures such as to preclude the improper handling of cash received from the Cashier ?
- Yes No No Answer

PART FOUR

ACCOUNTING

1. Is the assignment of accounting duties and responsibilities, expressed in a written form ?
- Yes No No Answer

2. Are journal entries:

- (a) Reviewed and approved by a responsible employee ?
- Yes No No Answer

- (b) Signed by the preparer ?
- Yes No No Answer

- (c) Supported by readily identifiable data ?
- Yes No No Answer

3. Is the person who reviews and approves the journal entries essentially independent of:

- (a) Posting and balancing detail records ?
- Yes No No Answer

- (b) Initiation of entries in books of original entry ?
- Yes No No Answer

4. Could incorrect journal entries be made ?

Yes No No Answer

IF YES

How could this happen ?

5. Are all postings to general and subsidiary ledgers required to be supported by entries in books of original entry of journal entries ?

Yes No No Answer

6. Does the accounting department keep accurate and prompt records in the commitment book ?

Yes No No Answer

7. Are ledger entries clearly referenced to indicate their source ?

Yes No No Answer

8. Do you supervise the accounting books and records ? Yes No No Answer
9. Do you supply the G.A.B. with form number 19 and number 20 month by month ? Yes No No Answer
IF NO
Please give reasons:
10. Is the assignment of accounting duties and responsibilities reviewed regularly to ensure adherence to accounting manual instructions ? Yes No No Answer
11. Do the petty imprest defray as soon as possible ? Yes No No Answer
12. At the end of Jomad Al-Tani, do all the financial transactions stop ? Yes No No Answer
IF YES
- (a) Is all the cash returned to the Saudi Monetary Agent ? Yes No No Answer
- (b) Should the account be closed by that time ? Yes No No Answer
13. Are the entries and postings in books made:
- (a) Manually ? Yes No No Answer
- (b) By machine Yes No No Answer
IF YES TO (b)
Please state the system:
14. What steps, if any, do you think are required to be taken to modernize the government's accounting system to match the new technical development in Saudi Arabia ? Yes No No Answer
15. Does your department prepare the final accounts ? Yes No No Answer
IF NO
Please specify why:

PART FIVE

PRE-PAYMENT OF PAYROLLS

- | | | | |
|---|---------------------------------|--------------------------------|---------------------------------------|
| 1. Are names placed on payrolls only after obtaining written authorization ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| 2. Are payrolls occasionally checked against the records of the personnel department to determine that employees listed thereon are bona fide ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| 3. Are all the payroll sheets completed, double-checked, approved and typed or recorded in ink before the wages and salaries cheque is drawn ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| 4. Is there an independent check on the total of gross salaries and wages ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| 5. Are those who prepare payrolls required to have written authorization from responsible persons outside the payroll department for: | | | |
| (a) All allowances ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| (b) Changes in grade ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| (c) Absences ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| (d) Overtime ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| (e) Temporary transfers ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| (f) Other allowances to be paid ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| 6. Are overtime hours worked by employees always approved by someone other than themselves ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| 7. Are the names of employees hired, resigned or discharged reported in writing by the personnel office to: | | | |
| (a) The payroll department ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| (b) The financial department ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| (c) The financial comptroller ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |

8. Are vacation and sick-leave payments similarly fixed or authorized ?

Yes

No

No Answer

9. On which day or date does the payroll arrive from the payroll department ?

10. In the accounting department how long does it take to prepare the payroll for payment ?

PAYMENT OF PAYROLLS

11. On what date are payments made ?

12. Are payments made by:

(a) A cheque on the bank ?

Yes

No

No Answer

(b) A cheque on the Saudi Arabian Monetary Agency ?

Yes

No

No Answer

(c) Cash ?

Yes

No

No Answer

IF YES TO (c)

Who controls the cash from the time it is drawn until it is sorted ?

13. Are salaries and wages put into envelopes for payment ?

Yes

No

No Answer

14. Are the following shown on the envelopes ?

(a) The name of the employee

Yes

No

No Answer

(b) The net salary

Yes

No

No Answer

(c) The clerk's signature who checks the contents of the envelope

Yes

No

No Answer

15. Are the envelopes checked against the payroll, sealed and kept until they are paid out ? Yes No No Answer
16. What are the arrangements if an employee disagrees with the contents of his envelope ?

UNCLAIMED SALARIES AND WAGES

17. Are unclaimed salaries kept until they are paid out ? Yes No No Answer
18. Can unclaimed salaries be paid to a third party on behalf of an employee ? Yes No No Answer
19. Are unclaimed salaries which remain unclaimed for a specified period, re-deposited in the Saudi Monetary Agency ? Yes No No Answer

PART SIX

PROCUREMENT DEPARTMENT

Purchasing :

1. Is there a separate purchasing department ? Yes No No Answer
2. Is the purchasing function centralised in the procurement department ? Yes No No Answer
3. Are purchase orders and contracts placed on purchase requisitions prepared by the departments requiring the materials or services ? Yes No No Answer
4. Before purchase orders may be placed, does the procurement department have to get authorisation from the accounting department to indicate that the same has been registered in the commitment book ? Yes No No Answer
5. Who authorises orders and what are their authority limits ?

6. Do buyers obtain quotations or bids from at least three suppliers, before orders are placed ?

Yes No No Answer

7. Do purchase orders issued show:

(a) Suppliers' names ? Yes No No Answer

(b) Prices ? Yes No No Answer

(c) Quantities ? Yes No No Answer

(d) Complete terms including transportation ? Yes No No Answer

Receiving :

8. Are goods accepted only in accordance with an official order ? Yes No No Answer

9. Are supplies examined on arrival as to :

(a) Quality ? Yes No No Answer

(b) Weight ? Yes No No Answer

(c) Delivering date Yes No No Answer

10. Are they matched with requisitions and purchase orders ? Yes No No Answer

11. Are incoming goods recorded on goods received notes ? Yes No No Answer

12. Are they serially numbered ? Yes No No Answer

13. Is there adequate control exercised over their use ? Yes No No Answer

14. Are receiving reports prepared on all incoming materials of large amounts and signed by the individual who checks that the shipment received is correct ? Yes No No Answer

15. Are shortages, rejections, etc., reported to the suppliers' accounting department and procurement department before a received note is issued ? Yes No No Answer

16. Is a good procedure in effect for handling rejects and defective material received ? Yes No No Answer

Vouchering :

17. Does the accounting department do the following:
- (a) Check description, quantity, delivery date, and terms shown on the invoice against the purchase order ? Yes No No Answer
- (b) Match receiving and inspection reports to invoices ? Yes No No Answer
- (c) Mark all supporting details of payment to prevent duplicate payment ? Yes No No Answer
- (d) Check extensions and footing of all invoices ? Yes No No Answer
- (e) Check for the lowest prices (where three quotations or bids have to be attached) ? Yes No No Answer
- (f) Make deductions for all trade and cash discounts ? Yes No No Answer
18. Does procedure require that all invoices be approved for payment by the general manager ? Yes No No Answer
19. Are all copies of invoices received except the original, stamped to indicate that they are duplicates ? Yes No No Answer
20. Are payments made on a copy of an invoice if the original has been lost ? Yes No No Answer
- Issue from Stores :
21. Are official orders used for stores items in all cases on form no. 39 ? Yes No No Answer
22. Are verbal orders only permitted in an emergency and registered in form no. 29 ? Yes No No Answer
23. Is the person signing orders:
- (a) Authorised to do so ? Yes No No Answer
- (b) Independent of the Storekeeper ? Yes No No Answer
24. Does the person receiving the goods sign the goods drawing note ? Yes No No Answer
25. Does the accounting department keep a copy of form no 39 in a special dossier ? Yes No No Answer

Inventory :

- | | | | | |
|-----|--|---------------------------------|--------------------------------|---------------------------------------|
| 26. | Are all classes of inventory physically inventoried at least once a year ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| 27. | Is an inventory made at least a month of the Treasury ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| 28. | Are physical inventory procedures: | | | |
| | (a) Determined by the general manager ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| | (b) Supervised by the manager of the financial department or chief accountants ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| 29. | Do stock records show maximum and minimum re-order points ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| 30. | Do they also show re-order quantities ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| 31. | When storekeepers rotate, are physical inventories taken ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| 32. | Is there any control over scrap and waste being stored for sale by auction ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |

PART SEVENPROJECTS

- | | | | | |
|----|--|---------------------------------|--------------------------------|---------------------------------------|
| 1. | Is there a separate project department ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| 2. | Does the financial department keep records of project control ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| 3. | Does your department prepare and issue a monthly written report on the financial position of projects financed from chapter four in the budget ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| 4. | Does the project department prepare the technical details of the tenders ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |
| 5. | Does the project department receive the tender's envelopes ? | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |

6. Do any of the contractors carry out any personal projects for any employee ?

Yes

No

No Answer

7. Does the project department have any influence over the Tender Committee as to who they accept a tender from ?

Yes

No

No Answer

8. Does the project department follow the execution of the project according to the plan and contract ?

Yes

No

No Answer

Appendix VII

The Questionnaire with a Summary of Replies

7. Has the role of the department been defined in writing ? 10 Yes 41 No 2 No Answer
IF YES
 Please give a statement of this definition:

This was too varied to be summarised here.

8. Are the duties of the various members of the staff clearly stated in writing ? 15 Yes 27 No 1 No Answer
9. Does every person know to whom and for what he is responsible ? 41 Yes - No 2 No Answer
10. Does the department prepare reports showing the actual spending as specified in Parts 1, 2, 3 and 4 of the Annual Budget ? 22 Yes 18 No 3 No Answer
11. Does the department prepare a monthly report showing the movement of the budget from part to part ? 20 Yes 19 No 4 No Answer
12. Is non-accomplishment reviewed with top management ? 32 Yes 7 No 4 No Answer
13. Has work been subdivided ? 32 Yes 9 No 2 No Answer
14. Does anyone have complete control over any record or transaction ? 18 Yes 20 No 5 No Answer
15. Do you participate in budget preparation ? 29 Yes 12 No 2 No Answer
16. Do you take part in planning projects ? 2 Yes 38 No 3 No Answer
17. Are there any particular areas or problems in the department which you would like us to discuss in detail ? 26 Yes 13 No 4 No Answer
IF YES
 Please specify:

The two main problems specified for discussion were:

- (1) the shortage of qualified staff and in particular, staff qualified in financial and accounting matters;
- (2) the complexity of government procedures and how to simplify these.

PART TWOSECURITY

1. How would you describe the co-operation between yourself and the Financial Comptroller at work ?

This was generally thought to be good.

2. Does the F.C. discuss with you any unusual cases ?
IF YES
At what stage ?

Yes

No

No Answer

This was too varied to be summarised here.

3. How does the function of the F.C. affect the work in your department ?

4. On average, how long does it take to send a payment order to the F.C. and receive it back

5. In your opinion what is the purpose of auditing before events ?

6. In your opinion is this purpose accomplished in the developing countries like Saudi Arabia ?

Yes

No

No Answer

7. In your opinion how could the auditing function carried out by the F.C. be improved in order to be made more effective ?

