



INTERNATIONAL  
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# INTERNATIONAL Journal

of GOVERNMENT AUDITING

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The *International Journal of Government Auditing* is published quarterly (January, April, July, October) in Arabic, English, French, German, and Spanish on behalf of INTOSAI (International Organization of Supreme Audit Institutions). The *Journal*, which is the official organ of INTOSAI, is dedicated to the advancement of government auditing procedures and techniques. Opinions and beliefs expressed are those of editors or individual contributors and do not necessarily reflect the views or policies of the Organization.

The editors invite submissions of articles, special reports, and news items, which should be sent to the editorial offices at U.S. General Accounting Office, Room 7814, 441 G Street, NW, Washington, D.C. 20548, U.S.A. (Phone: 202-512-4707; Facsimile: 202-512-4021; E-mail: spel@gao.gov).

Given the *Journal's* use as a teaching tool, articles most likely to be accepted are those which deal with pragmatic aspects of public sector auditing. These include case studies, ideas on new audit methodologies or details on audit training programs. Articles that deal primarily with theory would not be appropriate.

The *Journal* is distributed to INTOSAI members and other interested parties at no cost. It is also available electronically at [www.intosai.org](http://www.intosai.org) and by contacting the *Journal* at spel@gao.gov.

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## contents

<b>Editorial</b>	<b>1</b>
<b>News in Brief</b>	<b>5</b>
<b>Reforms in the Mongolian SAI</b>	<b>11</b>
<b>Integrated Financial Management</b>	<b>15</b>
<b>CAROSAI Congress</b>	<b>19</b>
<b>Audit Profile: Saudi Arabia</b>	<b>22</b>
<b>Reports in Print</b>	<b>25</b>
<b>Inside INTOSAI</b>	<b>26</b>
<b>IDI Update</b>	<b>30</b>
<b>INTOSAI Calendar</b>	<b>32</b>

## New Initiatives in the State Audit Institution of Oman



*I am honored to have been invited to contribute the editorial for this issue of the International Journal of Government Auditing, especially in the 50<sup>th</sup> anniversary year of INTOSAI's establishment. INTOSAI has been a pioneer in promoting good public financial governance, which is a critical area in these days of shrinking budgets and increasing public expectations. Since this Journal enables SAIs to share their experiences, I will take this opportunity to highlight some of the key initiatives taken by my organization in the past few years. I hope that way our perspective will be useful to a large number of similarly placed SAIs around the world.*

### Introduction

The State Audit Function in Oman dates back to before 1970 and has undergone several transformations over the years, the main ones being the issuance of the first audit regulations in 1985 and the issuance of a new Audit Law in 1991. The SAI has continued to pursue improvements with the aim of enhancing its function. In 2000, a new State Audit Law was promulgated through a Royal Decree.

The objectives of the SAI's audit, as laid down in the State Audit Law are

- to conduct “post facto” audit of state public funds in order to protect them and ensure their proper and effective use;
- to expose cases of financial irregularities; and
- to highlight deficiencies in financial laws, rules, and regulations and recommend means of correcting these deficiencies.

## **New Audit Law**

The new State Audit Law of 2000 introduced two major changes. First, the SAI was made an autonomous, independent institution headed by a President with the rank of Minister. Second, the audit mandate of the SAI was expanded substantially to cover the following areas:

- Commercial enterprises, where the government has a majority shareholding or where government has granted a concession for a public utility or to exploit a natural resource;
- Pension funds for employees of government institutions, which are a major investor in the local private sector.

Interestingly, the new State Audit Law explicitly mandates the SAI to provide assurance with regard to the appropriateness of IT-based controls, systems and procedures and has specific references to the audit of, and access to, electronic data. The expanded audit mandate also covers the entire oil and gas sector (which forms the backbone of the Omani economy) in addition to other government-controlled commercial enterprises.

## **Human Resources Development**

To cope with the new requirements of our expanded mandate in the short-term, we launched a major initiative to upgrade the skills of our staff, with an emphasis on obtaining professional audit certifications, supported by specialized training courses and on-the-job attachments with other SAIs. We are now reaping the benefits of this initiative, with our younger staff obtaining professional certifications and taking on increased responsibilities for challenging audits.

## **Modernizing the SAI**

In addition to human resources development, we recognize the need to modernize our organization to meet the challenges of a globalized economy. The Government of Oman is also changing rapidly by adopting cutting-edge technology, such as e-governance. The oil sector, which constitutes a major portion of our audit coverage, has been known for adhering to international best practices and adopting state-of-the-art technology. As an audit institution, we need to keep pace with these developments.

Towards this objective, we are moving our audit focus from a traditional compliance-based approach to a value-for-money or performance-based approach, with an emphasis

on economy, efficiency, and effectiveness. Initially, we started with performance audits of government-controlled commercial enterprises, which we expanded to audits of government ministries and departments.

Because the oil and gas industry is vital to Oman's economy, we have been concentrating our performance audit resources mainly on this sector. Our performance audits have covered areas such as the following:

- the administered pricing mechanism for an oil refinery's petroleum products, as well as its treasury management practices;
- project management of a gas pipeline company's high-value construction projects as well as financing models for corporatization of existing government pipeline assets; and
- techno-commercial audits of a national oil company's operational contracts, followed by audits of exploration and production activities.

In addition to the oil and gas sector, we have conducted an evaluation of the business and fleet expansion plans for an airline, as well as core IT systems of specialized financial institutions. We are also working on an audit methodology initiative, which is intended to update our audit manuals, guidelines, and procedures and reengineer our internal business processes to minimize bottlenecks.

Pending the development of customized auditing standards and procedures, we are following the INTOSAI Auditing Standards, supplemented by (1) International Auditing Standards of the International Federation of Accountants for financial auditing and (2) Standards for Professional Practice issued by the Institute of Internal Auditors for operational/performance auditing.

We are adopting a phased approach to preparing manuals, starting with the newly formed Companies and Public Authorities Department. The manual for this department is being drawn up in four parts:

- Part I (which was finalized in mid-2002 and has been in use since then): procedures for administration and management of company audits.
- Part II: general principles and guidelines for conducting commercial audits.
- Part III: audit issues specific to each auditee company.
- Part IV: standard/suggested formats for different documents.

### **Constructive Relationship with Auditees**

We have also reoriented our relationship with our auditees to act more as an aid to management in order to optimize scarce government resources. In doing so, we have ensured that our independence continues to be maintained. In fact, our clients have appreciated the objective, third-party perspective that we provide as a strategic input to their decision-making processes. By doing so, we have established high credibility in the eyes of our auditees.

In addition to issuing formal written reports on critical audits, we have been making computer-based presentations followed by detailed discussions of our key audit findings to top management auditees. Our clients have participated enthusiastically in these efforts and have also given valuable suggestions for future audits. These presentation-cum-discussion sessions provide client feedback on our audit findings and facilitate immediate corrective action on them, which is the ultimate objective of our audit.

## Use of Information Technology

We have successfully leveraged IT to add value to our administrative and audit management processes, using intranet-based technologies, which minimize training costs as well as implementation difficulties. In addition, we have developed considerable expertise in the analysis of computerized auditee data, especially for our performance and investigative audits. Our expertise in this area has been recognized by our auditees, who, from time to time, have availed themselves of our assistance to fine-tune their own IT plans.

## International Cooperation

We have been a long-standing member of INTOSAI and are also members of both ARABOSAI and ASOSAI. In addition, we are members of INTOSAI's standing committees/working groups on IT audit, internal control, and privatization audit. Our association with INTOSAI members has enriched our SAI's capabilities. In turn, we have been sharing our experiences by conducting training courses on Computer Assisted Audit Techniques (CAATs) for staff from other Arab SAIs. We have also led a project on "Intranets for SAIs" and updated CAATs Training Courseware on behalf of the INTOSAI IT Audit Committee. We are presently hosting the Arabic language web site of the Committee, and we are leading a project on "Use of CAATs for Non-financial Audits." With regard to the Internal Control Committee, we have rendered assistance in translation of the Committee's products into Arabic. These activities have been highly appreciated and have motivated us to continue further work in this direction.

In addition to multilateral exchanges, we had the pleasure of hosting the Auditors General of the U.K. and India this year. These bilateral exchanges were highly fruitful, and we plan to continue our close cooperation with other SAIs to our mutual benefit.

## Conclusion

Auditors the world over need to update their skills and reinvent themselves to meet the emerging challenges in their environments – both technological and methodological. This is facilitated by the practice of Continuing Professional Education, which is a requirement of the INTOSAI Auditing Standards. This *Journal* provides a useful forum for such exchanges of experiences and information. With these words, I commend this issue to our readers.



# NEWS



## INTOSAI and Austrian Court of Audit Mourn the Demise of Dr. Tassilo Broesigke



Dr. Tassilo Broesigke  
 1919 - 2003

The INTOSAI General Secretariat sadly announces the unexpected demise on September 9, 2003, of Dr. Tassilo Broesigke, President of the Austrian Court of Audit and Secretary General of the International Organization of Supreme Audit Institutions (INTOSAI) from 1980 – 1992.

