

INTOSAI



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of GOVERNMENT AUDITING



January 2004



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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.

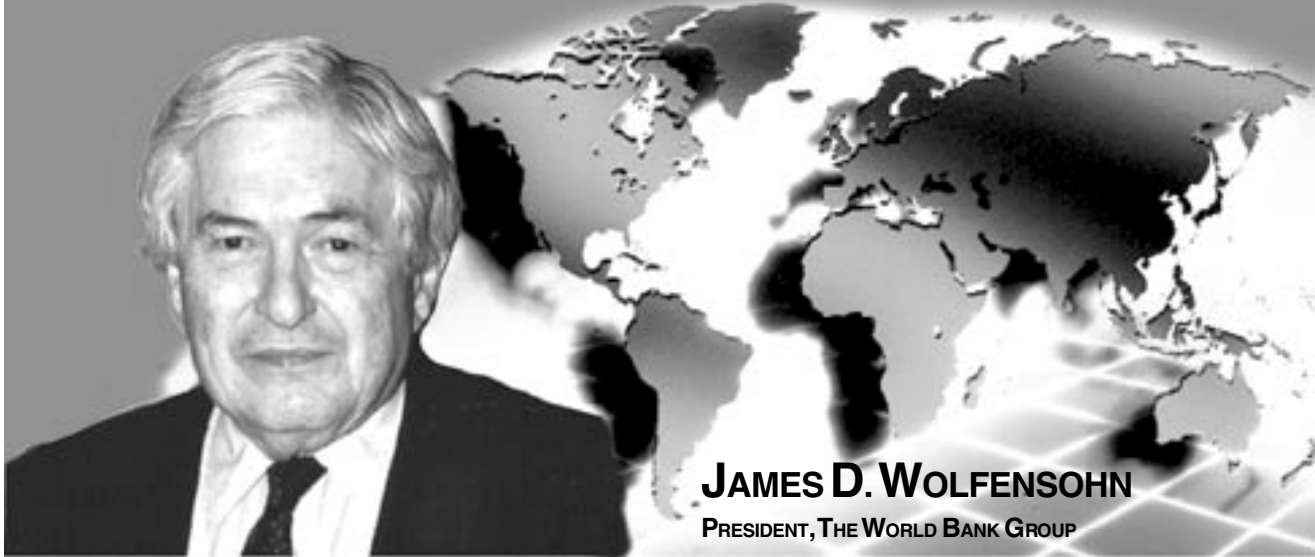
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## contents

<b>Editorial</b>	<b>1</b>
<b>News in Brief</b>	<b>4</b>
<b>Addressing Fiscal Risks</b>	<b>7</b>
<b>Accrual Budgeting and Accounting</b>	<b>11</b>
<b>Ninth ASOSAI Assembly</b>	<b>16</b>
<b>XIII OLACEFS General Assembly</b>	<b>20</b>
<b>Audit Profile: Papua New Guinea</b>	<b>24</b>
<b>Reports in Print</b>	<b>28</b>
<b>Inside INTOSAI</b>	<b>29</b>
<b>IDI Update</b>	<b>34</b>
<b>INTOSAI Calendar</b>	<b>36</b>
<b>Annual Index</b>	<b>37</b>

## Accountability Begins at Home



**JAMES D. WOLFENSOHN**  
PRESIDENT, THE WORLD BANK GROUP

*In recent days, I led a strategic forum within the World Bank, brainstormed what it takes to manage for results with fellow heads of multilateral development banks, joined the deliberations of Organization for Economic Cooperation and Development (OECD) finance ministers laying the groundwork for a G-8 summit meeting in June 2004, and traded observations on challenges to development and peace with a group of parliamentarians from around the world.*

No matter the audience, no matter the venue, everyone has the same hope: building a better life for our children and for all children. But the question is, How do we go about it? How do we make every penny count? How do we scale up our efforts to serve millions over time? How do we ensure leadership, partnership, and inclusion?

### **The Importance of SAIs**

Financial accountability is a necessary condition for efficient public management and hence for the management of funds in favor of poverty reduction, health and education, a clean environment, and peace.