8. What are your major comments on the financial control system as a whole ?

Again, it was generally felt that the financial control system was far too complex and that it should be simplified.

9. One of the recent developments in government auditing is audit of efficiency. In your opinion could this scientific approach have the solutions to the Saudi Arabian government financial problems ?

There were too few people sufficiently informed to answer this question.

□	□	□
Yes	No	No Answer

10. Do you consider that the auditing and control procedures used at present give assurance that money is being used effectively and efficiently ?

10	33	-
Yes	No	No Answer

IF NO

What changes would be necessary to provide this assurance ?

It was generally felt that computerisation, rather than accountability, would tighten up efficiency.

PART THREE

PROCEDURES

1. What important steps do you take before signing a payment order ?
(Please list in order of importance)

This was too varied to summarise here.

2. Can payments be made if they are not properly supported ?

-	43	-
Yes	No	No Answer

3. Can charges be mis-allocated to the wrong nominal account ?

28	15	-
Yes	No	No Answer

4. Are disbursements under budgetary control ?

41	2	-
Yes	No	No Answer

5. Do payments of invoices require the approval of the General Manager ?

38	5	-
Yes	No	No Answer

6. Does the person in charge of disbursements review vouchers for approval, etc. before payment is made ?

39	4	-
Yes	No	No Answer

- | | | | |
|---|--|--------------------------------------|---|
| 7. Are procedures such as to preclude the improper handling of cash received from the Cashier ? | <input type="text" value="39"/>
Yes | <input type="text" value="4"/>
No | <input type="text" value="-"/>
No Answer |
|---|--|--------------------------------------|---|

PART FOURACCOUNTING

- | | | | |
|---|--|---------------------------------------|---|
| 1. Is the assignment of accounting duties and responsibilities, expressed in a written form ? | <input type="text" value="9"/>
Yes | <input type="text" value="34"/>
No | <input type="text" value="-"/>
No Answer |
| 2. Are journal entries: | | | |
| (a) Reviewed and approved by a responsible employee ? | <input type="text" value="34"/>
Yes | <input type="text" value="9"/>
No | <input type="text" value="-"/>
No Answer |
| (b) Signed by the preparer ? | <input type="text" value="34"/>
Yes | <input type="text" value="9"/>
No | <input type="text" value="-"/>
No Answer |
| (c) Supported by readily identifiable data ? | <input type="text" value="39"/>
Yes | <input type="text" value="4"/>
No | <input type="text" value="-"/>
No Answer |
| 3. Is the person who reviews and approves the journal entries essentially independent of: | | | |
| (a) Posting and balancing detail records ? | <input type="text" value="26"/>
Yes | <input type="text" value="17"/>
No | <input type="text" value="-"/>
No Answer |
| (b) Initiation of entries in books of original entry ? | <input type="text" value="40"/>
Yes | <input type="text" value="3"/>
No | <input type="text" value="-"/>
No Answer |
| 4. Could incorrect journal entries be made ? | <input type="text" value="25"/>
Yes | <input type="text" value="18"/>
No | <input type="text" value="-"/>
No Answer |
| <u>IF YES</u>
How could this happen ? | | | |
| 5. Are all postings to general and subsidiary ledgers required to be supported by entries in books of original entry of journal entries ? | <input type="text" value="35"/>
Yes | <input type="text" value="8"/>
No | <input type="text" value="-"/>
No Answer |
| 6. Does the accounting department keep accurate and prompt records in the commitment book ? | <input type="text" value="29"/>
Yes | <input type="text" value="14"/>
No | <input type="text" value="-"/>
No Answer |
| 7. Are ledger entries clearly referenced to indicate their source ? | <input type="text" value="32"/>
Yes | <input type="text" value="8"/>
No | <input type="text" value="3"/>
No Answer |

- | | | | |
|--|------------------------------------|-----------------------------------|---|
| 8. Do you supervise the accounting books and records ? | <input type="checkbox"/> 10
Yes | <input type="checkbox"/> 27
No | <input type="checkbox"/> 6
No Answer |
| 9. Do you supply the G.A.B. with form number 19 and number 20 month by month ?
<u>IF NO</u>
Please give reasons: | <input type="checkbox"/> 32
Yes | <input type="checkbox"/> 11
No | <input type="checkbox"/> -
No Answer |
| 10. Is the assignment of accounting duties and responsibilities reviewed regularly to ensure adherence to accounting manual instructions ? | <input type="checkbox"/> 30
Yes | <input type="checkbox"/> 13
No | <input type="checkbox"/> -
No Answer |
| 11. Do the petty imprest defray as soon as possible ? | <input type="checkbox"/> 20
Yes | <input type="checkbox"/> 19
No | <input type="checkbox"/> 4
No Answer |
| 12. At the end of Jomad Al-Tani, do all the financial transactions stop ?
<u>IF YES</u> | <input type="checkbox"/> 33
Yes | <input type="checkbox"/> 10
No | <input type="checkbox"/> -
No Answer |
| (a) Is all the cash returned to the Saudi Monetary Agent ? | <input type="checkbox"/> 15
Yes | <input type="checkbox"/> 28
No | <input type="checkbox"/> -
No Answer |
| (b) Should the account be closed by that time ? | <input type="checkbox"/> -
Yes | <input type="checkbox"/> 43
No | <input type="checkbox"/> -
No Answer |
| 13. Are the entries and postings in books made: | | | |
| (a) Manually ? | <input type="checkbox"/> 39
Yes | <input type="checkbox"/> 4
No | <input type="checkbox"/> -
No Answer |
| (b) By machine | <input type="checkbox"/> 4
Yes | <input type="checkbox"/> 39
No | <input type="checkbox"/> -
No Answer |
| <u>IF YES TO (b)</u>
Please state the system: | | | |
| N.C.R. Machines. | | | |
| 14. What steps, if any, do you think are required to be taken to modernize the government's accounting system to match the new technical development in Saudi Arabia ? | | | |
| 15. Does your department prepare the final accounts ?
<u>IF NO</u>
Please specify why: | <input type="checkbox"/>
Yes | <input type="checkbox"/>
No | <input type="checkbox"/>
No Answer |

Most respondents had never prepared final accounts since these were years behind in being compiled.

PART FIVE

PRE-PAYMENT OF PAYROLLS

- | | | | |
|---|------------------------------------|-----------------------------------|---|
| 1. Are names placed on payrolls only after obtaining written authorization ? | <input type="checkbox"/> 43
Yes | <input type="checkbox"/> -
No | <input type="checkbox"/> -
No Answer |
| 2. Are payrolls occasionally checked against the records of the personnel department to determine that employees listed thereon are bona fide ? | <input type="checkbox"/> 39
Yes | <input type="checkbox"/> 4
No | <input type="checkbox"/> -
No Answer |
| 3. Are all the payroll sheets completed, double-checked, approved and typed or recorded in ink before the wages and salaries cheque is drawn ? | <input type="checkbox"/> 43
Yes | <input type="checkbox"/> -
No | <input type="checkbox"/> -
No Answer |
| 4. Is there an independent check on the total of gross salaries and wages ? | <input type="checkbox"/> 43
Yes | <input type="checkbox"/> -
No | <input type="checkbox"/> -
No Answer |
| 5. Are those who prepare payrolls required to have written authorization from responsible persons outside the payroll department for: | | | |
| (a) All allowances ? | <input type="checkbox"/> 43
Yes | <input type="checkbox"/> -
No | <input type="checkbox"/> -
No Answer |
| (b) Changes in grade ? | <input type="checkbox"/> 43
Yes | <input type="checkbox"/> -
No | <input type="checkbox"/> -
No Answer |
| (c) Absences ? | <input type="checkbox"/> 43
Yes | <input type="checkbox"/> -
No | <input type="checkbox"/> -
No Answer |
| (d) Overtime ? | <input type="checkbox"/> 43
Yes | <input type="checkbox"/> -
No | <input type="checkbox"/> -
No Answer |
| (e) Temporary transfers ? | <input type="checkbox"/> 43
Yes | <input type="checkbox"/> -
No | <input type="checkbox"/> -
No Answer |
| (f) Other allowances to be paid ? | <input type="checkbox"/> 43
Yes | <input type="checkbox"/> -
No | <input type="checkbox"/> -
No Answer |
| 6. Are overtime hours worked by employees always approved by someone other than themselves ? | <input type="checkbox"/> 33
Yes | <input type="checkbox"/> 4
No | <input type="checkbox"/> 6
No Answer |
| 7. Are the names of employees hired, resigned or discharged reported in writing by the personnel office to: | | | |
| (a) The payroll department ? | <input type="checkbox"/> 43
Yes | <input type="checkbox"/> -
No | <input type="checkbox"/> -
No Answer |
| (b) The financial department ? | <input type="checkbox"/> 25
Yes | <input type="checkbox"/> 18
No | <input type="checkbox"/> -
No Answer |
| (c) The financial comptroller ? | <input type="checkbox"/> 10
Yes | <input type="checkbox"/> 33
No | <input type="checkbox"/> -
No Answer |

8. Are vacation and sick-leave payments similarly fixed or authorized ?

40
Yes

3
No

-
No Answer

9. On which day or date does the payroll arrive from the payroll department ?

Usually from 20th to 25th of each month.

10. In the accounting department how long does it take to prepare the payroll for payment ?

From two to five days.

PAYMENT OF PAYROLLS

11. On what date are payments made ?

They start from the 25th.

12. Are payments made by:

(a) A cheque on the bank ?

-
Yes

43
No

-
No Answer

(b) A cheque on the Saudi Arabian Monetary Agency ?

-
Yes

43
No

-
No Answer

(c) Cash ?

43
Yes

-
No

-
No Answer

IF YES TO (c)

Who controls the cash from the time it is drawn until it is sorted ?

The Cashier.

13. Are salaries and wages put into envelopes for payment ?

15
Yes

28
No

-
No Answer

14. Are the following shown on the envelopes ?

(a) The name of the employee

15
Yes

28
No

-
No Answer

(b) The net salary

15
Yes

28
No

-
No Answer

(c) The clerk's signature who checks the contents of the envelope

15

28

-

15. Are the envelopes checked against the payroll, sealed and kept until they are paid out ? - Yes 15 No - No Answer
16. What are the arrangements if an employee disagrees with the contents of his envelope ?

UNCLAIMED SALARIES AND WAGES

17. Are unclaimed salaries kept until they are paid out ? 27 Yes 16 No - No Answer
18. Can unclaimed salaries be paid to a third party on behalf of an employee ? 30 Yes 13 No - No Answer
19. Are unclaimed salaries which remain unclaimed for a specified period, re-deposited in the Saudi Monetary Agency ? 43 Yes - No - No Answer

PART SIX

PROCUREMENT DEPARTMENT

Purchasing :

1. Is there a separate purchasing department ? 34 Yes 9 No - No Answer
2. Is the purchasing function centralised in the procurement department ? 28 Yes 15 No - No Answer
3. Are purchase orders and contracts placed on purchase requisitions prepared by the departments requiring the materials or services ? 43 Yes - No - No Answer
4. Before purchase orders may be placed, does the procurement department have to get authorisation from the accounting department to indicate that the same has been registered in the commitment book ? 40 Yes 3 No - No Answer
5. Who authorises orders and what are their authority limits ?