Born on June 8, 1919, into a family of noble descent near Karlovy Vary in

the former Czechoslovakia, Dr. Broesigke studied philosophy and law in Vienna, Heidelberg and Munich. After his graduation in 1947, he became a lawyer. Following many years of political activity in municipal Vienna, where he served as a member of the Vienna Diet, member of the Vienna Municipal Council, and District Councillor of the City of Vienna, Dr. Broesigke became a member of the Austrian national parliament in 1963 and served there as Chairman of the Standing Parliamentary Committee for Judicial Affairs. In July 1980 he was appointed President of the Austrian Court of Audit. During his distinguished public service career, Dr. Broesigke was honored with numerous high-ranking national and international medals, awards and distinctions for meritorious services and outstanding achievements.

Throughout his presidency, Dr. Broesigke left a lasting imprint on government audit, strengthening its reputation both in Austria and on a global scale as Secretary General of INTOSAI. He will be remembered as a champion for the cause of government audit who served with unswerving commitment and dedication towards the aims of this organization.

The death of Dr. Broesigke bereaves the international audit community of one of its outstanding representatives. As Secretary General he spearheaded the international development of government audit by the foundation of Regional Working Groups such as ARABOSAI (Arab Organization of

Supreme Audit Institutions) and EUROSAI (European Organization of Supreme Audit Institutions), as well as of the committees for Auditing Standards, Accounting Standards, Internal Control Standards, IT audit, and the audit of public debt.

Dr. Broesigke orchestrated gradual reforms in INTOSAI to enhance and cement the status of INTOSAI as a universally accepted international organization. He took an active part in the INTOSAI Congresses in Manila, Sydney, and Berlin, and initiated the preparations for the statutes reform that was finally adopted in 1992.

Dr. Broesigke was a person of direction, honesty and unwavering principles. He enjoyed utmost respect and acceptance across political divides for his unerring and serious frame of mind. Behind his matter-of-fact and competent personality was a warm-hearted and humorous man.

The Austrian Court of Audit and INTOSAI will always honor the memory of Dr. Broesigke with deep respect and gratitude. Our sympathy goes to his family and all those who were close to him.

## Canada

### 125<sup>th</sup> Anniversary of the Office of the Auditor General

On May 14, 2003, the Office of the Auditor General of Canada (OAG) celebrated its 125<sup>th</sup> anniversary with a ceremony on Parliament Hill. Over 300 guests from Canada and 17 different countries joined Auditor General Sheila Fraser at the May 14, 2003, Parliament Hill ceremony celebrating the OAG's anniversary.



Canadian Auditor General Sheila Fraser

The Speakers of the House of Commons and the Senate jointly hosted the event, which was attended by representatives from the Canadian federal government, Canadian provincial auditors general, and the heads of the supreme audit institutions of Antigua and Barbuda, Mrs. Arah Armstrong; Cameroon, Mr. Njiemoun Mama; Norway, Mr. Bjarne Mørk-Eidem; Peru, Dr. Genaro Matute Mejia; and the United States, Mr. David Walker. Senior officials of 11 supreme audit institutions and the INTOSAI secretariat also took part in the celebrations.

The celebrations were held in conjunction with a meeting of the INTOSAI Sub-committee on Independence of Supreme Audit Institutions and a Speaker's Forum on significant public sector issues.

The Speaker's Forum included sessions on (1) health care led by the Honorable Monique Begin, former Minister of Health in the Canadian federal government, and Dr. Chris Carruthers, Chief of Staff of the Ottawa Hospital System; (2) fiscal sustainability led by David Walker, Comptroller General of the United States, and Kevin Lynch, Deputy Minister of Finance in the Canadian federal government; and

(3) performance management, reporting and audit led by Caroline Mawhood, Assistant Auditor General in the National Audit Office of the United Kingdom, and Lee McCormack, Acting Associate Deputy Comptroller General of Canada. The forum also included a short luncheon speech by the Honorable Lucienne Robillard, President of the Treasury Board in the Canadian federal government.

## History of Canadian OAG

In 1878, the Parliament of Canada passed a law that provided for the appointment of the first independent Auditor General. That legislation provided the groundwork for 125 years of dedicated service to Parliament and to Canadians.

Although the legislation governing the OAG has changed a number of times since then, the mandate remains fundamentally the same: to provide Parliament with information that it needs to hold the government of the day accountable for its stewardship of public funds. In Canada, control of the public purse is the exclusive prerogative of Parliament.

To fulfill this mandate, the OAG performs two basic types of legislative auditing: annual financial audits and value-for-money, or performance, audits.

Annual financial audits of federal government departments, agencies and Crown corporations result in some 100 opinions a year that attest to, or verify, the accuracy of their financial statements. The OAG also does financial audits of three Canadian territories, with combined expenditures of some \$2 billion, including 15 territorial organizations. Internationally, the OAG audits two United Nations bodies, UNESCO and the International Civil Aviation Organization (ICAO).

Every year, the OAG audits the Public Accounts of Canada—the federal government's summary financial statements. Covering about \$180



billion in assets and \$700 billion in liabilities, this audit is very likely the largest in Canada.

In 1977, a new Auditor General Act clarified and expanded the Auditor General's responsibilities. In addition to financial and compliance work (regularity auditing), the OAG was given a broader mandate to examine how well the government managed its affairs.

The OAG began to ask new questions: Were government expenditures being made with due regard for economy and efficiency? Was the government accurately measuring the effectiveness of its programs? The new act maintained the important principle that the Auditor General does not comment on policy choices, but does examine how policies are implemented.

This was the beginning of value-for-money auditing, which basically seeks to determine whether or not taxpayers are getting value for their tax dollars.

In 1984, amendments to the Financial Administration Act made Crown corporations subject to a form of value-for-money auditing called the special examination. The reports resulting from these audits are provided directly to the boards of directors of Crown corporations and, in exceptional circumstances, to the responsible minister and Parliament.

In June 1994 the Auditor General Act was amended to provide for the production of up to three reports per year in addition to the annual report.

Further amendments to the act in December 1995 established the position of Commissioner of the Environment and Sustainable Development within the OAG. These amendments required government departments to publish annual sustainable development strategies. The Commissioner is responsible for reporting to the House of Commons on the extent to which departments have met the objectives

set out in their sustainable development strategies and action plans. She also reports on all other environmental matters that she thinks should be brought to the attention of the House.

The OAG contributes to INTOSAI by participating in a number of its committees and working groups. Canada chairs the Environmental Working Group and the Subcommittee on SAI Independence of the Auditing Standards Committee. The OAG also participates in the Committee on Information Technology Audit, the Public Debt Committee, and the Auditing Standards Committee.

The OAG has also been a prominent supporter of training programs for auditors from national audit offices of developing nations. It is a member of the Board of the INTOSAI Development Initiative (IDI) and contributes to its training programs.

Every year, as part of the Canadian International Development Agency (CIDA)-funded International Audit Office Assistance Program, senior government auditors from developing countries spend 9 months at the OAG becoming familiar with Canadian techniques in public sector auditing with a particular focus on value-for-money.

As an independent audit office serving Parliament and the well-being of Canadians, the Office of the Auditor General of Canada has set as its vision to promote an accountable, ethical, and effective federal public service; good governance; sustainable development; and the protection of Canada's legacy and heritage. It strives to be widely respected for the quality and impact of its work.

For additional information, contact: Office of the Auditor General, fax: ++1 (613) 957 - 4023; e-mail: [frasers@oag-bvg.gc.ca](mailto:frasers@oag-bvg.gc.ca); Internet: [www: http://www.oag-bvg.gc.ca](http://www.oag-bvg.gc.ca).

## People's Republic of China

### Audit Report for 2002 Issued

On June 23, 2003, Mr. Li Jinhua, Auditor General of China, presented his report on the audit of budget results for 2002 to the Standing Committee of the 10th National People's Congress. The Audit Law of China requires that the Auditor General report the results of the annual audit of the national budget. While the report was generally positive, Mr. Li commented on issues of noncompliance with the national budget law, poor management of budget funds in some departments, irregularities in tax and tariff departments, and waste and inefficiency in some public work projects. The report also highlighted management problems in two major state-owned banks and serious financial difficulties in some county and township governments. The report addressed the root causes of the major findings and called for sustained government leadership to improve financial management.

### Five-year Strategic Plan (2003-2007) Launched

On July 1, 2003, the National Audit Office (CNAO) published the 2003-2007 strategic plan. The plan states that the overall objective of CNAO is to continuously improve the quality of audit work by strengthening management and enhancing the quality of the workforce. CNAO plans to bolster its regulatory framework and audit methodology and further standardize its government auditing processes. CNAO also anticipates a greater role in detecting fraud and corruption. For the first time, CNAO proposes an equal emphasis on performance and financial audits; it projects that by 2007, half of its audits will be performance oriented. Other priorities of CNAO include building a quality control and risk management system and disseminating more products to

reach a wider audience and promote greater transparency.

For more information, please contact: International Department, National Audit Office of China, 1 Beiluyuan, Zhanlan Road, Xicheng District, Beijing, China; fax: ++86-10-6833 0958; e-mail: [cnao@audit.gov.cn](mailto:cnao@audit.gov.cn).

## New Zealand

### Annual Report Submitted to Parliament

On June 12, 2003, New Zealand's Controller and Auditor-General, Kevin Brady, submitted a report to Parliament on the results of his office's audits of the central government and its agencies for 2001 through 2002.