Over the last decade, the development community has come to understand the importance of public financial management for reaching the Millennium Development Goals, as well as the need for

accountability systems that perform well in client countries. At the same time, donors realize that for development impact to be sustainable, they must depend on these national systems, rather than impose separate systems of their own.<sup>1</sup>

Effective supreme audit institutions are a key element of such systems. As the Lima Declaration states, they seek “the proper and effective use of public funds; the development of sound financial management; the proper execution of administrative activities; and the communication of information to public authorities and the general public through the publication of objective reports.”

## **The World Bank-SAI Partnership**

The World Bank is at the forefront of support for and mutually beneficial interaction with SAIs. Examples of practical partnerships and dialogue include the following:

- Supreme audit institutions are already helping to shape the World Bank’s audit policy. Public audit institutions (among them a large number of supreme audit institutions) already provide close to half of all audit reports on loans and credits received by the Bank.
- When changes to the Bank’s audit policy were discussed in November 2002, an advisory panel of SAIs offered insights and recommendations.
- The Bank’s Development Grant Facility has been supporting the INTOSAI Development Initiative (IDI), the training arm of INTOSAI, since 2001 and more recently helped to underwrite the INTOSAI Working Group on Auditing Standards.
- An increasing number of grants from the Institutional Development Fund support staff training, needs assessment, and the design of auditing manuals or information technology in SAIs.
- Between 1997 and 2002, more than 90 adjustment loan conditionalities were designed to have developing country governments better support their SAIs.
- As part of its governance agenda, the World Bank Institute provides training and organizes seminars aimed at enhancing government auditing abilities.

## **SAI Independence Is a Prerequisite**

The Bank is cautious not to endanger the independence of SAIs—indeed, we do all we can to bolster it. As the Lima Declaration articulates, SAIs must have the capacity to perform their professional mission—to report freely to the parliament and the public on their findings.

There are many obstacles to overcome: formal and unofficial limitations to their mandate, limited access to the public and the media, underfunding, understaffing, and “incentives” given in favor of “soft” auditing.

<sup>1</sup>The OECD-DAC Good Practices Paper on Financial Reporting and Auditing prepared as part of the harmonization initiative states, “Donors should accept the Supreme Audit Institutions of partner countries as auditors of donor-supported projects when their capacity is judged to be acceptable.”



The survey INTOSAI conducted in March 2001 clearly showed that putting independence into practice is a complex and constant struggle requiring patience and strength and—somewhat ironically—some support from the government itself through proper funding.

In our dialogues with country representatives, especially through diagnostic work on public financial management,<sup>2</sup> the World Bank continuously makes the case for improved accountability, transparency in the management of public funds, and independence for government auditing.

The agendas of the donor and SAI communities are highly consistent: to promote better public management, increase transparency, and improve accountability. Development and the fight against poverty depend on it.

## **Our Growing Commitment**

The Bank—like other donors—can do more to strengthen public sector financial management institutions in borrowing countries and to increase our reliance on those countries' audit institutions. A strategy paper is under preparation, with much-appreciated input expected from an advisory panel of SAIs in March 2004.

One area for exploration relates to the practice of peer reviews. Peer reviews are, for many reasons, a preferred means of identifying necessary changes, improving performance, and better serving a country's citizens. The World Bank fully supports this approach and is very willing to increase the feasibility and frequency of such reviews by providing grant funds for that purpose.

The Bank is also exploring ways in which it could cooperate with regional organizations of SAIs to better and more often draw on the expertise of the SAI community to improve the design and implementation of projects related to strengthening the government audit function.

## **Helping Each Other**

Cooperation and mutual support were at the heart of the founding of INTOSAI in 1953. The organization's motto—"Experientia mutua omnibus prodest"—speaks to the need for exchanging experiences in order to guarantee that government auditing progresses.

The next INTOSAI Congress in Budapest in October 2004 represents an opportunity to further enhance our bilateral and multilateral partnerships in support of accountability. Speaking on behalf of the Bank, we look forward to continued progress and mutual reinforcement.

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<sup>2</sup>This work is reported in Country Financial Accountability Assessments, some of which are available on the Bank Web site, [www.worldbank.org](http://www.worldbank.org).