The Purchase Committee or the Purchase Department.

- | | | | |
|---|--|--------------------------------------|--|
| 6. Do buyers obtain quotations or bids from at least three suppliers, before orders are placed ? | <input type="text" value="35"/>
Yes | <input type="text" value="5"/>
No | <input type="text" value="3"/>
No Answer |
| 7. Do purchase orders issued show: | | | |
| (a) Suppliers' names ? | <input type="text" value="43"/>
Yes | <input type="text" value="-"/>
No | <input type="text" value="-"/>
No Answer |
| (b) Prices ? | <input type="text" value="43"/>
Yes | <input type="text" value="-"/>
No | <input type="text" value="-"/>
No Answer |
| (c) Quantities ? | <input type="text" value="43"/>
Yes | <input type="text" value="-"/>
No | <input type="text" value="-"/>
No Answer |
| (d) Complete terms including transportation.? | <input type="text" value="43"/>
Yes | <input type="text" value="-"/>
No | <input type="text" value="-"/>
No Answer |
| Receiving : | | | |
| 8. Are goods accepted only in accordance with an official order ? | <input type="text" value="43"/>
Yes | <input type="text" value="-"/>
No | <input type="text" value="-"/>
No Answer |
| 9. Are supplies examined on arrival as to : | | | |
| (a) Quality ? | <input type="text" value="43"/>
Yes | <input type="text" value="-"/>
No | <input type="text" value="-"/>
No Answer |
| (b) Weight ? | <input type="text" value="43"/>
Yes | <input type="text" value="-"/>
No | <input type="text" value="-"/>
No Answer |
| (c) Delivering date | <input type="text" value="43"/>
Yes | <input type="text" value="-"/>
No | <input type="text" value="-"/>
No Answer |
| 10. Are they matched with requisitions and purchase orders ? | <input type="text" value="35"/>
Yes | <input type="text" value="-"/>
No | <input type="text" value="8"/>
No Answer |
| 11. Are incoming goods recorded on goods received notes ? | <input type="text" value="31"/>
Yes | <input type="text" value="-"/>
No | <input type="text" value="12"/>
No Answer |
| 12. Are they serially numbered ? | <input type="text" value="36"/>
Yes | <input type="text" value="-"/>
No | <input type="text" value="7"/>
No Answer |
| 13. Is there adequate control exercised over their use ? | <input type="text" value="30"/>
Yes | <input type="text" value="6"/>
No | <input type="text" value="7"/>
No Answer |
| 14. Are receiving reports prepared on all incoming materials of large amounts and signed by the individual who checks that the shipment received is correct ? | <input type="text" value="36"/>
Yes | <input type="text" value="-"/>
No | <input type="text" value="7"/>
No Answer |
| 15. Are shortages, rejections, etc., reported to the suppliers' accounting department and procurement department before a received note is issued ? | <input type="text" value="36"/>
Yes | <input type="text" value="-"/>
No | <input type="text" value="7"/>
No Answer |
| 16. Is a good procedure in effect for handling rejects and defective material received ? | <input type="text" value="28"/>
Yes | <input type="text" value="8"/>
No | <input type="text" value="7"/>
No Answer |

Vouchering :

17. Does the accounting department do the following:
- (a) Check description, quantity, delivery date, and terms shown on the invoice against the purchase order ? 36 - 7
Yes No No Answer
- (b) Match receiving and inspection reports to invoices ? 36 - 7
Yes No No Answer
- (c) Mark all supporting details of payment to prevent duplicate payment ? 36 - 7
Yes No No Answer
- (d) Check extensions and footing of all invoices ? 36 - 7
Yes No No Answer
- (e) Check for the lowest prices (where three quotations or bids have to be attached) ? 36 - 7
Yes No No Answer
- (f) Make deductions for all trade and cash discounts ? 36 - 7
Yes No No Answer
18. Does procedure require that all invoices be approved for payment by the general manager ? 28 8 7
Yes No No Answer
19. Are all copies of invoices received except the original, stamped to indicate that they are duplicates ? 31 5 7
Yes No No Answer
20. Are payments made on a copy of an invoice if the original has been lost ? 36 - 7
Yes No No Answer
- Issue from Stores :
21. Are official orders used for stores items in all cases on form no. 39 ? 30 6 7
Yes No No Answer
22. Are verbal orders only permitted in an emergency and registered in form no. 29 ? 32 4 7
Yes No No Answer
23. Is the person signing orders:
- (a) Authorised to do so ? 36 - 7
Yes No No Answer
- (b) Independent of the Storekeeper ? 36 - 7
Yes No No Answer
24. Does the person receiving the goods sign the goods drawing note ? 36 - 7
Yes No No Answer
25. Does the accounting department keep a copy of form no 39 in a special dossier ? 36 - 7
Yes No No Answer

Inventory :

- | | | | | |
|-----|--|--------------------------------------|-----------------------------------|--|
| 26. | Are all classes of inventory physically inventoried at least once a year ? | <input type="checkbox"/> 8
Yes | <input type="checkbox"/> 20
No | <input type="checkbox"/> 15
No Answer |
| 27. | Is an inventory made at least a month of the Treasury ? | <input type="checkbox"/> 14
Yes | <input type="checkbox"/> 15
No | <input type="checkbox"/> 14
No Answer |
| 28. | Are physical inventory procedures: | | | |
| | (a) Determined by the general manager ? | <input type="checkbox"/> 43
Yes | <input type="checkbox"/> -
No | <input type="checkbox"/> -
No Answer |
| | (b) Supervised by the manager of the financial department or chief accountants ? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| | | This was delegated to various people | | |
| | | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> No Answer |
| 29. | Do stock records show maximum and minimum re-order points ? | <input type="checkbox"/> 6
Yes | <input type="checkbox"/> 17
No | <input type="checkbox"/> 20
No Answer |
| 30. | Do they also show re-order quantities ? | <input type="checkbox"/> 5
Yes | <input type="checkbox"/> 38
No | <input type="checkbox"/> -
No Answer |
| 31. | When storekeepers rotate, are physical inventories taken ? | <input type="checkbox"/> 15
Yes | <input type="checkbox"/> 18
No | <input type="checkbox"/> 10
No Answer |
| 32. | Is there any control over scrap and waste being stored for sale by auction ? | <input type="checkbox"/> 27
Yes | <input type="checkbox"/> 6
No | <input type="checkbox"/> 10
No Answer |

PART SEVENPROJECTS

- | | | | | |
|----|--|------------------------------------|-----------------------------------|---|
| 1. | Is there a separate project department ? | <input type="checkbox"/> 28
Yes | <input type="checkbox"/> 8
No | <input type="checkbox"/> 7
No Answer |
| 2. | Does the financial department keep records of project control ? | <input type="checkbox"/> 26
Yes | <input type="checkbox"/> 10
No | <input type="checkbox"/> 7
No Answer |
| 3. | Does your department prepare and issue a monthly written report on the financial position of projects financed from chapter four in the budget ? | <input type="checkbox"/> 26
Yes | <input type="checkbox"/> 10
No | <input type="checkbox"/> 7
No Answer |
| 4. | Does the project department prepare the technical details of the tenders ? | <input type="checkbox"/> 24
Yes | <input type="checkbox"/> 12
No | <input type="checkbox"/> 7
No Answer |
| 5. | Does the project department receive the tender's envelopes ? | <input type="checkbox"/> 2
Yes | <input type="checkbox"/> 34
No | <input type="checkbox"/> 7
No Answer |

6. Do any of the contractors carry out any personal projects for any employee ?

Yes

No

No Answer

7. Does the project department have any influence over the Tender Committee as to who they accept a tender from ?

Yes

No

No Answer

8. Does the project department follow the execution of the project according to the plan and contract ?

Yes

No

No Answer

CHAPTER IV

Comparative Study of the Anglo American Experience and its Relevance to the Saudi Arabian Situation

The nature of a government finance system, and the demands upon it, varies between countries depending upon their economic and political systems. Nonetheless, there is a convergence of experience in the Western countries, about the increasing role of the financial system in guiding and managing national development. The quality of a financial system and its effectiveness on the administrative management processes, will enable the nation to translate its political will into concrete policy measures and to carry the national goals.

This chapter will be mainly devoted to the study of the Western financial systems of earlier times, in the light of the Saudi Arabian system, and recent developments in financial control. The remainder of the chapter will discuss the effects of the Saudi Arabian preaudit system on management.

1. The Traditional Function of Auditing

In the traditional financial system, accounting and auditing were naturally geared to serve the limited objective of legislative accountability and to certify financial accuracy in government transactions.

The traditional function of the state auditor was to spend his time laboriously and monotonously checking vast piles of vouchers, all alike, seeking, usually in vain, for petty infringements of the regulations and arithmetical mistakes. Such work, certainly a reality in the past in the Western countries, is carried out at the present in Saudi Arabia by the financial comptroller and the General Auditing Bureau.

The truth is that control of regularity is not merely insufficient where spending is limited. But in heavy spending, control of regularity is terribly inadequate. The most wasteful, extravagant, foolish and ill-planned activities are frequently 'regular' in a technical sense.

Normanton mentions that the necessary control of regularity by state audit is not a controversial kind of control. Any type of government, liberal, democratic or totalitarian, will wish to ensure that the administration is adhering to the programme ratified by the political powers. There is no more effective way of confirming this in detail than by systematic examination of the financial accounts and records, since almost all administrative activity must necessarily be reflected there. Similarly public opinion under any regime is bound to favour the principle that public resources should be handled with scrupulous honesty, and that procedures should exist to guarantee this. The a posteriori control of regularity ensures not merely that an administrative machine works and works with integrity, but that it is under command. Normanton continues that this control is based upon the examination of vouchers, which are the paper record of transactions. But he realises that the growth of

government spending led to an incalculably great increase in these records. It is unnecessary that the routine work of audit should be increased to keep step with the rise in expenditures. It is sufficient that samples be taken, to see how things are going.