The government's own financial statements received an unqualified audit opinion, as did the financial statements of all but one of the 43 government departments. However, the report drew Parliament's attention to a number of significant items, including valuation of physical assets, outstanding student loan debt, the consolidation of subsidiary entities, and accounting policy. The report also dealt with other matters, such as the investment policies and practices of a major state corporation and whether the available accountability information on student loan debt had improved.

The full text of the report can be viewed on [www.oag.govt.nz](http://www.oag.govt.nz) under "Publications." For additional information, contact Office of the Controller and Auditor-General, Wellington 1, New Zealand; fax: ++64 (4) 917 15 49; e-mail: [information@oag.govt.nz](mailto:information@oag.govt.nz); Web site: [www.oag.govt.nz](http://www.oag.govt.nz).

## Nigeria

### New Auditor-General Appointed

Mr. Joseph Oloyede Ajiboye was appointed to be the new Auditor-

General for the Federation of Nigeria on July 29, 2003, following his confirmation by the Senate. He succeeds Mr. P.N. Akubueze, who retired from office in December 2001.

Mr. Ajiboye graduated from the University of Ife (now Obafemi Aolowo University) in Nigeria in 1973, receiving a Bachelor's of Science degree in Economics with honors. He was admitted as a Fellow of the Association of Chartered Certified Accountants in 1986. He is also a Fellow of the Institute of Chartered Accountants of Nigeria and a member of the National Institute for Policy and Strategic studies. In 1981, he completed the International Auditor Fellowship Program at the U.S. General Accounting Office.

Mr. Ajiboye began his civil service career as an auditor in 1974 and held a number of senior positions for the Office of the Auditor-General, including serving as head of the training, extra-ministerial, and ministerial divisions. He has participated in many INCOSAI and Commonwealth Auditors General Conferences as a delegate and head of delegation. Prior to his appointment, he served as the Acting Auditor-General from January-July 2002 and again from February-July 2003.

Mr. Ajiboye brings a wealth of experience in public financial management to his new position. He is committed to the developing the skills of staff to enable them to achieve the best possible performance.

For additional information, contact: Auditor-General for the Federation, Federal Audit Department, 18, Bamako Street, Wuse Zone 1, P.O. Box 128, Garki, Abuja, Nigeria; fax: ++234 (1) 523 77 92.

## Rwanda

### Office of the Auditor General Established

On May 26, 2003, Rwanda established its Office of the Auditor General through a referendum vote and granted it the exclusive mandate as Rwanda's supreme audit institution in the Constitution (art. 183 and 184). The new office replaces Rwanda's former national audit organization, the Cour des Comptes. The Office of the Auditor General of Rwanda will represent the nation in all international areas involving other supreme audit institutions.

For additional information, contact: Office of the Auditor General for State Finances, P.O. Box 1020, Kigali, Rwanda; fax: ++250-512045; or e-mail: [oag@rwandal.com](mailto:oag@rwandal.com).

## Trinidad and Tobago

### Special Report on Transport

On June 10, 2003 the Auditor General of the Republic of Trinidad and Tobago submitted to the Parliament a Special Audit Report on the Transport Division of the Ministry of Works and Transport. Since 1951, the Transport Division has overseen the registration and inspection of motor vehicles, administered driving tests, and granted driving permits. The licensing office of the Transport Division contributes 1.4 percent of the country's total revenue. From 1951 to 2000, the number of vehicles in Trinidad and Tobago increased from about 23,500 to about 316,000, and the Transport Division was decentralized to meet the needs of the growing vehicular population. Against this backdrop and in response to media reports of problems in the quality of services provided by the Transport Division, the Auditor General requested this special audit.

A key finding of the audit indicated that since 1994, the Transport Division's computer system has not

adequately supported the division, resulting in the use of paper records. Cumbersome paper files that were hard to locate and verify led to a variety of problems, including long lines for car inspections, delays in providing certified copies of records, fraudulent registration and inspection certificates going undetected, and clients being limited to one location from which to obtain certified copies.

The Auditor General reported that by fully computerizing the systems for the registration and inspection processes, the Transport Division to could enhance the level of service it provides to the public. It would expedite the division's ability to trace vehicle registration numbers, identify permit numbers, reduce the time it takes to ensure that vehicles are in compliance with laws, and increase the earning capacity of the division. Also, computerization would facilitate links between the Transport Division, the police, the judicial system, and insurance companies that would enable the government's ability to detect and prosecute offenders. These improvements are also part of the nation's focus on attaining developed nation status by 2020.

For additional information, contact: Auditor General's Department, P.O. Box 340, Port of Spain, Trinidad and Tobago; fax: ++1 (868) 627-0152; e-mail: [audgen@opus.co.tt](mailto:audgen@opus.co.tt).

## Yemen

### New Head of SAI Named

In accordance with Presidential Decree No. (13) for the year 2003, Dr. Abdullah Abdullah Al-Sanafi took over as the President of Yemen's Central Organization for Control and Auditing (COCA) on July 7, 2003.



Dr. Abdullah Abdullah Al-Sanafi

Dr. Al-Sanafi obtained a bachelor's degree in Administrative Science from the University of Baghdad in 1974, a master's degree in Administrative Science from the University of France in 1980, a master's degree in Business Administration from the University of Al-Mansora in Egypt, and a Ph.D. in Business Administration from the University of Asyut in Egypt in 1993.

Before becoming COCA's Deputy President for the Economic Sector, a position that he held from 2001 through 2003, Dr. Al-Sanafi held various other posts. He was a COCA general director from 1974 through 1977, an expert in the Civil Service Ministry from 1980 through 1987, an assistant professor and assistant dean at Sana'a University from 1993 through 1998, and the Dean of the Faculty of Commerce in the Khamer Branch of Sana'a University from 1998 through 2001.

For additional information, contact: Central Organization for Control and Auditing, P.O. Box 151, Sana'a, Yemen; fax: ++967 (1) 41 08 47; or e-mail: [coca@y.net.ye](mailto:coca@y.net.ye).

## European Court of Auditors

### Recent Reports Issued

During the first half of 2003, the European Court of Auditors produced a number of special reports. These include the following:

- No. 1/2003: Prefinancing of export refunds.
- No. 3/2003: The invalidity pension scheme of European institutions.
- No. 4/2003: Rural development: Support for less-favored areas together with the Commission's replies.
- No. 5/2003: Funding of environmental projects in the candidate countries together with the Commission's replies.
- No. 6/2003: Twinning as the main instrument to support institution-building in candidate countries together with the Commission's replies.
- No. 7/2003: Implementation of assistance programming for the period 2000-2006 within the framework of the Structural Funds.
- No. 9/2003: System for setting the rates of subsidy on exports of agricultural products (Export Refunds) together with the Commission's replies.
- No. 10/2003: Effectiveness of the Commission's management of development assistance to India in targeting the poor and ensuring sustainable benefits together with the Commission's replies.

For a complete list of the special reports and the text of the reports, consult the Web site of the European Court of Auditors: [www.eca.eu.int](http://www.eca.eu.int) or email the Court at [euraud@eca.eu.int](mailto:euraud@eca.eu.int).

## NATO

### 50th Anniversary of International Board of Auditors

In the spring of 2003, the International Board of Auditors for the North Atlantic Treaty Organization (NATO) celebrated its 50th anniversary.

The Board is the external auditor for 65 NATO agencies and military commands and for the military infrastructure the member nations have built on behalf of the organization. The Board carries out has its mandate for financial and certification, compliance, and performance audits in accordance with INTOSAI and International Federation of Accountants (IFAC) standards. The Board's six members are generally high-ranking officials from the nations' audit bodies. They are appointed for 4-year terms by the NATO Council from candidates nominated by the member nations. Staff members with international status assist the Board members.

The Board issued a commemorative report on the occasion of its 50th anniversary. The report gives a detailed historical overview of the NATO audit system from its inception in the early 1950s to the present. It also describes the two main audit sectors of NATO bodies and the NATO Security Investment Program, main areas of concern, and achievements of the Board's audit function. The report's final chapter addresses the challenges the Board will face in the coming years, including a series of events in NATO and developments in the audit profession that are likely to influence its work. Such challenges include enlargement, the implementation of International Public Sector Accounting Standards in all NATO organizations, audit cost recovery, resourcing of audits, and standard-setting for financial and administrative best practices.

For additional information or for a copy of the report, please contact: Chairman of the Board, fax: ++322 707 4962, or e-mail: [board.auditors@hq.nato.int](mailto:board.auditors@hq.nato.int).

## United Nations

### 34th Meeting of Internal Audit Services Representatives

From June 2-4, 2003, the United Nations Development Program hosted the 34th annual Meeting of Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions. Approximately 40 heads of Internal Audit Services Divisions of the UN and its specialized agencies attended the meeting in Panama, along with representatives of the INTOSAI Secretariat.

The technical sessions covered proposed changes to the standards of the Institute of Internal Auditors; risk-based approaches to audits; the UN system initiatives for ethics and fraud prevention and harmonization and simplification; a systems approach to performance auditing; human resource management issues, such as IT audit competency requirements; internal and external quality reviews; managing stakeholder relationships (Audit Committees, including links to governing bodies); and horizontal and collaborative efforts between UN system organizations.