# NEWS



## Argentina

### International Meeting of Latin American SAls and the European Court of Auditors

In October 2003, the SAI of Argentina (AGN), together with the European Commission, organized an international meeting between the SAls of MERCOSUR (Argentina, Brazil, Paraguay, and Uruguay), Chile, and Bolivia and the European Court of Auditors. Participants included auditors general and other representatives of the SAls; members of Parliament from Latin America and Europe; Dr. Clodosbaldo Russián, President of OLACEFS; and MERCOSUR and European Union officials. Representatives of non-governmental organizations,

members of the press, and over 300 audit staff from Argentina also attended. Dr. Leandro Despouy, President of the AGN and of the Organization of SAls of the countries of MERCOSUR, Bolivia, and Chile, presided over the meeting, which was held in Buenos Aires, Argentina.

The meeting dealt with a variety of issues, including the following:

- The role of audit in the evolution of European integration, what the countries of MERCOSUR, Bolivia, and Chile can learn from that experience, and how cooperation has developed between both regional groups over the years.
- A summary of the audits carried out by the SAls of the member countries of MERCOSUR, Bolivia, and Chile, demonstrating the cooperative efforts among the audit organizations of the six countries.



Participants at the Buenos Aires meeting: Robert Reynders, Belgian member of the European Court of Auditors; Angelo Pagkratis, head of the European Commission delegation in Argentina; Leandro Despouy, President of the AGN; Francisco Galiano Morán, Comptroller General of Paraguay.

- Auditing in different government spheres: the executive for the European Commission; the Parliament for the budget commissions of the European Parliament and the Argentine Parliament; and the important task of the European Court of Auditors.

For additional information, contact: Auditoría General de la Nación, telephone: (+5411) 4124 3775; fax: (+5411) 3775; e-mail: informacion@agn.gov.ar; Internet: www.agn.gov.ar.

## Nepal

### New Auditor General

Mr. Gehendra Nath Adhikary was appointed as the ninth Auditor General of the Kingdom of Nepal on August 22, 2003.

Prior to his appointment, Mr. Adhikary was the Financial Comptroller of Nepal from 1992 to 1994. He also served in this office from 1968 to 1992 and was an Assistant Auditor General for 14 years.



Mr. Gehendra Nath Adhikary, Auditor General of Nepal

Born in Kathmandu, Mr. Adhikary holds bachelor's degrees in Commerce and Law from Tribhuvan University, Nepal, and is a member of the Institute of Chartered Accountants of Nepal. He has been awarded medals and prizes by His Majesty the King of Nepal in recognition of his outstanding performance.

Mr. Adhikary was a member of various committees constituted by His Majesty's Government of Nepal. Starting in 1996, he served 6 years as member secretary in the Irregularities Clearance Committee chaired by a Member of the House of Representatives (Parliament) of the Kingdom of Nepal. He has contributed articles to journals and periodicals and has attended training and scholarship programs in the United States, Israel, and Canada.

For additional information, contact: Office of the Auditor General of Nepal, telephone: ++977 (1) 26 29 58; fax: ++977 (1) 26 27 98; e-mail: oagnep@ntc.net.np; Internet: http://www.oagnepal.com.

## Saudi Arabia

### Enhancing Professional Ties and Building Capacity

In September 2003, His Excellency (H.E.) Mr. Osama Jaffer Faqeeh, the President of the General Auditing Bureau (GAB), presided over a meeting between a group of public accounting firms in the Kingdom of Saudi Arabia and the GAB's senior management. The meeting was designed to enhance the GAB's professional ties with these firms, pave the way for exchanging experiences and special knowledge, and keep abreast of sophisticated methods and techniques being applied in auditing activities.

To continue building constructive relationships with auditees, the GAB also organized a seminar entitled

"Ways and Means of Cooperating to Fulfill Comprehensive Auditing and Performance Audit Goals." A large number of senior financial personnel drawn from ministries, government departments, and public corporations attended the seminar. The seminar was designed to provide a professional platform to exchange opinions and pursue a dialogue with senior government auditees that would help to establish a practical methodology for enhancing the role of auditing. The seminar also investigated ways to remove operational obstacles to achieving an advanced level of efficiency and effectiveness in the governance of public moneys and to deploy public resources in order to maximize value-for-money returns. The seminar addressed a number of specific areas, including updating the GAB's statutes, implementing the comprehensive auditing concept and information technology auditing methods, and developing financial rules and regulations.