Normanton also mentioned that the state auditor has to consider regularity in the special context of the budgetary cycle. He has to ensure that the executive has worked within the framework of legislative authorisation. For the last century in Britain and some other countries, and for a considerable period in all Western countries, this has been the most important single function of state audit. The auditor is interested to ensure that each transaction was ordered by an authorised person in accordance with known commitments, that the amount appears to be correct, that if payment is for supplies they were properly furnished and if for services they were actually performed. The auditor has to ascertain that each transaction and each individual payment does not contravene the law, and in particular the budgetary law. The legislature has not only authorised the spending of a large total sum but has indicated in detail the objects upon which that sum is to be expended, and up to what total in each case. The budgetary system would be worthless if the executive ignored the authorised individual totals, even if it respected the overall total. The auditor must therefore make sure that each payment is correctly charged. In general, the auditor must see that the sums voted under the budget headings are not exceeded. If, for unforeseen reasons, this cannot be avoided, the audit must verify the explanations given by the executive and ensure that special authorisation for transfer

from one heading to another has been issued. (See Chapter II, p.40) In practice some headings in the budget will inevitably be underspent, leaving a balance of authorised funds apparently available to the executive for use in other ways. This has been comparatively a very difficult task, there are many tricks and devices open to an executive who seeks to evade budgetary control, but these have been detected by the auditors in Western countries long ago.

In Saudi Arabia these devices still play a part. It has been mentioned, in Chapter II, p.41, that funds had been transferred from Head X to Head Y and after a short time funds were transferred from Head Z to Head X. This obviously reflects the devices that executives can use in which some of the transfers can be made in a very hazy way.

2. The Enforcement of Regularity

In most of the Western countries, and in Saudi Arabia, regularity which is enforceable by the state auditor (F.C. and G.A.B.) is laid down by the law.

In Great Britain, the Comptroller and Auditor General is charged to satisfy himself⁴³ "that money expended has been applied to the purpose or purposes for which the grants made by Parliament were intended to provide and that the expenditure conforms to the authority which governs it".

⁴³ The Exchequer and Audit Departments Act, 1921, Section 1(1).

He is also to ensure, when so required by the Treasury,⁴⁴ "that expenditure is supported by the authority". In practice the enforcement of the Treasury's regulatory controls over other departments is a permanent activity of British state audit, and to this extent it is a traditional rather than a parliamentary audit. The Comptroller and Auditor General⁴⁵ "may only admit as chargeable, to the accounts of the financial year, sums which were actually paid within the same period".

In Germany, the law requires the state audit to cover the following aspects of 'regularity':⁴⁶

- "1. Whether the budget, including its supporting documents has been adhered to;
2. Whether the individual figures in the accounts are substantiated and vouched factually and arithmetically in the prescribed manner;
3. Whether in the raising and collection of revenues and in the employment and disbursement of reich funds, as well as in the purchase, utilization and disposal of reich property, a procedure has been followed in accordance with the existing laws and regulations, paying attention to the relevant administrative principles and complying with the need for economy."

In the United States the law requires the Comptroller General⁴⁷ "to report to Congress every expenditure or contract made illegally", and⁴⁸

"The auditing for the Government, conducted by the Comptroller General of the United States as an Agent of the Congress, be

⁴⁴ Ibid., Section 1(3)

⁴⁵ Exchequer and Audit Departments Act, 1866, Section 24

⁴⁶ Normanton, op. cit., p.64

⁴⁷ Budget and Accounting Act, 1921, Section 312(c)

⁴⁸ Budget and Accounting Procedures Act, 1950, Section 111(d)

directed at determining the extent to which accounting and related financial reporting fulfil the purposes specified, financial transactions have been consummated in accordance with laws, regulations and other legal requirements, ... and afford an effective basis for the settlement of accounts of accountable officers."

In Israel the State Comptroller's law required the State Comptroller to examine whether departments have operated "in a morally irreproachable manner", and also:⁴⁹

- "(a) Whether every expenditure has been incurred within the limits of the legal appropriation and for the purpose for which it was assigned;
- (b) Whether the income has been received in accordance with law and is authorized by law;
- (c) Whether there are sufficient vouchers in respect of all expenditure and income;
- (d) Whether every act ... has been done in accordance with law and by the person competent to do it;
- (e) Whether the checking of the cash-in-hand and stock and the voucher systems are efficient;
- (f) Whether the method of keeping moneys and safeguarding property is satisfactory;
- (g) Whether the state of the cash-in-hand and the stock tallies with the accounts."

"The strict control of regularity effectively limited state audit to a relatively minor role by prohibiting the consideration of matters of real importance."⁵⁰ In practice the law to some extent limits the Comptroller and Auditor General's powers over his own field of action. He remains the docile watchdog to the legislature and executive. He is

⁴⁹ State Comptroller's Law, 1958 (Consolidated Version), Section 10.

⁵⁰ Normanton, op. cit., p.122

the servant of both. Normanton feels that audit is now allowed and even encouraged to make any criticisms, without fear, favour or partiality, but sometimes a shadow of the old mental attitudes still lingers, and may be detected in the attitude of the executive to the audit.

The situation in Britain is that the audit body remains subject to the indirect control of the Ministry of Finance, which questions the level of its effectiveness and the scale of its remuneration and can, as a result, limit its means of action.

In the Saudi Arabian system the Comptroller is subject to the Ministry of Finance and his reports have to be submitted to the Ministry of Finance. Thus, broadly, we have a picture of the Comptroller and Auditor General in the Western countries in the last century, which is similar to the present system in Saudi Arabia.

At this point we will examine and evaluate the government auditing system as a controlling device in the Saudi Arabian system in the light of the previous discussion.

Any auditing system as a controlling device usually seeks to satisfy the minimum requirements. That is to say, standards, evaluation, and corrective action.

3. Standards

Generally speaking, the standards in the Saudi Arabian system are embedded in two general forms: (a) laws and regulations; and (b) budgetary limitations. The term laws and regulations here does not refer only to the financial laws and regulations but to all laws and regulations which a financial administrator is required to observe. Budgetary limitations are mainly in the form of annual appropriations, appropriation limitations and other attached instruments.

A third vague and undefinable form of standard should be mentioned here and this may be called common sense, suitability, reasonableness or fairness.

(a) Laws and Regulations

Laws and regulations are a group of "do's" and "don'ts". The legal system is a major component of any governmental organisation. The role that it can play in providing standards for a system of financial control is limited. In many cases the laws cannot provide specific standards simply because the nature of lawmaking sometimes requires that a law be construed in general terms. Other considerations sometimes dictate a vague or cryptic law or regulation.

A major shortcoming of the laws and regulations as standards in a system of financial control is that a financial administrator may satisfy

the requirements demanded by the law; that is to say he may act within the standards, without actually fulfilling the desires of the lawmakers, and the letter of a law may be observed without actually carrying out the intention of the lawmakers. In such cases the law loses its ability to serve as an instrument of control.

Besides, a law may not be applied in the first place. The gap has been mentioned earlier between what the laws say and what the actual practice is, in connection with the functions of the financial comptroller in Saudi Arabia. Riggs,⁵¹ referred to this as "the separation of the "formal" and the "effective"; the "formal" being the official norm and what ought to be done as expressed in the constitution, laws and rules and regulations; and the "effective" being the practice and the reality."

The degree of unity of the formal and the effective varies greatly among countries. In the most developed countries today such unity is far from complete, and in a society whose political unification occurred fairly recently it is even less complete. Obviously the usefulness of the legal system in providing standards for the system of control depends on the degree of unity of the formal and the effective. The higher the degree of this unity, the more useful the legal system is and the lower the degree of the unity is, the less useful the legal system will be.

In addition to the examples which have been cited from Saudi Arabia concerning the separation of the formal and the effective, this separation

⁵¹ Fred W. Riggs, Administration in Developing Countries, Houghton Mifflin Company, Boston, (1964), p.52.

was also noted in the interviews conducted with some officials there. Some of these officials gave two contradictory answers to the same question. They gave one of them as the "official" answer and the other in a tone as if revealing confidential matters reflective of personal feelings. In other words, the first answer was the formal one and the second was the effective one.

In Saudi Arabia the public administration suffers from the lack of a comprehensive legal system. Many important areas are left without any or with little legislation. Most of the laws, especially those relating to financial administration, are outdated. They have not kept pace with the rapid changes which have been taking place in the country in the last two decades. This point was repeatedly mentioned by the financial comptrollers and the financial administrators who were interviewed by the writer. This seems to be a serious handicap to the role of the legal system in Saudi Arabia in providing standards for the system of control.

(b) The Budget

In today's environment, government budgeting is generally recognised as an annual process that focuses on planning, co-ordinating and controlling the use of resources for the efficient achievement of desired objectives. Basically, it is a decision-making process, by means of which responsible officials at various levels of management plan and carry out programme operations in a manner designed to obtain the best possible results or to

accomplish desired objectives. Ronen and Livingstone pointed out that the budgets serve three decision-making functions: planning, control and motivation. They continue their discussion by saying that:⁵²

"Budgets also serve the planning function through being utilized as a tool for sensitivity analysis which includes the examination of how slight changes in management plans affect the consequences (budgets). Many budgets could be thus generated as a result of alternative plans so that the most desirable plan could then be chosen.

The control function is typically a feedback process whereby information about past performance (both anticipated and actual) is provided to those who "control", to be utilized by them for making decisions. As a motivational tool, the budget conveys information to the subordinate about expectations of superiors regarding what constitutes successful task performance and the consequent reinforcement contingencies. These characterizations of the control and motivational processes probably apply whether the budget is imposed on subordinates, whether developed through the participation of the "controlled" or whether they result from a dynamic, interlevel bargaining process over goals and resource allocation."

The Saudi Arabian budget process is regarded as the chief instrument for securing accountability and control over the use of government funds. The primary concern has been to keep track of the use of appropriated funds. This approach was considered adequate when government activities were limited in scope. The tremendous growth of activities in recent years, however, along with the increasing use of long and medium term development planning, has emphasised the fact that the present budgeting practices no longer meet the needs of decision makers at the various levels of government for effective management or programme operations. Neither do they serve

⁵² J. Ronen and J.L. Livingstone, "An Expectancy Theory Approach to the Motivational Impacts of Budgets", The Accounting Review, (October 1975), p.671.

fully the requirements of the legislature for review and scrutiny of performance, nor inform the public adequately of the purposes sought by the government.

The question dealt with here is whether or not the forms of the budget used in Saudi Arabia adequately serve as standards for the purpose of control. The answer to this question depends a great deal on what the respective decision makers want to control. Different forms of budgeting serve different purposes.

The "line-item" budgeting and the "object-form" budgeting,⁵³ which dominate the budgeting systems in Saudi Arabia at the present time, centre attention on the accounting aspects of governmental operations in terms of things bought, and is generally utilised to impose limits on the amounts that agencies may expend on specified items.⁵⁴ The object form of budgeting establishes a tight control by the central organisation over expenditures and limits the discretion of the official in the operating agencies.

If the purpose of the decision makers is to control the services and materials which the government buys, rather than what the government does with such purchases, this budgetary method serves such an aim better than the other types of budgeting. However, in many areas of governmental

⁵³ Itemised budgeting based on object of expense, see p.40 and p.102.