The RIAS meetings allow INTOSAI to learn how large organizations like the UN and its specialized agencies have organized their internal audit services. As INTOSAI increases its focus on this topic—a focus that resulted in the establishment of the INTOSAI Internal Control Committee—learning about the topics discussed during the RIAS meetings may also play a role in the Internal Control Committee's work, encouraging an open exchange of experiences and knowledge between INTOSAI and RIAS.

For additional information, contact the INTOSAI Secretariat, Dampfschiffstrasse 2, A-1033 Vienna, Austria; fax: ++43 (1) 712 94 25; e-mail: [intosai@rechnungshof.gv.at](mailto:intosai@rechnungshof.gv.at); Web site: [www.intosai.org](http://www.intosai.org).



## Overview of Reforms in the Mongolian SAI

By Mr. Batbayar Badamdorj, Deputy Auditor General of Mongolia

Although Mongolia has had a state audit organization for more than 80 years, the history of its new SAI dates only to 1995, when the State Audit and Inspection Committee (SAIC) was established by the Law on State Audit and Inspection. Before 1990, Mongolia was part of the former socialist block and had a political system dominated by one party and a centrally planned economy. During that period, the activities of state audit organizations reflected the conditions of those political and socio-economic systems. But starting in 1990, Mongolia shifted to the path of democracy and started to introduce market principles in its economy. Beginning in 1995, the SAIC was the first audit organization to perform the functions of state external audit in a democratic society with a market economy.

With enactment of the Public Sector Management and Finance Law in 2002, the Parliament of Mongolia amended about 80 laws, including the 1995 Law on State Audit and Inspection. As a result, the new Law on State Audit was passed in January 2003, and new state audit central and local organizations were established. At that time, the SAIC was replaced by the Mongolian National Audit Office (MNAO).

### Change in Legal Environment

The 1995 Law on State Audit and Inspection played an important role in developing a modern state external audit organization in Mongolia. By setting up the SAIC and provincial Audit and Inspection Committees (AIC), this law filled the vacuum left in state external audit after the People's Control Committee was abolished in 1990. The 1995 law determined the components of state control as a whole and regulated a broad range of issues covering not only state audit and inspection organizations but also the powers and duties of government and administrative and local self-governing organizations in the field of state control. The main part of this law, however, related to activities of the SAIC and provincial AICs. Because the main principles of external auditing of the government were stated in the 1995 Law and state audit and inspection organizations were functioning quite independently, a positive public opinion was created and a reliable relationship with government and public agencies was established.

In recent years, international reform processes have also influenced Mongolia, leading to public administrative and civil service reforms in Mongolia that, in turn, created a need to reform government auditing systems. The Public Sector Management and Finance Law of 2002, which is based on the concept of New Public Management, is introducing drastic changes in management and budget financing principles for the public sector in general and government agencies in particular. According to this law, all government agencies, as well as state-owned entities, are required to produce annual financial statements and have them audited by state audit organizations.

This practice, which is common in business entities, is starting to be introduced in government agencies. The power and functions of state audit organizations had to be widened and changed in order for them to start auditing the financial statements of



government agencies. This is the main reason the new Law on State Audit was developed and adopted. In developing that law, we were guided by such basic documents as the Lima Declaration and the Generic Audit Model Law prepared by the United Nations Development Program (UNDP) Program for Accountability and Transparency (PACT).

The 2003 Law on State Audit has defined a new legal environment for the activities of state audit organizations and guaranteed their functional, organizational, and financial independence, as well as the independence of their members and officials.

## Changes in Audit Methodology

Before the new Law on State Audit was adopted, the SAIC conducted mostly traditional financial-related audits. With the enactment of the Public Sector Management and Finance Law, we have assumed the new function of conducting financial statement audits. According to the 2003 Law on State Audit, we also have a mandate to conduct performance audits and are no longer required to conduct traditional financial-related audits. The introduction of these new types of auditing has totally changed the way we carry out our work.

During past 3 years, we have been preparing ourselves to introduce performance and financial statement audits. We have already introduced performance auditing standards, guidelines, and handbooks that reflect international best practices. For example, Government Auditing Standards were introduced starting in January 1, 2002. To date, these include four general standards, five fieldwork standards, and five reporting standards for performance auditing. These standards are based upon INTOSAI Auditing Standards and the well-known GAO “yellow book”.

We also developed and, in October 2002, introduced our own Performance Auditing Guidelines based on the Fifth ASOSAI Research Project on Performance Auditing Guidelines. Recently, we have issued a handbook on how to use government auditing standards. In developing this handbook, we benefited from GAO’s *General Policies and Procedures Manual*.

We believe that the above-mentioned standards, guidelines, and handbook contain the methodology needed to conduct performance audits in a professional manner and according to international best practices. Guided by these methodological documents, we have started to conduct performance audits and submitted our first audit reports to the Parliament.

In addition, preparatory activities for introducing financial statement audits have begun. For example, we are currently working to translate and publish International Standards on Auditing issued by the International Federation of Accountants (IFAC), develop a financial audit manual, and subsequently train auditors on how to use these documents.

## Changes in Organizational Structure

The Mongolian National Audit Office (MNAO) has a different organizational structure than its predecessor, the SAIC. While the SAIC consisted of a chairperson and eight non-staff members, the MNAO has an Auditor General who makes decisions

individually. Thus, the organization has shifted from a board model to a hierarchical model.

The need to cooperate with external audit service providers has brought about another change in organizational structure. In Ulaanbaatar, there are currently 29 private audit firms with 24 branch offices in the provinces of Mongolia. Because we are not limited to using our own staff for financial statement audits of government agencies, we need to contract with these firms for audit services. A legal environment for such arrangements is already in place.

## **New Requirements for Knowledge and Ethical Behavior**

The 2003 Law on State Audit sets high standards for the knowledge and skills required of government auditors. The law states that “all staff of the National Audit Office shall be of proven capacity and competence in the performance of their respective duties. For this purpose, the Auditor General of Mongolia shall develop and implement a continuing training program for staff of the National Audit Office”. The logic behind this requirement is simple: the auditors should know what they are going to audit. And this requirement is not only legal. The first general government auditing standard states that the staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required.

To meet this requirement, we are currently developing a continuing training program for auditors with the intention of preparing training packages according to a training curriculum and training our own trainers.

Besides the high requirement for knowledge and skills, the new Law on State Audit also sets a higher standard for ethical behavior. The law states that “in order to ensure fairness in the activity of the National Audit Office, the Auditor General of Mongolia shall approve and pursue a Code of Ethics. The Code of Ethics shall be pursued equally by the Auditor General of Mongolia, staff of the National Audit Office, and any persons who are involved in the state audit activity on behalf of the National Audit Office.” In accordance with this provision, we have developed and introduced a new Code of Ethics for government auditors based on the INTOSAI Code of Ethics approved by the XVI INCOSAI in Montevideo in 1998. The new Code of Ethics for government auditors includes requirements for integrity, independence, objectivity, impartiality, political neutrality, professional secrecy, and speaking and writing activities. All employees of newly established state audit central and local organizations are required to sign the Code of Ethics.

## **The SAI and Public Administration Reform**

From the beginning, our supreme audit institution supported the government policy on reforming the management and financing systems of government agencies. We knew from our audit findings that the former budget planning, financing, and reporting systems were outdated, and therefore we continuously recommended that those systems be changed.

For this reason, we agreed to be one of the first five agencies to pilot the new public management and financing systems in 2001. Within the framework of this pilot project, we have introduced into our in-house activities such new elements as a

business strategic plan, output planning and reporting, financial statements, and performance agreements.

The results of the piloting have been promising. We believe that the positive results of this pilot project facilitated the enactment of the Public Sector Management and Finance Law, which had been under debate in the Parliament and other levels of government for almost 5 years after its submission in November 1997. Therefore, we can say that the former SAIC and the four other pilot agencies have contributed to and played a leading role in the public administration reform process in Mongolia.

Currently, the MNAO is also contributing to promoting good governance—and specifically such key principles as transparency and accountability—in Mongolian public administration. For instance, we are making our performance audit reports public. The Law on State Audit requires that the MNAO publish a quarterly list of audit reports and provide copies to all those who want them. This will also help to ensure citizens' rights to get information from public agencies.

The MNAO not only audits others but is also a subject for auditing. Since 2001, we have begun to produce yearly financial statements audited by independent external auditors and include them in our Annual Reports. Starting in 2004, an independent auditor nominated by the Parliament will audit our financial statement.

These are just some examples of how government auditing systems in Mongolia are changing. The change process is still going on. We look forward to sharing with *Journal* readers additional developments in the future.

For additional information contact: Mongolian National Audit Office, Government Building No.4, Baga toiruu – 6, Ulaanbaatar – 46, Mongolia; tel: ++976 (11) 32 37 98, 32 20 71; fax: ++976 (11) 32 32 66; e-mail: [batbayarb@mnao.pmis.gov.mn](mailto:batbayarb@mnao.pmis.gov.mn).

# Integrated Public Sector Financial Management: A Central Role for SAIs

By J. Graham Joscelyne, former Auditor General of the World Bank and Senior Managing Director of Citigate Global Intelligence and Security LLC

The 21<sup>st</sup> century is off to an inauspicious start. In its 3 short years, we have all been affected by Y2K threats; September 11 and other terrorist events; revelations of fraud and corruption on a vast scale; and a global economic downturn. Moreover, the AIDS crisis continues unabated, and famine is taking its dreadful toll.