H.E Mr. Osama also led delegations to several international meetings, including the third meeting of the Gulf Cooperation Council (GCC) in Qatar in May 2003, the INTOSA Governing Board meeting in October 2003 in Budapest, Hungary, and the ASOSAI 9th General Assembly meetings in October 2003 in Manila, Philippines.

GAB staff participated in a number of overseas training courses during 2003 in India, Egypt, and Morocco. The training included topics such as audits of social services and rural development programs, IT auditing, and financial analysis and budgetary planning. In addition, the GAB



Participants in the General Auditing Bureau's training course on performance evaluation for ARABOSAI

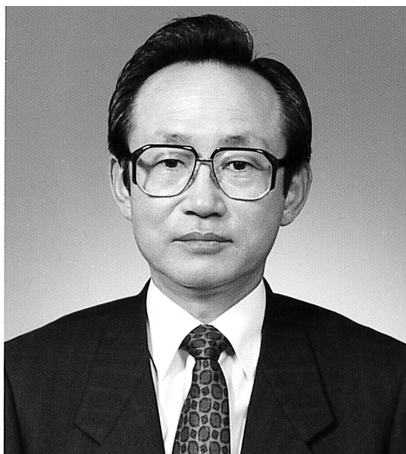
implemented the second phase of its internal training program for its employees by offering 10 training courses. Finally, in October 2003, the GAB hosted a training course on performance evaluation for the staff of ARABOSAI. This course was organized by the Arabian Group of Supreme Institutions for Accountancy and Financial Auditing.

For additional information, contact: General Auditing Bureau, P. O. Box 7185, University Street, Riyadh 11128, Saudi Arabia; fax: ++966 (1) 403 20 57; e-mail: gab@zajil.net.sa; Web page: www.gab.gov.sa.

## South Korea

### New Chairman of the Board of Audit and Inspection

In November 2003, Mr. Yun-Churl Jeon was appointed to be the new Chairman of the Board of Audit and Inspection (BAI) of the Republic of Korea. In his new capacity, he also serves as Chairman of the Governing Board of INTOSAI. He succeeds Mr. Jong Nam Lee, who retired from the BAI in September 2003 after completing his 4-year term.



Mr. Yun-Churl Jeon, Chairman of the Board of Audit and Inspection of the Republic of Korea

Mr. Jeon has had a lengthy and distinguished career in government. He brings to his new position a wealth

of experience in public service, particularly in financial management, government reform, and budgeting. In 2002, he was the Deputy Prime Minister, Minister of Finance and Economy, and Presidential Chief of Staff. Earlier in his career, he served as Minister of Planning and Budget and Chairman of the Fair Trade Commission. He also held various positions in the Economic Planning Board and other government offices. Just before his appointment to the BAI, he was the chairman of the College of Law and Political Science of Cheju National University.

A strong advocate of market economy and competition, Mr. Jeon is committed to implementing reform measures to make his organization more competitive and to help the Korean government achieve the goals of its reform program.

Mr. Jeon graduated from the College of Law of Seoul National University with an LL.B. in 1965. He also holds honorary doctorates in economics, business administration, and law from several universities in Korea. He is the author a number of publications about the market economy.

For additional information, contact: Board of Audit and Inspection, telephone: ++82 (2) 2011-2186; fax: ++82 (2) 2011-2189; e-mail: koreasai@koreasai.go.kr; Internet: <http://www.bai.go.kr>.

## European Court of Auditors

### 2002 Annual Report Issued

In November 2003, the European Court issued its 2002 Annual Report, opining that the 2002 accounts of the European Communities prepared by the European Commission faithfully reflected the revenue and expenditure and the financial position of the Communities at year-end except for some shortcomings caused by weaknesses in the design of the accounting system. In the Court's

opinion, the transactions underlying the accounts were legal and regular in regard to resources, commitments, administrative expenditures, and pre-accession aid, although supervisory systems and controls should be improved in the latter case.