⁵⁴ Public Administration Service, Modernizing Government Budgeting Administration, Washington Agency for International Development, (1962), p.46.

operation the actual intention of the decision makers may be to control the things which the government does rather than the things which it buys. In other words, their concern in these areas may be for what the government accomplishes rather than for the means used by the government, presumably with the intention of accomplishing what it is supposed to do. In these areas of governmental services the object type of budgeting does not fulfil this purpose. It may serve as an appropriate standard for a system of financial control when the decision makers intend to control only the materials and services acquired by the government. This type of budgeting cannot provide the standards needed for control in the areas of governmental activities where the decision makers intend to control the accomplishments of the government and to judge its actual performance.

4. Problems in Implementation

There are many difficulties which face the ministries and agencies in the execution of the budget. For example, the rapid growth in government projects in areas such as: housing, ports, roads, hospitals and schools, without the necessary knowledge and experience of such projects and without trained technical personnel to undertake the necessary supporting roles in budget administration, has led to ill conceived projects with inadequate economic and feasibility studies. Another problem which arises is the relaxation of spending in the first half of the financial year and the heavy spending in the next half to execute the budget, no doubt due to the unavailability of reliable data and information. There is virtually a complete lack of up-to-date and relevant data that could

help to identify programme needs. This lack of communication can be found not only between ministries, but also between organisational units within a ministry or department. The book published by the Public Administration Service in Washington mentions a number of requirements of a budget system in relation to economic development.⁵⁵ One of them is: "It should create a system of budget administration that will produce the data and analyses required for informed decision making."

5. Modernising the Saudi Arabian Budget

This research is not concerned primarily with the development of budgeting, but a comment might be necessary in this regard. It is believed that the transition from subsistence budgeting to development budgeting is not an easy one. It may involve the destruction of systems and customs that are not only of long standing but, in their limited context, often work to the satisfaction of all concerned. In their place must be introduced systems that seem complex and taxing to those who have to operate them. Acceptance of the changes would need to be gained not only from budget and finance officials but from each ministry and agency involved directly or indirectly in governmental revenue or expenditure activities.

6. Evaluation

When the financial comptroller in Saudi Arabia is preauditing a transaction, what each actually does is to evaluate the transaction under consideration. He tries to determine the extent to which the transaction

⁵⁵ Ibid., p.24.

meets the requirements of the three types of standards previously mentioned; that is to say, laws and regulations, budgetary limitations, and what has been called "common sense".

As a result of the close relationship between the evaluation function on the one hand and the standards on which it depends on the other, the former suffers from the previously mentioned shortcomings of the latter.

The circumstances under which the evaluation function is carried out in the preaudit process, are constantly conditioned by an atmosphere of urgency. Urgent outlays of money would include: paying an advance to members of a departing delegation whose mission has been approved at the last minute; signing a contract of "a very important", over-delayed project; and so on. The preauditor is under pressure to make a quick evaluation in order not to delay the operating agency's business. He is conscious of the fact that he is looked upon as a bottleneck through which papers processed in different divisions or agencies have to pass.

The financial comptroller is an outsider so far as the operating agency is concerned. This fact may keep him immune to agency pressure, but often, as an outsider he may lack a sufficient comprehension of the operational needs and managerial problems. Such a lack may create misunderstanding between the administrator and the financial comptroller and hinder an efficient evaluation. In the interviews conducted, the reciprocal charges were common between the financial administrators and the financial comptrollers, each side charging that the other side lacked

the necessary understanding of their business. In other words, some of the administrators thought that some of the financial comptrollers did not understand the ministry's business well enough, and some of the financial comptrollers thought that some of the administrators did not appreciate the work of the financial comptroller.

Because of his financial background, in many cases with little, if any experience in the type of operations in which the agency is engaged, the financial comptroller tends to be financially minded in his evaluation rather than concerned mainly with programme execution. This is due also to the nature of the standards which he is required to enforce. These standards, as previously discussed, are largely legalistic and financial in nature; they are not geared towards programme evaluation.

The third element is corrective audit action. This type of action has been discussed previously, see pages 130 and 131.

7. Operations Preaudit and Public Administration

Operations preaudit is of a managerial nature; it is a part of the management function itself, and when it is performed by management it will become an internal audit and no longer a preaudit.

Although the prime responsibility of financial preaudit is determining the legality of the transactions, it is also a part of the management responsibility. This part is also controlled by other outside jurisdictions

in the system of Saudi Arabia. The extent to which this sharing of the managerial responsibility exists, and affects the management in the Saudi Arabian system will be discussed as follows:

Effect on Management

The preauditor (i.e. the Financial Comptroller) in Saudi Arabia is neither part of the management of the operating agency, nor involved directly with the management in many ways. Among the basic managerial functions which are affected by the preauditor in one way or another are planning, budgeting, and the implementation of the major programmes.

(a) Effect on Planning and Budgeting

The preauditor in Saudi Arabia has no formal role in budget preparation or programme planning. This is in spite of the fact that the financial regulations in Saudi Arabia, as mentioned before, have always been in favour of such participation. However, the preaudit system in Saudi Arabia does influence budget preparation and programme planning in the long run through other means. One of these means is the reporting to the central organs which are in charge of examining, consolidating or enacting the state budget. The financial comptroller may influence the budgetary and planning process through the Ministry of Finance. As subordinates to this Ministry, they report to its officials and keep them informed through written reports as well as personal consultations.

In addition, there exist a number of indirect ways by which the preaudit system influences planning and budgeting. The agencies or the ministries in preparing their budgets or in planning their programmes take into consideration the practices developed by the preauditors in the preauditing process. For smoother implementation of their future programmes the agencies usually take into account the remarks and the views which have been expressed by the financial comptroller in connection with preauditing other similar programmes in the past. During preaudit, the auditor, (i.e. the financial comptroller), may approve certain expenditures on condition that certain practices be changed or certain procedures be adopted in similar programmes in the future. The agency or the ministry may alter or modify its plans accordingly.

(b) Effect on Implementation of the Programmes

The preauditor has a substantial concurring authority. The general rule is that all contracts as well as the incurring of any financial obligation by the operating agencies must be approved by the preauditor before they can be legally effective. For example, to build a school, which has been approved in the budget, the financial comptroller must approve the contract as well as all changes which may be made later during the lifetime of the contract. The financial comptroller must also approve the payment of each installment as it becomes due. Furthermore, the preauditor must approve the final settlement of the contract and the returning of the deposit to the contractor.

The preaudit of the payroll provides the financial comptroller with a concurring authority on some aspects of personnel matters as well. This preaudit function gives the financial comptroller a voice in deciding whether a new employee will be added to the payroll or not.

As a result of all these aspects of the concurring powers which the preauditor has in the system, besides the general requirement of approving almost all expenditures of the operating agencies, the viewpoint of the preauditor is incorporated into operating decisions made by the agencies in implementing their programmes.

One of the major duties of the preauditor is to see that the budgetary provisions are observed. In carrying out this duty, the financial comptroller, contributes to the managerial goal of spending each appropriation for the purpose originally planned. In discharging his responsibilities, the financial comptroller will alert the agency or the ministry whenever he finds out that this goal is jeopardised.

Usually the financial comptroller is assigned to audit more than one agency or ministry. He is also rotated from one group to another. This gives him a chance to observe the practices in a good number of the operating agencies and to see how they are dealing with common situations and problems. This enables him to bring to the attention of the agency where he is assigned the methods adopted in other agencies when dealing with similar matters. In other words, the preauditor is helping to spread the solutions to common problems, among the different agencies and ministries, and extend the developments which may take place in one agency to others.

One negative effect which many people expect that the preaudit procedure may have on the implementation of an operating agency's programmes is delay. The financial administrators, interviewed by the writer in Saudi Arabia, expressed the view that the delay caused by the preaudit system in their respective situations is negligible.

(c) Some Effects Peculiar to the Financial Comptroller

The mere presence of the financial comptroller in the agency to which he is assigned is an important part of the expenditure process and allots to him a role to play in the financial matters of the agency. A number of the functions in which he participates, that have been mentioned previously, are of managerial significance.

The financial comptroller participates in the committees which examine the bids and submit recommendations as to whom contracts should be awarded. The other members of the committees with whom the financial comptroller performs this function are usually the top officials of a ministry. He also participates in some committees which make a study of certain policy matters although this is not very often judging from the comments made by financial comptrollers in reply to the questionnaire. Meetings are held between the financial comptrollers and top executives in an agency, (Under Secretary or General Director of an agency), to discuss or solve important administrative questions with financial overtones.

The role played by the financial comptroller in influencing the management of the agency through these committees and meetings, as well as the opinions he renders on consultations, is sometimes of considerable importance. The role of such a position when occupied by the "right" personality is very effective in utilising these meetings and committees to influence substantially the way in which the agency is managed.

Another area of the financial comptroller's influence is the technical help which he sometimes provides to the financial employees of an agency through criticism and directions. This has a limited effect in improving the performance of the employees in the financial departments in the ministries and agencies. However, this role of the financial comptroller is of special importance in the case of a newly established agency where the employees usually lack any kind of training in financial and accounting matters. In such cases the financial comptroller provides a kind of leadership to the agency's financial employees.

An understanding financial comptroller, who is sympathetic to the ministry's programmes, is usually a valuable asset to a ministry. He can be a great help in hammering out the financial problems which face the ministry and in finding solutions if programmes have been complicated by minor technicalities. On the other hand, a narrow-minded financial comptroller, who cannot appreciate the managerial difficulties which the ministry faces, is an administrative headache.

There are a number of ways in which a financial comptroller can affect the business of a ministry. Most of these depend on the personal attitudes and qualities of the financial comptroller and the personal relationship between him and the officials in the ministry. This is a very hard thing to generalise about. For example, the manner and the degree of flexibility with which a financial comptroller interprets the regulations can make a great difference to the smooth-running of the business of the ministry.

8. Improvement of Financial Control in Western Countries

The concept of auditing as a checking, verifying, reconciling, confirming procedure is no longer sufficient because it cannot be maintained in the "modern, large government" where heavy spending is taking place. In Western countries the national audit has, in the twentieth century, been liberated from the cramping limitation of regularity and thus allowed to play at least some positive role in solving the awesome administrative problems of the modern state. The utilisation of modern management systems and techniques, especially in the areas of information processing and administration of human, material and financial resources, and the employment of personnel whose ability, training and experience are commensurate with their responsibility, promotes increased efficiency, effectiveness and economy in the utilisation of such resources.

Modern management systems in areas such as information processing, personnel, supply, warehousing, distribution, budgeting, accounting, cash

management, tax assessment, tax collection and other revenue collection, provide recognised means of increasing productivity and improving operations. Capable personnel are essential to the sound functioning of such systems. The recommendation of the government auditor are directed towards the improvement of all management systems and the more productive utilisation of public personnel.

The development of modern administration in America, created the office of Comptroller General and charged its holder with several powers concerning organisation in the government service.⁵⁶ The General Accounting Office was interested from the start in operating efficiently as the agent of a Congress which was itself interested in these matters. In the Act of 1950, and the campaign as a whole, emphasis was placed upon a major improvement of internal accounting and control within the departments and agencies. This in its turn permitted the abandonment of the cumbersome procedure upon which the first Comptroller General had insisted, whereby all vouchers of payment and supporting details of every financial transaction had to be sent to the G.A.O. in Washington. The Hoover Commission of 1949 recommended that this be replaced by a "spot sampling process" - a test-audit.