In response to these events, reactive and preventive measures are being adopted on a global basis in both the public and private sectors. We are starting to see fundamental underlying exposures and how they might be addressed. In addition, parties are coming together around issues in ways that would have seemed impossible previously. It is clearer in hindsight that much could have been prevented had risks been defined, loopholes identified, and exposures managed in a holistic manner.

What can the financial manager learn from this? First, almost everything has a financial dimension that requires careful management. Second, if a holistic approach is to be effective, work—including finances—must be managed in an integrated fashion. Third, the financial manager plays a key role as a facilitator in both the private and public sectors. Finally, the financial management function is not the domain of just one department, but includes all the key players, ranging from financial planning through execution to review and oversight. The supreme audit institution (SAI), as part of this oversight function, has a vital role to play.

In this article, I would like to propose that the financial management community, and SAIs in particular, take the lead in promoting an integrated, holistic approach to public sector financial management as we continue to face the challenges of the new millennium.

## Integrated Financial Management in the Private Sector

In the private sector, notwithstanding recent scandals, integrated financial management is fairly well understood and practiced to an extent. Without it, corporate governance is weakened, risk exposures cannot be appropriately controlled, and controls themselves will operate in silos, creating another level of risk.

Integrated financial management is being specified in charters of internal auditing departments through to audit committees, with the express objective that both internal and external players in the area of financial management work together to ensure that it is achieved. The audit committee is expected to ascertain that there is no room for the kinds of gaps that lead to unidentified risk and consequent exposure to loss. Management and internal auditors make statements to this effect, and these matters are increasingly being reported in annual financial statements. Additionally, external auditors give the audit committee assurance that the work of others is reliable and can be taken into account for the peace of mind of stakeholders. Put differently, all

parties look at the same time period from somewhat different angles but with the same objective—understanding and assurance.

## Fragmentation in Public Sector Financial Management

In contrast, integrated financial management is not a hallmark of the public sector, which, by its very nature, faces complex and unique challenges. Accounting policies and practices are being rewritten but the processing technology used is outdated and often incompatible with new software and expensive to upgrade. The people working in the public sector are often underpaid, understaffed, and underappreciated, and there is an almost constant restructuring of government departments. Nevertheless, the call for improved governance, management oversight, and transparency grows louder every day. All these pressures force those who should be interested in an integrated, holistic approach to financial management in the opposite direction. The focus is inward and downward rather than across. Our pursuit of specialization has resulted in both a loss of perspective and greater fragmentation. It has become even more of a challenge to find the right area to focus on, and even then we find ourselves being pulled in different directions by competing and compounding problems. As a result, the public sector is wide open to surprises and shocks.

In November 2002, at the first summit of its kind, the International Consortium for Governmental Financial Management (ICGFM), together with the World Bank Institute (WBI), invited public sector participants from various countries to explore what integrated financial management means to them and, more importantly, how it could improve governance and accountability. The participants were drawn from Public Accounts Committees, finance ministries' budget and expenditure departments, internal audit departments, and supreme audit institutions (SAI).

Almost from the start, it was evident that this meeting of the minds was novel for many of the countries represented. In the public sector, the concept of financial management has been very narrowly defined, causing fragmentation. Participants confirmed that the components of financial management work in isolation from each other. This problem is compounded by the fact that each component focuses on a different fiscal period, often stretching over a 4-year period: budget looks to the future, expenditure to the present, the SAI to the recent past—leaving the Public Accounts Committee to bring up the rear with a focus on the not-so-recent past.

Having these components spread their oversight and management of public financial affairs over a minimum of 4 years strikes me as being risky at best, dangerous at worst. Gaps will occur and, without careful attention by all parties, can be—and probably are—exploited.

Quite naturally, the chances of finding and preventing exploitation and abuse fade rapidly if no concerted effort is made to do so. All those involved in public financial management bring to the table unique skills sets, perspectives, and experience. Risk should be identified around these sets of skills and knowledge, and proper management of the exposure agreed upon. But this is not really happening. Can it be said that risk has been comprehensively assessed—even at the highest levels—if the components critical to the process do not come together around this topic? As a result, the public sector faces undue and unnecessary exposure to the ineffective, inefficient,



and uneconomic use of public funds. Recent work by the WBI and some African countries confirms that dialogue in this area, which might lead to change, is only beginning for those countries. It is an encouraging start to a very long journey.

## **A History Lesson in Integrated Public Sector Financial Management**

Although an integrated approach to public sector financial management may be new to many of us, history tells us that this concept is not new. The Old Testament story of Joseph in ancient Egypt offers us a case in point. He identified a long-term national challenge—that the country would face 7 years of plenty followed by 7 years of famine—and the Pharaoh authorized him to do something about it. The country successfully hoarded grain in a time of plenty and rationed it in a time of want, thus demonstrating that Joseph and his managers looked carefully at what was needed, devised a strategy, did a risk assessment, put controls in place, worked according to the plan, and provided oversight throughout.

We can presume that he used incentives—financial and otherwise—to encourage farmers to plant now with a view to the future shortage. He must have found resources needed to pay the farmers for their efforts or build up credit. None of this could have been achieved without a host of financial and other systems. All this activity, over a decade and a half at least, could not have been successfully undertaken without an integrated approach to the challenge—and full involvement of all.

Interestingly, there were no ‘safety nets’ at the time like those that operate today—no IMF, World Bank, World Food Program, or bilateral aid. The country and its citizenry had to find within themselves the ability to address long-term challenges that were not even evident when the first major tasks were begun.

## **Facing the Challenge of Integrated Public Sector Financial Management**

Could something of this scale be pulled off today given the way we organize ourselves in the public sector? Although countries today have national goals, a host of systems and controls, and human and financial resources to undertake an effort of this kind, we usually lack a comprehensive view of the challenges that we are facing.

Why is this so? The development community is now aware of the importance of public sector financial management and the role of the SAI in particular. But more must be done to convince them that the way to have the most effective financial management is to use an integrated approach. While the World Bank and its partners in the development business have a role to play, the real solutions lie within the countries themselves. The participants at the ICGFM/WBI Summit in November 2002 found the discussions on these issues encouraging, but they pointed out that they were not taking place in country, where they are most needed. In addition, international professional bodies can do much more to encourage and even enforce better professional practice.

Bringing all this together is not easy. Leadership is needed from the broad spectrum of the financial management community. But more and more, SAIs are taking the

initiative and achieving good results. The approach of the U.S. General Accounting Office (GAO) is a case in point. GAO has done a holistic and comprehensive federal risk assessment, has noted trends over time, and published its results in its High-Risk Series. The most recently identified high-risk area is long-term pension plan vulnerabilities. GAO's analysis of this area gives a broad overview of the issues, looks far into the future, and translates what it sees into language that is understood by senior government officials as well as the ordinary citizen (see [GAO-03-1050sp](#) on GAO's Web site: [www.gao.gov](http://www.gao.gov)). It remains to be seen whether and to what extent the government will move to correct the situation, but the SAI cannot be faulted for failing to assume a key leadership role.

Should this be the exception rather than the rule? I believe that SAIs are uniquely positioned to champion the challenge of promoting the usefulness and appropriateness of integrated financial management in the public sector today. The SAI alone straddles—or should straddle—the whole public financial sector, if not more. Its mandate allows it to see further, look deeper, and cover more ground than any other component of public sector financial management. It alone stands in the gap between parliament and the public sector. With its peculiar perspective and authority, it has the power to convene, convince, and communicate. If its rights of access are not fully exercised, the public could accuse the SAI of dereliction of duties. Given the dearth of credible public leaders, a passive though clearly qualified SAI could be perceived as complicit in the mismanagement of public funds.

Generally speaking, the public sector financial management community, including the SAI, is not well known for making a stand. Sadly, in too many instances, this same community has been compromised. However, with all the focus on improved public sector financial management, there is room for new leadership to emerge and for credibility to be reestablished. Nothing will really happen unless and until this community—including the SAIs—takes the lead and shows what can be achieved with an integrated approach and what is lost without it.

For additional information, please contact: [graham.joscelyne@citigategis.com](mailto:graham.joscelyne@citigategis.com).

## CAROSAI Convenes Its Sixth Triennial Congress in Bermuda

by Mr. Benjamin Ross, U.S. General Accounting Office

“Promoting Good Governance” was the theme of the Sixth Triennial Congress of the Caribbean Organization of Supreme Audit Institutions (CAROSAI), which was held from August 10-15, 2003. Hosted by the SAI of Bermuda, the conference was characterized by an upbeat atmosphere during its meetings, caucuses, programs, and other activities. Representatives from Anguilla, Antigua and Barbuda, the Bahamas, Barbados, Belize, Bermuda, the British Virgin Islands, the Cayman Islands, Guyana, Jamaica, Montserrat, Norway, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, the Turks and Caicos Islands, the United Kingdom, the United States, and Venezuela met together to promote understanding and cooperation among institutions through the exchange of audit ideas and experiences. The week-long Congress was highlighted by many presentations that elaborated on various audit techniques, audit programs, audit manuals, formats, and standards used by SAIs to help them accomplish their work. Fraud and corruption in the public sector and training in public sector accounts and audits were topics of much discussion and concern among the attendees.