The Court noted substantial progress in the Commission's implementation of administrative reforms. Despite this progress, internal control standards were still not being fully applied at a minimum level throughout all Directorates-General by the end of 2002, a matter of some urgency. Difficulties were encountered in implementing reform in the areas of expenditure where the Commission and Member State administrations share management. Progress in these areas—which constitute more than 80 percent of the budget and involve agricultural policy and structural measures—depends on making improvements in the administrative and control systems set up by the Member States. To improve transparency and monitoring of the reform process, the Court recommended that the Commission update the 2000 White Paper on administrative reform by revising the timetable and consolidating the list of outstanding issues.

Since its previous Annual Report, the European Court of Auditors issued 13 special reports as well as 6 opinions covering different aspects of European Union finances and management issues.

For further information, contact the External Relations Department of the European Court of Auditors, telephone: ++352-021-36 31 03; fax: +352-4398-46430; or e-mail: [press@eca.eu.int](mailto:press@eca.eu.int). The full text of the 2002 Annual Report is available on the Internet at <http://www.eca.eu.int/EN/RA/2002/ra02.htm>. A summary of the report is available at <http://www.eca.eu.int/en/noteinfo/2002/nira02.pdf>.

# Addressing Fiscal Risks: A Case for Greater Truth and Transparency in Government Financial Reporting

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By David M. Walker, Comptroller General of the United States

*I recently gave a speech at the National Press Club in Washington, D.C., on a subject that, in my view, has not been getting the attention it deserves: the U.S. government's worsening financial situation.<sup>1</sup> In my remarks, I tried to present the facts, speak the truth, and explain to the American people that our country has a serious and growing fiscal imbalance.*

The reality is that the United States faces a structural deficit that will only deepen as the baby boomers<sup>2</sup> begin to retire and put unprecedented strains on the nation's spending and tax policies. The impact of slower economic growth and the recent difficulty in maintaining fiscal restraint have not helped matters. The expected fiscal gap is now so large that there is little chance we will be able to simply grow our way out of the problem.

Yet, this sobering assessment would come as a surprise to many Americans, in part because government financial reporting provides an unrealistic and even misleading picture of the federal government's overall performance and financial condition. Few agencies adequately show the results they are achieving with the taxpayer dollars they spend, and too many government commitments and obligations are reported in an incomplete or invisible way.

Every nation has its own set of fiscal challenges, and the United States is not unique. Most governments today face some degree of fiscal risk that is not as transparent as it should be. For instance, many industrialized nations will have to make difficult choices to meet the needs of their aging populations. Regardless of the specific issues involved, government financial reports generally fall short in conveying the threat that these long-term challenges can pose to future budgets, tax burdens, and spending flexibilities.

Particularly troubling are the many commitments that governments have made that may not show up in their budgets or financial statements for years. In the case of the United States, the government has pledged its support to a long list of programs and activities—including pension and health care benefits for senior citizens, veterans<sup>1</sup> medical care, and government-sponsored entities—that will cost billions of dollars but whose future unfunded commitments do not appear in government financial statements.

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<sup>1</sup>The full text of the speech, entitled "Truth and Transparency: The Federal Government's Financial Condition and Fiscal Outlook," is available on the Web site of the U.S. General Accounting Office at [www.gao.gov](http://www.gao.gov).

<sup>2</sup>"Baby boomer" generally describes persons born in the United States during a period of high birth rates from 1946 to 1964.



Commercial accounting practices require companies to record their pension, health care, and other obligations on their balance sheets, but many governments fail to fully disclose similar costs, such as those of veterans and social insurance programs, in their financial statements. Too often, taxpayers and even some public officials become aware of these commitments only when a crisis is upon them. In recent years, countries from Latin America to East Asia have faced economic instability when their governments were suddenly forced to make good on obligations that few knew existed.

Greater truth and transparency in government reporting are essential if the United States and other nations are to address their long-term fiscal challenges. The fact is that the fiscal risks just mentioned can be managed only if they are properly accounted for and publicly disclosed.