The Act, of 1950, a highly practical document, laid down that:

"The head of each executive agency shall establish and maintain systems of accounting and internal control designed to provide:

⁵⁶ Normanton, op. cit., p.203

- (1) full disclosure of the financial results of the agency's activities;
- (2) adequate financial information needed for the agency's management purposes;
- (3) effective control over and accountability for all funds, property, and other assets for which the agency is responsible, including appropriate internal audit."

The general intention of the 1950 Act is to allow state audit to take cognisance of the administrative performance of the departments which they audit, to bring office management within the compass of public accountability, and to determine the adequacy of internal audit and control over operations.

9. Recent Developments

A new approach to administrative efficiency has been chiefly developed since the Second World War. It was geared to improve economic circumstances, and the urge to make "cuts" in government spending and to create efficiency in the administration. Normanton mentioned that the cuts were far less acute than in the crisis years of the early twenties and early thirties. But efficiency and "cuts" in government spending showed an astonishing improvement in economic development in Britain's economic crisis in the seventies, as was declared in October, 1977, by the International Monetary Fund. In the long view, if not in the short one, efficiency offers real economies.

10. Efficiency Audit

Normanton defined efficiency auditing saying:⁵⁷

"It examines official structure, duties and performance, sometimes in a similar way, but at all levels including the highest. At other times it goes beyond the traditional field of "O & M"; it looks at a piece of administrative activity from a detached view point and asks itself whether what is being done makes sense. It is not a confidential servant but a constitutional critic with a constructive mission. By the use of publicity it widens the debate upon matters which affect the careers of many thousands. It provides parliaments, governments and even civil servants themselves with access to information which is otherwise not systematically gathered by anybody. Efficiency audit can and does co-exist and co-operate effectively with departmental organisation study groups, which supplement its work on their own level. But for the strongest reasons of both organisation and methods, such groups cannot fill the role of an efficiency audit. The groups are internal and dependent, the audit external and independent, and these positions are forever incompatible. There is therefore no real problem of competition between O & M and efficiency audit, but rather one of co-ordination."

An efficiency audit is a check of the effectiveness of productivity of an agency. Its purpose is to check that activities are carried out in a functional, systematic and economically satisfactory way. Efficiency audits should give rise to ideas and promote incentives for improvements at all levels with respect to the objectives of the activities. Its ultimate goal is to promote effectiveness in government administration, and to assess the proper execution of policies and programmes. In other words, to determine not only that the transaction under consideration is

⁵⁷ Normanton, op. cit., p.252.

legal and honestly conducted but also that it is a wise decision and in line with the established policies.

11. Efficiency Audit and Management

Efficiency audit serves management at all levels because it is designed to determine potential danger spots; to highlight possible opportunities; to eliminate waste or unnecessary loss; to observe the performance and evaluate the effectiveness of controls; to assure the executive that policies and procedures are being complied with; to check on the overall plans and objectives of the agency; to assess whether the money is expended economically and efficiently and whether the programme on which it is expended is effective in meeting its objectives, and to evaluate whether the agencies carry out their financial, management, and programme responsibilities.

In this respect a problem that might face the financial comptroller and/or the G.A.B. auditors, in auditing the efficiency of government operations, is how to deal with high level policy decisions. It might be claimed that such decisions limit the field of inquiry of the financial comptroller and/or the G.A.B. and that the review of government policy is outside the field of the financial comptroller or the G.A.B.

This claim seems to be of less than absolute validity. First of all some administrative acts, which are claimed to be implementations of high level policy decisions, are not really such but rather routine activities

of administrative units, based on their sound, or less than sound, evaluations of alternative courses of action. These are certainly proper subjects for an efficiency audit. But more important, high policy decisions involve the consideration of reasonable choices and the making of major value judgements at the highest levels of decision making. They ought to be based on a careful consideration of all available data including feasibility studies.

Sometimes these decisions will involve judicious use of expert advice - this is legitimate - and they should not be criticised merely on the basis of a different expert opinion. But neither the G.A.B. nor the financial comptroller can take a stand on whether such decisions were taken on the basis of sufficient data, and by those entitled to take them. Because Saudi Arabia is a monarchy institution, based on traditions, most of the traditional principles which govern the political life are not institutionalised, as has been mentioned previously. The absence of institutionalised and structured procedures is likely to cause the administrator to take extempore decisions. One problem regarding these extempore decisions is that there are some officials with strong personalities or with influential backing. Here, as in many other areas, the personality of the official, his administrative qualities, the connections he has, and the degree of his superior's confidence that he enjoys, play an important role in his ability to make decisions of his own. Generally speaking, it seems that as a result of the absence of institutionalised political activities, and of a full-time elaborate legislative body in Saudi Arabia, the top executives and the top civil servants have more power and responsibility in the decision making process. The Head of the G.A.B.

cannot criticise or review actual government policy but he can submit his annual evaluation report to the King. Also, the G.A.B. has a shortage of sufficiently highly qualified staff able to evaluate and criticise policy decisions.

If the G.A.B. was able to evaluate the results of such decisions, using a yardstick of what the government programme involved was supposed to achieve, they might be able to make explicit, and criticise, the price, in money or other terms, paid for the achievement, bring the facts to the attention of the Council of Ministers, and let it draw its own conclusions. By doing so, the G.A.B. could perform an important service to the Council of Ministers, enabling it to fulfill its constitutional function of political supervision of the executive.

CHAPTER V

Conclusion and Recommendations

The developed countries have the potential of producing optimal programme results from the resources that are made available for government operations. To a government in a developing country, which often has to provide for a variety of programme needs in the face of a marked scarcity of resources and skilled manpower, it has the benefit of contributing to the better allocation and use of resources for achievement of the economic, social and programme objectives of the country. In the Saudi Arabian situation, it is quite different; large financial resources are available, but Saudi Arabia shares with other developing countries the problem of a shortage of skilled manpower, which leads to a "vicious circle" of cumbersome systems which do not meet current needs, and the lack of time to think out how to improve them. Dr. Nasseeff, the Vice-Rector of King Abdul Aziz University, pointed out this lack of time saying,⁵⁸ "We are pioneers and in some things pioneers do not have the time to be innovative. Time not money is our enemy". Also Sheikh Jamjoom, the Founder of the University said:⁵⁹

"Time, however, is the most precious commodity in Saudi Arabia prosperity through diversification before the oil runs out is the aim. Highly trained Saudis are an essential ingredient of a lasting successful future for the country."

⁵⁸ Paul Moorman, "King Abdul Aziz University : From Private College to University City", The Times Higher Education Supplement, October 21, 1977, No.311, p.xvi.

⁵⁹ Ibid., p.xv.

The operations of the Saudi Arabian government today are so widespread, diversified and complex that the existing control system does not meet the new needs for modernising the country, and adopting the new technology of the Western nations. Automobiles, aeroplanes and oil tankers have required the government to build highways, airports and wide and deep ports. As more people plan to send their children to schools and colleges, they require more schools to be built and universities equipped with the latest laboratories. As the well-being of the society has grown, more attention has been given to health, sanitation, hospitals, libraries, modern housing and a host of other ingredients of a high level of living. As many of these services are provided by the government, its financial role has expanded. One foreign witness, Ziauddin Sardor, was reported as saying:⁶⁰

"An information scientist coming to work in Saudi Arabia for the first time soon discovers that he is working in a unique environment. Nowhere else in the world is the rate of development so fast. Roads, tower blocks, technological hardware of all sorts emerge virtually overnight. Yet at the same time the country has its roots deep in the culture of Islam."

Another foreign witness, Dr. Mumtaz Anwar, Chief Librarian at King Abdul Aziz University said:⁶¹

"The Saudis are pushing history. I may be told: 'we are starting a new master's programme next month - get the books', well, I will get them and there will be a programme."

⁶⁰ Ibid., p.xv.

⁶¹ Ibid., p.xiv.

1. Saudi Arabia as a Modern Nation State

It has been mentioned previously, in Chapter II, p.35, that the first budget of Saudi Arabia did not exceed 11 million Saudi Riyals in 1934, and the latest budget totalled 111 thousand million Saudi Riyals. Thus the Saudi Arabian financial system was designed for a "small government" era and is very similar to those of developed countries when they had small government sectors.

Different methods of financial system are essential for the "big government" of to-day - for responsible and effective administration, for planning, co-ordinating and carrying out various functions and activities. In other words, to-day accomplishment must be more important than control of spending; this applies to all governments but to that of Saudi Arabia even more than to others. Traditionally, a financial system has been designed primarily to satisfy the need of accountability and administrative control of funds. Therefore the present financial system in Saudi Arabia is inadequate for controlling the accomplishment of current national aspirations. The fundamental approach to this problem that will be adopted here is to assume that study of recent developments in developed countries may be helpful, but that these should not be accepted on block without considering different conditions ruling in Saudi Arabia.

In relation to to-day's requirements, to the Saudi Arabian situation, the traditional concept of accountability and control of funds is somewhat narrow in its scope, due to the availability of funds and shortage of skilled manpower. Therefore the control that the Saudi Arabian financial

system needs is control of accomplishment. Accounting control can be recognised increasingly - in the fullest sense - as a service to management. As such, it must be developed not only to satisfy accountability requirements but also to provide the various types of financial data that are essential for such purposes as planning, programme analysis and selection, budgeting, efficient management at the various levels of government and control of costs and performance in relation to approved plans.

2. The New Approach Toward Government Auditing

Modern government auditing is not directed towards the disclosure of fraud, defalcation or other serious or minor irregularities, though their disclosure may and frequently does result. The auditor is likewise not principally directed towards the disclosure of administrative irregularities for the purpose of the application of administrative penalties. Frequently, administrative and financial irregularities of a non-criminal nature constitute audit findings, but the principal purpose of the auditor's development and reporting of such findings and the related conclusions, is to form the basis for the justification of the implementation of the recommendations necessary for the administrative and financial improvements. It is the duty of the management of an agency to apply administrative penalties, when called for, as a by-product of audit findings and conclusions. More importantly, it is also the duty of the management of an agency to implement the audit recommendations for improvements in future operations.

Thus at least two types of control may be distinguished here:

(a) accountability control which is concerned with ensuring that the money appropriated for a particular purpose is not applied to some other purpose, and that there is no defalcation; in other words to ensure legality and honesty; and (b) efficiency control which is concerned with the application of the most effective way to implement policies and execute programmes.

The question here is, to what extent does the Saudi Arabian system of financial control meet the needs of the government management ?

3. The Saudi Arabian Accountability Control

The accounting system is designed solely for regularity and accountability purposes, to ensure the legality of the expenditure and to reduce the possibilities of defalcation. The main thrust of the accounting system is to ensure that there is enough appropriated money to cover an expense and that an approval has been issued from the proper authority. Few other managerial purposes seem to be entertained in the design of the system.