Considered a major success, the Congress drew the attention of both the local newspaper and television in Bermuda. Two consecutive articles in *The Royal Gazette* echoed the Congress themes regarding the public’s right to know the financial condition of its government and the responsibility of supreme audit institutions (SAI) to expose fraud and corruption in democratic governments.

### A Clear and Present Danger: Corruption in Government

One full day of the CAROSAI Congress was devoted to the theme of preventing corruption and fraud and the important role SAIs should play in this effort. “Corruption is a global problem affecting both industrialized and developing countries,” said Mr. Adrian Strachan, the Auditor General of Jamaica, who presented the main paper on this theme. “It has surfaced in all forms of government and in all spheres of society. Corruption inhibits private investment, distorts public investments, slows growth and worsens poverty. It results in the waste of resources and reduces the quality of life.” Mr. Strachan’s report listed the following as the most common areas in which public sector corruption manifests itself:

- awarding and administering procurement contracts for goods and services;
- assessing and collecting taxes and other sources of government revenues;
- granting subsidies, permits, and licenses;
- engaging consultants and other employees;
- customs operations;

- money laundering; and
- distributing houses and/or lots in government, housing, or land settlement schemes.

Mr. Strachan also said that in certain quarters it was now being proposed that auditors play a more direct role in identifying those suspected of committing fraud. “Some suggest that SAIs should conduct forensic audits aimed at obtaining the evidence necessary to secure the successful prosecution of suspects. Others go so far as to suggest that SAIs should be in the forefront in prosecuting the cases against those charged with fraud.” Mr. Terrance Bastian, the Auditor General of the Bahamas, stated that the “task of preventing corruption can be a very difficult one as the nature of auditing is examining records and information after the fact.” Mrs. Arah Armstrong, the Auditor General of Antigua and Barbuda, stated that it is often difficult to detect corruption. Although corruption may be suspected, there is seldom enough evidence to report with certainty that it has actually taken place. However, she went on to say that corruption had to be fought with the aid of the police department, whose duty it is to investigate cases of suspected fraud, corruption, and irregularity. The SAI and other agencies are useful in creating an environment unfavorable to corruption so as to promote good governance. She wanted to see a more holistic approach to the problem whereby all the established institutions in the fight against corruption come together and complement each other to create one main strategy.



Auditors general attending 6th CAROSAI Triennial Congress in Bermuda

## **Training Remains a Central Priority**

Since the last Congress in 2000, a series of IDI-sponsored workshops and other training programs have been held in CAROSAI—in St. Kitts, Trinidad and Tobago, and Grenada. During this Congress, a memorandum of understanding was signed between the National Audit Office of the United Kingdom (NAO), the Secretary General of CAROSAI, and IDI to coordinate these initiatives through training and other capacity-building activities that will enable CAROSAI members to strengthen and enhance the quality of their audits. In particular, the three entities agreed to coordinate training efforts initially to enhance financial, value-for-money, and performance audits; resource management within SAIs; human resource management; and relationships with clients and other stakeholders. The memorandum demonstrates the commitment of the NAO, CAROSAI, and IDI to supporting external public audit in the Caribbean through regional training and a continuation of the work of the Long Term Regional Training Program (LTRTP), which began in 1996.

## **Observers' Presentations to the Congress**

A number of observers from the global auditing community attended the CAROSAI Congress and made presentations on matters of interest to the delegates. On behalf of IDI, Mr. Magnus Borge provided an update on the second LTRTP in cooperation with CAROSAI. Sir John Bourn, the Auditor General of the United Kingdom, discussed "Performance Measurement in the Real World." Mrs. Linda Pearl Fealing of the Organization of American States (OAS) brought greetings from her organization and presented CAROSAI with a display of international flags. Mr. Andy Wynne and Mr. Emile Valere of the Association of Chartered Certified Accountants (ACCA) gave two presentations on how the independence of the auditor general can be improved. Mr. Clodosbaldo Russián, Comptroller General of Venezuela and President of OLACEFS, along with his assistant Mr. Marcel Cartaya, provided an update on the training and networking activities between CAROSAI and OLACEFS. Mr. Benjamin Ross of the U.S. General Accounting Office (GAO) gave an overview of his organization with an emphasis on its International Auditor Fellowship Training Program.

## **CAROSAI Organizational Business**

CAROSAI welcomed several new heads of SAIs who had been named to their positions since the last Congress in 2000. These included Mr. Peter Holland of Anguilla, Mr. Ian Fuller of the Turks and Caicos Islands, Mr. Lionel L. Bernard of Haiti, Mr. Terrace Bastian of the Bahamas, and Ms. Florence Lee of Montserrat.

For additional information, contact: Mrs. Jocelyn Thompson, Secretary General of CAROSAI, Auditor General's Department, P.O. Box 340, Port of Spain, Trinidad and Tobago; fax: ++1 (868) 627 - 0152, 625 - 53 54; e-mail: [csai@opus.co.tt](mailto:csai@opus.co.tt).



## Audit Profile: The General Auditing Bureau of the Kingdom of Saudi Arabia

By: Mohammed Mutlak Al-Nofaie, General Manager, Administrative Development Department

The General Auditing Bureau of the Kingdom of Saudi Arabia was established in 1953. Its role was confined to traditional financial post-audit tasks until its current statutes were issued in line with the Royal Decree of 1971. The new statutes extended its functions to include performance auditing in addition to financial and compliance auditing. The Bureau also assumed responsibility to monitor the current and fixed assets of the state and ensure their proper deployment and to establish a follow-up mechanism to track the consistent application of financial and accounting rules and regulations.

The Bureau's mandate covers the following auditees:

- All ministries and government departments and their branches.
- Public corporations and all other units and agencies that have independent budgets but receive financial assistance from the state by way of subsidy or for investment purposes.
- All private enterprises or companies in which the state contributes to its capital or guarantees a minimum level of profit.
- Any other agency whose audit is authorized by a directive from The Custodian of the two Holy Mosques, King Fahad Bin Abdulaziz, or his Cabinet, the Council of Ministers.

### Independence

The first article of the statutes states that the Bureau is an independent institution that reports directly to The Custodian of the two Holy Mosques, King Fahad Bin Abdulaziz. Article (3) of the same statute stipulates that the President of the Bureau is appointed, and may only be deposed, by a Royal Directive. The President's remuneration is treated in accordance with the special rules designed for those of "ministerial status." The Bureau's Vice-President is also appointed by a Royal Directive.

According to Article (28) of the Bureau's statute, the President, Vice-President, and other staff are prohibited from involvement in any other paid or unpaid government work. This measure is intended to preserve the integrity and independence of the Bureau and insulate it from possible influences or pressures.

### Reports

The Bureau submits an annual report for every fiscal year to The Custodian of the two Holy Mosques, King Fahad Bin Abdulaziz, duly copied to the Consultative Council, with a copy to the Council of Ministers and the Ministry of Finance. The report

includes findings from the Bureau's review of the Final Accounts, an assessment of the state's financial management in general, and an independent assessment of the financial management of the respective auditees. The report also includes a financial statement on the Final Account, a brief presentation of the Bureau's activities during the fiscal year, and recommendations to improve auditing performance and develop the state's financial management.

The President of the Bureau is authorized to submit other reports within the course of the subject year. They may be of a general or special nature relating to a particular issue or problem and normally include recommendations to improve economy, efficiency, and effectiveness.

## Organization

In 1985, the Bureau was reorganized to enable it discharge its functions flexibly and effectively. A new performance auditing sector was created to ascertain the success of government departments in achieving predetermined goals and deploying resources at their disposal efficiently and effectively. In addition, an information center was established to monitor computer operations and management. A documentation center and library were also created to provide the operational data needed to accomplish the Bureau's tasks. To cope with the expansion of the state's sectoral activities, an EDP Audit Department was created to introduce and implement EDP systems in the financial and accounting transactions of the various government sectors.

Another development was manifested in the creation of the Auditing Standards Department, whose main function is to prepare and develop measurable auditing standards and guidelines. The department has also assumed the task of developing guides and rules to achieve general and specific auditing objectives.

The Bureau's organization is characterized by the following:

- Its goals as defined in the statute are represented in a complementary and comprehensive manner.
- The major departments and the advisory/support units are clearly distinguished.
- Clear-cut criteria are applied in the classification of work, taking into account the even distribution of work.
- Communication channels among the heads of major departments at all organizational levels have been streamlined, which has assisted greatly in the monitoring and guidance process.
- Job descriptions are available for all departments provided in the organizational chart.

## Human Resources

To carry out the Bureau's assignments, it is essential that auditors' skills and operational competencies be developed to promote quality performance and maximize the effectiveness of auditing activities. It is also crucial that the auditor be familiar

with and informed about other disciplines besides accounting and management, including computer science, economics, research methodology, and law. In this connection, performance audit teams need specialized technical knowledge in fields such as engineering, agriculture, and pharmacology. For this reason, ongoing training has become a necessity for auditors. Staff training begins as soon as the graduate joins the Bureau and continues so that the auditor can cope with the practical and scientific developments needed.

The training process includes various types of in-kingdom training: on-the-job training (by attaching new entrants to work under the guidance of experienced staff); formal in-house training whereby staff enroll in introductory audit training courses; and training at the Institute of Public Administration (a specialized institute to train public and private sector staff).

The Bureau also offers staff the opportunity to participate in training courses, seminars, and workshops held by international and regional institutions, universities, and other SAIs. These activities provide staff with more than a chance to acquire and exchange experience and knowledge in the field of financial audit: they help trainees familiarize themselves with modern technology and newly emerging methodologies deployed by developed countries in financial and EDP audits.

## **Membership in International and Regional Organizations**

The Bureau participates in international and regional auditing organizations to exchange experiences and promote staff professional skills and competencies. It is a member of INTOSAI, ASOSAI, ARABOSAI, and the Supreme Audit Institutions of the Gulf Cooperation Council.

The Bureau has served as second vice-chairman of the INTOSAI Governing Board since 1995. It was also the first chair of the Auditing Standards Committee in the 1980s when the committee developed the standards that INTOSAI approved in 1992. The Bureau also serves on INTOSAI's environmental audit, privatization, SAI independence, and audit of international organizations working groups and the Strategic Planning Task Force.

Since 1992, the Bureau has served with two other SAIs on INTOSAI's financial committee, which helps the Secretariat in financial planning and monitoring of the budget. Bureau staff have also served as lecturers in INTOSAI Development Initiative (IDI) training courses, including the Design and Development of Training Programs and Training Techniques held in Morocco in 2003.

The Bureau has been an active member of ASOSAI and served on its Governing Board until 2000. The Bureau has also been a member of ARABOSAI since 1976 and currently serves on its Permanent Committee on Government Auditing, as well as its environmental auditing, training and research, and audit guides and terminology committees.

The Bureau has also hosted many training meetings of the SAIs of The Gulf Cooperation Council (GCC).

For additional information, contact: General Auditing Bureau, fax: ++966 (1) 403 20 57; e-mail: [gab@zajil.net](mailto:gab@zajil.net); Web page: [www.gab.gov.sa](http://www.gab.gov.sa).

## Reports in Print

Corruption, fraud, and abuse continue to be important issues in the global auditing community. *Journal* readers may be interested in obtaining the 2003 edition of the *Global Corruption Report* published by Transparency International, which focuses on the need for greater access to information in the struggle against corruption. The report explores how civil society, the public and private sectors, and the media use and control information to combat or conceal corruption. The 2003 report includes

- expert reports and features on access to information,
- an assessment of the state of corruption around the world in 16 regional reports,
- detailed explorations of national corruption topics from a local perspective,
- a diverse selection of the latest corruption-related data and research, and
- special contributions by renowned prosecutor Eva Joly and Interpol Secretary General Ron Noble

The report is the first attempt by any organization to map the global fight against corruption—a kind of travel guide to the jungle of varying standards and practices in different world regions. To obtain a copy, contact Transparency International, Otto-Suhr-Allee 97-99, 10585 Berlin, Germany; tel: +49-30-3438 2061/19; fax: +49-30-3470-3912; or Internet: [www.globalcorruptionreport.org](http://www.globalcorruptionreport.org).

The United Nations has published its book *World Population Ageing 1950-2050*. The publication provides an overview of the world population aging process, focusing on five particularly relevant public policy issues: (1) demographic

determination of population aging, (2) magnitude and speed of population aging, (3) the changing balance between aging groups, (4) demographic profiles of the older population, and (5) socio-economic characteristics of the older population. In dealing with each of these issues, attention is given to the course of the aging process, which is not the same in all countries. As more people live longer, retirement, pensions, and other social benefits tend to extend over longer periods of time, making it necessary for social security systems to change substantially. Increasing longevity can also result in rising medical costs and increasing demands for health services, since older people are more vulnerable to chronic diseases. As the proportion of the world's older population continues to increase, the need for improved information and analysis of demographic aging also increases. Knowledge is essential to help policymakers define, formulate, and evaluate goals and programs and to raise awareness and support for policy changes with regards to aging. United Nations publications can be obtained from bookstores and distributors throughout the world. Consult your bookstore or write to United Nations, Sales Section, New York or Geneva.

*Reporting Principles—Taking Public Performance Reporting to a New Level* is the title of the new publication by the Canadian Comprehensive Auditing Foundation (CCAF). The focus of this publication is to help governments improve the quality of their formal reporting on performance in keeping with the results-oriented and values-based approaches they are taking. Better communication, understanding, and transparency of performance are crucial to the success of government efforts to improve their operations and to inspire greater public confidence. At the core of this document is a set of nine related principles that represent common ground among many legislators, managers, and auditors. These

principles are stated at a level that effectively captures the “what” of reporting, while leaving flexibility to tailor the “how” to reflect differences in individual circumstances. The CCAF hopes that those who use public performance reports will find this document useful in planning and acting to advance their public reporting to a new level. For a copy of the publication, contact the CCAF-FCVI, 55 Murray Street, Suite 210, Ottawa, Ontario, Canada K1N 5M3; tel: +613-241-6713; fax: +613-241-6900; or e-mail: [info@ccaf-fcvi.com](mailto:info@ccaf-fcvi.com).

The U. S. General Accounting Office (GAO) has recently issued *Government Auditing Standards, 2003 Revision* (also known as the “Yellow Book”). This is the fourth revision of the standards since they were first issued in 1972, and it supersedes the 1994 revision, including amendments 1 through 3. The concept of accountability for public resources is key to any country's governing process and a crucial element for a healthy democracy. Legislators, government officials, and the public want to know whether government services are being provided efficiently, effectively, economically, and in compliance with laws and regulations. Government Auditing Standards provide broad statements of auditors' responsibilities, giving an overall framework for ensuring that auditors have competence, integrity, objectivity, and independence in planning, conducting, and reporting on their work. This revision incorporates the field work and reporting standards issued by the American Institute of Certified Public Accountants (AICPA). To obtain an electronic copy of the newly revised standards, go to the Yellow Book web site, [www.gao.gov/govaud/ybk01.htm](http://www.gao.gov/govaud/ybk01.htm). (The web site also contains instructions on ordering printed copies.) For questions directly related to Government Auditing Standards, send an email to [yellowbook@gao.gov](mailto:yellowbook@gao.gov).



## OCCEFS Capacity Building Program in Central America

The Organization for the Superior Audit Institutions of Central America and the Caribbean (OCCEFS) has obtained a grant from the World Bank to build capacity in the region. The project is being coordinated by the Costa Rican SAI because the agreement was reached and signed during the OCCEFS Presidency of Mr. Luis Fernando Vargas, Comptroller General of this country. Mr. Hernan Contreras, President of the Audit Court of El Salvador, has been recently appointed as the new Chairman of OCCEFS.

Within the framework agreement, each country is expected to develop its own technical component for the project, which will be shared with the rest of the members of OCCEFS: The topics are as follows:

Costa Rica: Accountability and Active Citizenship

Honduras: Internal Control

El Salvador: Government Auditing Standards

Dominican Republic: Internal Control

Nicaragua: Local Government Auditing Guides

Panama: Environmental Auditing

Guatemala has recently been reintegrated into the project after 2 years of absence.

The countries are also actively involved in setting up a regional Web site ([www.occefs.org](http://www.occefs.org)) that will display local projects and share information. The Web site was successfully launched at a recent workshop in San Jose, Costa Rica, with representatives from the different countries in attendance.

In September 2003, OCCEFS met in Guatemala to share results of the project and obtain feedback. World Bank authorities have expressed satisfaction with progress on the project resulting from the regional effort of the authorities of these institutions.

For additional information, contact: OCCEFS at [webmanager@cgr.go.cr](mailto:webmanager@cgr.go.cr).

## INTOSAI Working Group on the Audit of Privatization

The Supreme Audit Office of the Czech Republic hosted the 10th meeting of the Working Group on the Audit of Privatization on June 9-10, 2003, in Prague. Sir John Bourn, Comptroller and Auditor General of the United Kingdom, chaired the meeting, which was attended by representatives of 29 SAIs (out of a total working group membership of 39). Sadly, Dr. Lubomir Volenik, the President of the Czech Supreme Audit Office, passed away unexpectedly shortly before the meeting.

The working group was guided by the remit set for it at XVII INCOSAI, where SAIs agreed that in the period leading up to XVIII INCOSAI in Budapest in 2004, the working group should focus its efforts on



- monitoring the effectiveness of the guidelines adopted by INTOSAI and
- developing future audit guidance as necessary (for example, on audit issues arising in the field of partnerships and where the state is a minority shareholder, and on alternatives to regulation).

At the Prague meeting, a number of SAIs gave presentations, papers, and comments relating to the effectiveness of the working group's existing guidelines, which cover three areas: the audit of privatization; the audit of economic regulation; and the audit of public-private finance and concessions. SAIs again reported that they found the guidelines useful in carrying out their audit work.

To mark the 10<sup>th</sup> anniversary of the group's founding, the U.K. SAI presented a paper called "Privatisation: 10 Years On," which outlined the achievements of the working group to date. These include the production of the three aforementioned sets of guidelines and the delivery of over 50 papers on member states' experiences in auditing privatization. The presentation also picked out various key messages that had emerged in the group's first 10 years, including the conclusion that context is crucial when applying the guidelines. Members agreed that the presentation should be developed into a paper to be delivered at XVIII INCOSAI.