The inspection function follows the same theme. The inspectors, besides examining the treasuries and the inventories, review some of the documents and the accounting books in order to ensure their regularity.

The accountability control aspect also occupies both the preaudit and the post audit functions. A preauditor or a post auditor may not attempt to interfere with a transaction on an efficiency and economy bases.

While the system of financial control, with its present characteristics, is important to financial administration in the government of Saudi Arabia, this system of financial control in itself is not sufficient to provide effective financial administration. The system does not enable the decision makers to exercise effective financial control. The system does not provide the kinds of data needed for purposes of economic and functional analysis. The system does not indicate how much each programme costs, or how much agencies are expending on certain activities. Furthermore, it does not indicate how efficiently or poorly the different programmes are being carried out.

4. Meeting Today's Environment

The accounting system of government plays an essential part in the preparation and execution of the budget. The accounts should give current information about the status of all phases of the government's financial activities. The accounting system should provide accurate data promptly for administrative control over the execution of the budget plan. It should also produce the financial information required for subsequent budget planning and formulation. Thus, budgeting and accounting must be closely linked. The effectiveness of budget administration depends to a very considerable extent upon the ability of the accounting system to produce data that is current and correct and that has pertinence and meaning as a guide to making decisions about programmes and their costs.

It is the ideal time to introduce a new system, a new approach, to meet the requirements of today's environment. The effectiveness of the

Saudi Arabian system in meeting the demands made upon it will depend on the management arrangement for modifying the accounting system, the delegation of authority, the establishment of a satisfactory system of internal control, and the establishment of a high standard of qualified staff, to make it possible for the system to provide the decision makers at the top echelon with meaningful information relevant to top level decisions.

The traditional emphasis on legislative control of agency spending served to establish a rigid pattern of accounting, designed to meet requirements for accountability and to demonstrate compliance with legal limitations on the use of funds.

With the increase in the scope and complexity of the government operations in Saudi Arabia, efforts should be directed to freeing the budget from the limitations imposed by traditional fiscal control approaches. The budget can be classified and modified by introducing a type of programme classification. Bearing in mind first, that attention must be given to tailoring the accounts structure and methods of recording data, to produce information needed for budgeting; second, the accounting point of view must be represented to assure that acceptable accounting standards and practices are maintained in the recording of transactions and the production of information. Moreover, the accounting system must give appropriate recognition to necessary features of internal audit and control, and it must provide for an independent audit to assure the integrity of financial statements and reports. These elements are necessary to assure that the provision of current information is soundly based.

Delegation of authority and good fiscal management is indispensable to effective budget administration, and governmental practices in financial planning, reporting, accounting, and internal auditing must support and complement budgeting to break the present "vicious circle" and to have a lasting impact.

5. Delegation of Authority

The delegation of authority may be undertaken for various reasons. One such reason may be to alter the size of the span of control in each part of an organisational hierarchy to reduce the consequent information flows that need to be regularly attended to by each rung of the executive ladder. In addition, such authority delegations may be given to people who are in a position to make the best decisions either because of specialised knowledge, geographical proximity, or because of the need for immediate attention to certain aspects of the information network of subgroup activity.

Freeman mentions that:⁶²

"A basic tenant of management is that whereas responsibility may be delegated by a higher authority to a subordinate, the higher authority continues to be responsible for the actions of the subordinate. In other words, authority can be delegated but responsibility cannot be delegated. However, the subordinate is responsible to the higher authority for proper exercise of the authority delegated to it."

⁶² Robert J. Freeman, "Governmental Auditing of Variable Scope", International Journal of Government Auditing, (October 1975), p.7

An improvement in civil service standards and an improved level of public responsibility can develop the increases in efficiency which derive from the delegation of financial responsibility.

Inefficiency in government accounting frequently stems directly from an institutional arrangement that sanctions repetitive accounting as a substitute for an adequate system to ensure accountability. These inefficiencies of repetition in government accounting can be eliminated by the delegation of financial responsibility and the development of a pattern of internal financial control to ensure that the responsibility is maintained. The delegated authority will develop a high standard of administration, which will provide administrators with a greater flexibility of action and will encourage the development of responsibility.

In the operation of a government accounting system, accountability requirements are satisfied, in part, by internal controls dealing with the handling of financial transactions. These include separate assignments of responsibility for maintaining custody of funds, recording the data and taking final action on transactions so that no one person or organisation has exclusive control over a transaction or group of transactions. This arrangement provides internal cross check relationships that derive their effectiveness from the normal functioning of the individual or groups concerned. In the handling of receipts, for example, custody of incoming funds would be placed with one individual, accounting for receipts with another, and their deposit with a third individual. On the expenditure side, approval of the use of funds would be vested in one individual, payments would be handled by another, and recording the transactions would

be placed with a third person. Under such arrangements, the action of one individual serves as a check on the accuracy and integrity of the others. While these examples illustrate widely observed principles of internal control, the arrangements in individual countries must be designed to fit the environment. It should be recognised that excessive separation of related operations can lead to inefficient management. Above all, effective supervisory arrangements make a vital contribution to the success of these kinds of internal controls.

6. The System of Internal Control

It was previously mentioned that internal control does not exist in the Saudi Arabian financial system. Introducing and emphasising efficiency in the Saudi Arabian financial control system will help to remedy a serious shortcoming suffered by the system. One of several recommendations is introducing a satisfactory system of internal control. The management of each agency and ministry is responsible for installing and maintaining a satisfactory system of internal control for the purposes of safeguarding resources, verifying the accuracy and reliability of financial and management information, promoting operational efficiency, encouraging adherence to prescribed policies and achieving programmed goals and objectives. The adequate separation of functions and duties so that no one person is responsible for any operation or transaction from its initiation to its conclusion is a basic feature of any sound internal control system, thus requiring collusive action to carry out any irregularity and linking this principle with the one immediately preceding. The existence of a satisfactory system of internal control by no means eliminates irregularities, nor the possibility of their occurrence but it does minimise their probability.

If, on the other hand, errors and irregularities are considered as probable, due to unsatisfactory internal control, the only means of verification and attestation by the auditor will be a completely detailed examination of every operation and transaction. Detailed review and examination was feasible in the days when government operations and activities were limited to the maintenance of internal and external peace and order. However, with the vast increase in government activity and consequent growth in the Saudi projects and programmes, detailed reviews and examinations are neither feasible nor justifiable. In their stead the auditor should be able to rely upon his review and evaluation of the system of internal control and, based upon this, to establish the degree of testing of operations and transactions he considers necessary in the circumstances. His aid to management in attaining a more efficient operation can and should be an equally important function. Determining the effectiveness of the organisational plan, division of responsibilities, and such special control procedures as budgetary controls, reports, analyses, and cost systems are among the areas which the internal auditor should cover in his review.

Obviously, the government auditor has a profound responsibility to detect and disclose weaknesses in the system of internal control and to make the necessary recommendations for strengthening it. In application this would mean that the preaudit control would be eliminated, and supplanted by a system of internal control under the supervision of the head of an agency. When this is established, work of the General Auditing Bureau could change character to test reliance on internal control and evaluate programme effectiveness of a reclassified budget. The character of the G.A.B. auditing of accounts would be altered to avoid the necessity

for verifying every transaction. A shift from the accountability control to efficiency control can be achieved. The role of the G.A.B. will be not merely to verify the case and the regularity of accounts and supporting documents, (See p.133), but to go further and assess the way in which a ministry is carrying out its programmes. Thus the G.A.B. will provide the Council of Ministers with information on how the ministries are operating and how the major programmes are being implemented.

7. The Preaudit System Under the Suggested Scheme

It has been mentioned previously that the financial comptrollers are under the jurisdiction of the Ministry of Finance and that they are auditors working on their own, without any staff, for one or more agencies. In practice, duplication arises between the G.A.B. and the financial comptrollers in certifying documents. Also conflicts arise between the financial comptrollers and the administrators about the legality of expenditures made in accordance with the budget regulations. This duplication, conflicts and inefficient effort arise in controlling the least scarce commodity, i.e. money. Therefore the financial comptrollers could be taken from their existing duties and made responsible for installing and maintaining internal control systems as internal auditors, using their existing knowledge of the ministries in which they work. Chambers mentions that:⁶³

"An auditor working on his own is not so efficient as he misses the stimulus of discussion, but the optimum size in terms of 'output per auditor' is probably no more than two or three auditors."

⁶³ A.D. Chambers, Handbook of Financial Management, Kluwer Harrap Handbooks Ltd., (1977), p.6.2.1-14.

Therefore, an internal auditing office could be set up in each ministry and agency and its head appointed in agreement with the Ministry of Finance and the G.A.B. The office would be directly responsible to the minister or head of the agency, who may delegate his powers to an official for this purpose. The official should, however, be the permanent head of an agency, (Under Secretary), since the appointment of a person in charge of a subordinate section might lead to a collision of interests with the internal audit office, which would limit the impartiality and independence of the audit. The agency head would protect the internal auditor's status and ensure that errors and weaknesses reported by it are corrected. The internal audit office would follow the directions and guidance of the minister or the head of the agency and report to him any important questions which arise during the audit. The objective of the internal auditor is to improve the systems of internal control and to guarantee a complete supervision of the execution of the budget, where the G.A.B. audit would be strengthened and expanded to include an appraisal of the effectiveness of the administration as a whole.

8. The Functions of Internal Auditing

A study has been made by a number of organisations outlining the functions of internal auditing and the qualities required of an internal auditor.⁶⁴

"To operate an imaginative and effective system of internal audit as a key function of the company's control activities.

⁶⁴ E.H. Woolf, F.C.A., Internal Auditing, (Eds. W.W. Bigg & J.O. Davies), HFL Publishers Ltd., London (4th edition, 1973), p.28.

To cover constructive appraisal of methods of accounting and administration. To audit the management accounting, covering particularly financial accounts, costing and stocks, and proposing, where necessary, changes in instructions and routines. To review accounting, financial and other management controls. To undertake a critical review and the improvement of accounting and administrative procedures for ensuring the observance of all procedures designed to safeguard the company's money and assets. To be responsible for the examination of management controls rather than the verification of detailed figures. To undertake investigatory surveys in factories and offices. To make a positive and imaginative contribution to the efficient operation of the business."

The scope of internal auditing covers the full legal and accounting regularity of receipts and expenditures and the administration of the agency, in other words, a complete coverage of the affairs of the agency. The internal audit office should be directly responsible to the head of an agency.

The head of an agency is responsible for establishing and maintaining a system of accounting and internal control designed to provide:

- (1) Full disclosure of the financial results of the agency's activities;
- (2) Adequate financial information needed for the agency's management purposes;
- (3) Effective control over accountability for all funds, property, and other assets for which the agency is responsible, including an appropriate internal audit.

The basic objectives which the internal auditor adopts are well stated in the "Statement of Responsibilities of the Internal Auditor", issued in 1957 by the Institute of Internal Auditors. It reads as follows:

"Internal auditing is an independent appraisal activity within an organisation for the review of accounting, financial, and other operations as a basis for service to management. It is management control which functions by measuring and evaluating the effectiveness of other controls. The over-all objectives of internal auditing to assist all members of management in the effective discharge of their responsibilities by furnishing them with objective analyses, appraisals, recommendations and pertinent comments concerning the activities reviewed. The internal auditor should therefore be concerned with any phase of business activity wherein he can be of service to management."

There are two points of particular interest in this. The first one is the emphasis upon the independence of internal audit within its parent department; the real point at issue is whether the internal auditors should be responsible to the heads of the agency or to the Ministry of Finance. Such subordination might place them in the position of having reason to criticise the actions and decisions of their own immediate superior, which would inevitably endanger their independence. The point is a valid one: placing the internal audit in direct responsibility to the head of the ministry gives it a detachment which is a vital asset for all impartial auditing.

Secondly, the systematic dovetailing of the function of the internal auditor, under the general supervision of the head of the agency, appears to be a rational way of utilising limited manpower resources. It also will help the internal auditor to conduct newer types of audit, to study

administrative procedures, to investigate questions of particular importance which may necessitate report action, to extend his activities to cover a wider field and broaden his approach to embrace a new concept of his responsibilities. This will lead to a positive contribution to the management process. Hitherto his attachment to the Financial Ministry has led to the duplication and conflict in auditing processing between the financial comptrollers, the G.A.B. and management. On the other hand, the financial comptroller is overloaded, and his auditing covers regularity only. But under the proposed system the internal auditor's detailed knowledge of the agency and its officers and what goes on can be of immense value to the G.A.B. auditors and a frank exchange of information can often make all the difference. Complete independent working would result in much unnecessary duplication of effort; it is far better for them to plan together and for each to complement the other.

9. Qualities and Qualifications Required in an Internal Auditor

The internal auditor should have a thorough knowledge, both theoretical and practical, of accounting and also of the internal regulations governing the accounting procedures in operation. It is also important for the internal auditor, when discussing accounting matters with accounting executives, to be able to talk on equal terms about accounting technicalities. The internal auditor should have a knowledge of the activities that the agency is involved in. The qualities that are required in an internal auditor are:⁶⁵

"Mature man with a positive personality and a good potential for future growth in stature and responsibility. He should

⁶⁵ Ibid., p.28

have a discerning mind, a capacity for orderly and lucid exposition in the written or spoken word and the ability to see the wood as well as the trees. A willingness to benefit from the latest ideas in the field of internal auditing. Tact and personality to obtain willing co-operation from other managers. Must have independent judgement for particular situations that may be presented. Must be alert to opportunities for improvements in accounting procedures and reports, office functions, manufacturing costs, budgets, inventory controls and related business activities. Must be able to write intelligent and constructive reports on audit findings and recommendations. Should possess the necessary qualities to achieve co-operation of staff at all levels and to report clearly and concisely to management on accountancy and administrative matters."

Moreover the internal auditor must dramatically extend his activities to cover a wider field and broaden his approach to embrace a new concept of his responsibilities, this will lead to a positive contribution to the management process. This is, in the age of big government, his positive and growing contribution to the financial control cycle.

10. The Role of the Ministry of Finance

The Ministry of Finance shall continue to be responsible mainly for accountability control. It exercises such control through the budget, accounting and inspection. However the functional relationship between the Ministry of Finance and the internal auditor, on one hand, and the financial departments in the ministries and agencies on the other, must add a positive dimension. The role of the Ministry of Finance should not be merely that of watchdog. The Ministry of Finance should utilise the functional relationship with the financial departments to upgrade their technical abilities and to improve their skill and performance through

such means as advising, providing literature and sponsoring special projects aimed at such development. It is not enough to ensure that each transaction complies with budgeting and accounting law, the Ministry must contribute positively to the improvement of all the technical stations through which a transaction travels before it reaches the desk of the G.A.B. auditors.

The strengthening of the functional relationship between the Ministry of Finance and the financial departments in the ministries and agencies, as well as the assumption of a positive role by the Ministry in improving and developing these departments, will result in a more effective internal financial administration with which the internal auditor can deal. Such improvement and development will facilitate the internal auditing function and enable the internal auditor to play a more active role in other financial functions of the Ministry.

11. The Problem of Qualified Staff

There are widespread shortages of staff with appropriate qualifications and an unusually high turnover (See p.134). To find people who possess the experience of both auditing in government agencies or public corporations, as well as experience as technical personnel in charge of projects requiring specialised knowledge, is therefore most difficult.

Even if a particular person is found among the staff of private sector auditors or from outside Saudi Arabia, where the possibility is high that he will meet the requirements, he will not be the best choice.

This is because auditing conducted by the financial comptrollers or by the G.A.B. have fundamentally different objectives than auditing conducted by the private sector or by any other foreign government. The fact is that all financial matters in government are subject to consideration, approval and review by the legislature. The extent and nature of legislative control may vary among countries for a number of reasons, and may differ according to the kinds of activities involved.

Then there is the problem of financial reward. In seeking a well qualified auditor from the private sector one has to recognise that the income being offered is not nearly as attractive as that paid by the private sector. Also, the fact is that the nature of the auditing job does not really satisfy the aspirations held by most technical personnel who prefer activities involving some creativity. This problem has been mentioned in one of the United Nation's publications that:⁶⁶

"Another problem, particularly acute in developing countries, concerned personnel, local government service often did not attract well-qualified persons. The latter generally found conditions of service in the national government and private enterprise more attractive."

The most pressing problem in this regard in Saudi Arabia is the inability of the government system to secure the services of an adequate number of well qualified staff to enable them to meet the growing demands of development. In the financial departments, the financial comptroller's office or the G.A.B., there is frequently neither the prestige nor the ability to offer conditions of work sufficient to attract well trained staff.

⁶⁶ United Nations, Department of Economic Affairs, "Local Government Reform : Analysis of Experience in Selected Countries", New York, (1975), Paragraph 32, p.10.

It is wise to attract those who are well qualified as staff in the internal auditing field by giving them the guarantee of receiving a reward, such as housing possessory, scholarships for higher education, and giving them status by such ranks as Assistant Internal Auditor, Internal Auditor, and Chief Internal Auditor. This kind of status would keep the internal auditors in the service for a long period of time to achieve this professionalism through their careers.

12. Development of Accounting Skills

It is true that considerable efforts have been, and are being, made to provide training that would enable the acquisition of staff with the required technical skills, but the programmes were not as extensive as they should have been. There were cases where the operational levels of staff were trained but the policy levels of staff were neglected, and vice versa. This can happen in any "autocratic" regime. To improve the level of accounting, several modifications are needed in supplementary areas, such as comprehensive training, to take up these new tasks. This is possible once the 'slack' has been created by replacing duplicated, ineffective 100% auditing with internal control and selective systems based auditing. A special effort should be launched for the purpose of providing the agencies with the best possible persons. Better recruiting techniques and intensified in-service training programmes are among the required measures.

The purpose of a comprehensive training programme is to improve the abilities possessed by each member of the financial departments, and the

government auditors, to carry out their responsibility and their duty efficiently. They have to learn how to express their ideas, criticisms, and their recommendations in well written reports and the art of oral expression in daily work and contacts. Woolf mentioned that:⁶⁷

"If the training programme is effective it should result in:

- (1) the creation of auditor's staff competent to undertake the responsibilities assigned to them;
- (2) the creation of a reserve of men, who having become experts in the organisation's accounting procedures, are available for promotion into the accounts or finance departments."

He continues his discussion by saying that:

"It should be remembered that the use of theory is to train the mind for action and not to overload it with doctrine and formulae. In considering whether or not to introduce training schemes, it is well to remember that nothing one generation can do is as important as its training of the next."

It is advisable for developing countries in general, and for Saudi Arabia in particular, to import foreign skills, temporarily, to help with this training programme, provided they do not try to impose "alien" solutions which do not fit the Saudi Arabian situation.

In Saudi Arabia there are a number of possibilities which may be explored. Firstly, almost every country has educational institutions, (e.g. Riyadh University, King Abdul Aziz University and the Commercial

⁶⁷ Woolf, op. cit., p.19

High Schools in each city in Saudi Arabia), for the preparation of commercial accountants. The curricula of those institutions may be capable of expansion into courses in government accounting procedures and techniques. Secondly, the Public Management Institute in Saudi Arabia may be encouraged to introduce an internal training programme. Junior level accountants without previous practical experience can be assigned to such a programme for a period of perhaps one year. A series of lectures to these students could serve for orientation to the nature of accounting operations within the government. After this part of orientation and training the students could be assigned to responsibilities in any of the agencies' accounting departments. Thirdly, for accountants already employed in government, a significant advance in levels of skills could be secured by in-service training programmes. (This has not been possible to date because of heavy workloads of all accounting personnel; but the proposals above show how 'slack' could be created to allow time for such training). These courses may be adapted to specific needs for the improvement of skills. In-service training programmes of this type have been successfully conducted by King Abdul Aziz University in Jeddah, Saudi Arabia.

The development of accounting and auditing skills of a higher level, such as those required for post audit, internal audit, or for the head of a financial department within a government agency, may be more difficult. In Saudi Arabia it might be necessary to provide this type of training through scholarships and fellowships for study abroad. In some advanced countries courses have been designed for the purposes of training foreign

government accountants and auditors. To make this course most fruitful, the candidate should have good ability in a foreign language, and take the course in a country where administrative institutions are similar to those of the country from which the candidate comes.

It should be stressed that the development of higher-level accounting skills within a government is of greatest importance. The utilisation of modern techniques, such as project control, programming, operations, and sample auditing, depends on such development. Only when such skills are available can there be important increases in efficiency and a corresponding reduction in the number of man-hours devoted to basic accounting functions within a government. The purpose of the campaign would be also to educate the agencies for which the internal auditor has been especially trained to help the agency's officials and employees in implementing the financial rules and regulations and to co-operate with them in solving budgeting and accounting problems. At the same time, in order to enable the internal auditor to appreciate the managerial difficulties of the operating agencies, every internal auditor should be given the opportunity to learn about the agency to which he is to be assigned and to learn about its programmes and activities.

A comprehensive legal system for administration in general and financial administration in particular is essential for the internal auditors to carry out their functions properly. The statutes and regulations, as well as changes and interpretations which follow, are in need of arrangement, coding and indexing in order to facilitate consultation and reference. Also the sizeable percentage of out-dated statutes and regulations need to be updated in accordance with new conditions and needs.

In conclusion, a financial control system is needed for the financial administration of a government in a developing country. Saudi Arabia, as a country which is still in the process of development is not an exception. The financial control system is intimately related to the influential role played by the internal auditors (financial comptrollers), officials who have the opportunity to influence and aid in the development of the whole system of financial administration. Therefore, every possible means should be undertaken for strengthening and improving the system of financial control in Saudi Arabia where it is needed and has an important role to play.

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