The group discussed for the second time a second draft of guidelines on the audit of risk in public/private partnerships (PPPs). In light of these discussions, the guidelines will be amended and submitted to XVIII INCOSAI for formal approval. The group also assessed different proposals for developing training for SAIs in the use of the guidelines and agreed to establish a Training Steering Committee in partnership with the INTOSAI Development Initiative.

The working group will hold its next meeting in 2004 in Sofia, Bulgaria. More information on the working group, including its guidelines on best practice in auditing various aspects of privatization, is available on its website at <http://www.nao.gov.uk/intosai/wgap>.

## **Annual Meeting of INTOSAI Public Debt Committee**

The Annual Meeting of INTOSAI's Public Debt Committee was held in Mexico City from June 23-24, 2003. This committee is headed by Mr. Arturo González-de Aragón, Auditor General of Mexico. Twenty-seven delegates from 11 member countries attended the meeting: Canada, the Fiji Islands, Gabon, Mexico, Portugal, the Republic of Korea, the Russian Federation, Sweden, the United Kingdom, the United States, and Zambia. Representatives of IDI attended the meeting as special guests.

## **Studies of Public Debt Issues**

As part of the committee's ongoing efforts to provide INTOSAI members with reference documents on public debt issues, members presented the following studies during the meeting:

- *Guidance for Using Substantive Tests in Audits of Public Debt* (United States)
- *Relationship Between Debt Management Audit Methodology and INTOSAI Audit Standards* (United Kingdom)
- *Report on the Results of the Internal Working Group on Auditing Fiscal Exposures* (Sweden)
- *Report on the Auditing of Public Debt in the South Pacific Region of INTOSAI* (Fiji Islands)
- *Report on the Main Problems Related to Public Debt Faced by the Russian Federation* (Russian Federation)

The committee also agreed to prepare three new studies on the following topics:

- Mexico will analyze performance audits of public debt and their terms of reference based on the experience of other INTOSAI members, particularly the United States and Canada.
- Portugal will conduct a comparative analysis of public debt regulations among INTOSAI member countries.
- The United Kingdom will conduct an investigation on contingent public debt in INTOSAI member countries.

The three countries will present the results of their studies at the next annual meeting of the Public Debt Committee in 2004.

During the meeting, the attendees were also informed that the German, Spanish, English and French versions of the following documents have been published: *Public Debt Management and Fiscal Vulnerability: Potential Roles for SAIs* (prepared by Canada) and *Fiscal Exposures: Implications for Debt Management and the Role for SAIs* (prepared by the United States). These documents are available on the committee's web page: [www.intosaiipdc.org.mx](http://www.intosaiipdc.org.mx). The Arabic version is scheduled to be published at the end of 2003.

### Capacity Building Activities of Public Debt Committee

As reported in earlier issues of the *Journal*, the Public Debt Committee has undertaken, under the initiative of Mr. González-de Aragón, the ambitious task of launching a pilot training program on public debt audits within the Organization of Latin American and Caribbean Supreme Audit Institutions (OLACEFS) in coordination with IDI. After pilot testing is completed, the course will be translated and made available to other INTOSAI regions. Progress on this program was reported and discussed at the annual meeting.

The first two phases of the pilot program have been completed. First, from April 28-May 30, 2003, a Regional Workshop for Public Debt Auditors was held in Mexico City for 24 representatives from 12 Latin American SAIs: Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Nicaragua, Peru, Panama, Uruguay, and Venezuela. The main goal of this workshop was to train instructors so that OLACEFS

could count on a qualified group of experts to pass on their knowledge to colleagues in their own countries.

Second, 7 of the 24 experts involved in the initial workshop were invited to participate in the Regional Course Design Meeting, which was held in Brasilia, Brazil, from August 18-29, 2003. The purpose of the Course Design Meeting was to prepare the documents to be used during the pilot course, which is scheduled to be held in Cartagena, Colombia, from October 27-November 7, 2003. The 7 experts were chosen with an eye to disseminating the public debt auditing expertise across the region.

The next annual meeting of the Public Debt Committee will be in the May-June 2004 time frame in Moscow, Russian Federation.



## IDI Update

IDI Update keeps you informed of developments in the work and programs of the INTOSAI Development Initiative. To find out more about IDI and to keep up to date between editions of the *Journal*, look at the IDI website: <http://www.idi.no>.

## Strategic Planning in CAROSAI

The 6<sup>th</sup> CAROSAI Congress took place in Bermuda in August 2003, and IDI was delighted to report on progress being made in the region towards the completion of the Long-Term Regional Training Program (LTRTP). IDI was also one of three signatories (the other two being CAROSAI and the U.K. National Audit Office) to a Memorandum of Understanding (MOU) that was signed during the Congress. The MOU outlines a partnership program that will provide the region's SAIs with training and institutional strengthening activities over the next 3 years. To emphasize the importance of institutional strengthening to the region, the Regional Training Committee was renamed the Regional Institutional Strengthening Committee and given a wider area of responsibility. A Strategic Planning Workshop also took place to provide background material to aid in developing an operational training and capacity-building plan for the region.

In addition, a 3-week design meeting took place in Grenada in September 2003, with eight training specialists completing their preparations to deliver workshops on financial audit and fraud to regional auditors in Trinidad and Tobago in November.

## Further Public Debt Training in OLACEFS

IDI Update has reported the progress of IDI's cooperation project with the INTOSAI Public Debt Committee in recent editions. Following the delivery of a Public Debt "Champions" Workshop in Mexico in April-May 2003, which resulted in the formation of a pool of public debt trainers and mentors in OLACEFS, the process continued with a Design and Development meeting in Brazil in August 2003. The selected "Champions" group (from Mexico, Costa Rica, Panama, Colombia, Venezuela, Brazil, and Uruguay), alongside subject matter experts from the U.S. General Accounting Office and the World Bank and training specialists from Mexico and Uruguay, developed a 2-week Public Debt Workshop. The workshop will be delivered twice to OLACEFS audit practitioners; the first delivery taking place in Colombia later in 2003.

## Performance Auditing in ARABOSAI and SPASAI

ARABOSAI's progress towards its first performance auditing workshop continued in August and September 2003 when a performance auditing design meeting was held in Egypt. Selected training specialists from IDI's recently completed Course Design and Development and Instructional Techniques Workshop met with subject matter experts to finalize the content of the workshop. The Regional Audit Workshop will take place in Kuwait in December 2003.

Performance auditing is also a current issue in SPASAI. A Performance Audit Workshop was held in Tonga in May 2003. Jointly funded by the Asian Development Bank and IDI, the workshop brought together 27 participants from 16 audit offices in the region and used seven trainers who had participated in another cooperation project between SPASAI and IDI in November-December 2002. The trainers were supported by an experienced performance auditor from New Zealand and used a case study and other methods to help participants draw up a performance audit proposal that could be used as the basis for a first performance audit study in each of their offices.

## **Enhancing Anglophone Africa's Network of Training Specialists**

At the end of July 2003, over 40 trainers from SAIs in English-speaking Africa attended a regional training symposium in South Africa that was intended to help form bonds between trainers. The symposium was organised by the AFROSAI-E/SADCOSAI secretariat and funded by IDI. It consisted of networking exercises, discussions on factors that hinder the progress of regional trainers in delivering training in their SAIs, and practical training sessions on subjects such as coaching, on-the-job training and presentation software.

## **Contacting IDI**

If you would like to discuss any of the issues raised in this edition of IDI Update, please telephone ++47 22 24 13 49 or e-mail [idi@idi.no](mailto:idi@idi.no).



# INTOSAI 2003-2004 Events

## October

- 13-16 51<sup>st</sup> INTOSAI Governing Board Meeting and 50<sup>th</sup> Anniversary Program  
Budapest, Hungary
- 20-26 9<sup>th</sup> ASOSAI Assembly  
Manila, Philippines
- 27- AFROSAI-E Course  
Design and Development  
Workshop  
South Africa  
(Oct. 27 - Nov. 7)
- Nov 7
- 27- OLACEFS Public Debt  
Auditing Workshop  
Colombia  
(Oct. 27 - Nov. 28)
- Nov 28

## January 2004

## April

- 19-23 17<sup>th</sup> UN/INTOSAI Seminar  
Vienna, Austria

## July

## November

- 3-14 ASOSAI Environmental  
Auditing Workshop  
Turkey
- 7-8 Internal Control Meeting  
Brussels, Belgium
- 10-15 OLACEFS Assembly  
Havana, Cuba
- 10-21 CAROSAI Regional Audit  
Workshop  
Trinidad and Tobago

## February

- 10-11 Internal Control Standards  
Committee  
Brussels, Belgium

## May

- 24-28 SPASAI Assembly  
Samoa

## August

## December

- 1-12 ARABOSAI  
Performance audit  
Workshop  
Kuwait
- 1-12 OLACEFS IT Audit  
Workshop  
Peru

## March

- 28-30 EUROSAI IT Working  
Group Meeting  
Bern, Switzerland

## June

- TBD Public Debt Committee  
Moscow, Russia

## September

**Editor's Note:** This calendar is published in support of INTOSAI's communications strategy and as a way of helping INTOSAI members plan and coordinate schedules. Included in this regular Journal feature will be INTOSAI-wide events and region-wide events such as congresses, general assemblies, and Board meetings. Because of limited space, the many training courses and other professional meetings offered by the regions cannot be included. For additional information, contact the Secretary General of each regional working group.