Supreme audit institutions (SAI) can play a vital role in drawing attention to serious fiscal imbalances and promoting sound accounting and reporting practices in their respective countries. An agency insulated from day-to-day political pressures, such as an SAI, can afford to take a longer term view and provide professional, objective, and nonpolitical information on its government's fiscal health.

SAIs should consider moving beyond routine oversight of day-to-day government operations to alert policymakers to long-term trends with serious implications. Through considered analysis based on foresight and strategic thinking, they can help to prepare their governments for the challenges of the future—before they reach crisis proportions. SAIs should encourage their governments to look beyond current year budget numbers and consider the long-term consequences of current policy decisions. Governments could then better manage their cash flow and make informed choices about future financing needs.

Educating key policymakers, opinion leaders, and the public is essential. To this end, SAIs can shed considerable light on fiscal risks. Importantly, history shows that with light comes heat, and with heat comes action. A crucial first step will be to identify and classify the significant commitments facing the government. If both citizens and government officials come to understand various fiscal exposures and their potential claims on future budgets, they are more likely to insist on prudent policy choices and sensible levels of future fiscal risk. In seeking to stimulate broader public discussion and debate, SAIs will need to be careful to provide constructive recommendations that do not compromise their independence or cross over into policy-making.

Increasing awareness of fiscal exposures, however, is not enough. To create incentives to better support sound decisions about how to finance or avoid such exposures, SAIs will need to encourage the development of accurate cost measurements and their integration into financial reporting, budgeting, and other policy processes. SAIs may also want to consider developing a single portfolio of a country's fiscal exposures and using fiscal simulation models to help illustrate the nature, timing, and context of fiscal challenges and imbalances. SAIs should also consider encouraging the development and use of a set of key national indicators spanning economic, social, environmental, safety, and security issues to assess a nation's position and progress over time and relative to those of other countries.

While there is no easy solution to improving government financial reporting, nations around the world are making progress little by little. Some nations have already made

great strides. In 1992, New Zealand became the first country to present central government financial statements on an accrual basis. In addition to enhancing the transparency of its financial commitments in budget documents and including items such as capital charges and cost allocations, New Zealand has also embraced various modern management practices, including strategic plans and executive performance agreements.

Some SAIs have begun to increase understanding of their government's long-term fiscal outlooks. For several years, the U.S. General Accounting Office (GAO) has been simulating the interactions of the federal budget and the economy to show the long-term effects of current law and various fiscal policy alternatives, including the projected growth in existing social insurance programs. Several SAIs have been trying to measure potential fiscal contingencies. The United Kingdom's National Audit Office, for example, recently reported on fiscal exposure arising from the clinical negligence of employees of the National Health Service, including hospital doctors.

An informal Auditor General's Global Working Group, of which the United States is a member, has also been addressing many of these challenges. At its 2003 meeting in the Hague, SAIs from more than a dozen major countries were joined by their senior budget officials to discuss the role that audit institutions can play in deliberations over current budgets and future fiscal challenges. Treasury officials acknowledged that SAIs can and have been essential to disclosing underlying fiscal commitments and claims. The SAIs and the budget officials agreed that the independence and credibility of audit institutions can be a powerful force to enhance the transparency of a nation's fiscal standing and condition in both the short and long terms.

INTOSAI's Public Debt Committee has also issued valuable guidance to audit institutions on how to work more actively with government officials to reform reporting practices and procedures. The goal is to produce government financial reports that more systematically disclose and highlight the nature of existing budget commitments and claims and their future fiscal implications. In a recent report, the committee developed a framework for defining and disclosing long-term commitments facing various nations. The committee concluded that this framework would help promote full information on the nature and the level of commitments entered into by nations that encumber future resources.<sup>3</sup>

In the United States, we are starting to see efforts to address the shortcomings in federal financial reporting. The President's most recent budget submission and the latest annual report of the U.S. government focus more on the nation's long-range fiscal imbalance. The President's Management Agenda, which closely reflects GAO's list of high-risk government programs, is bringing additional attention to problem areas across government. The government is also taking steps to assess the results that programs are achieving with the resources they are given.

GAO recently published a framework for analyzing various Social Security reform proposals and will soon publish a framework for analyzing health care reform proposals. GAO has also helped to create a consortium of "good government" organizations to

<sup>3</sup> See *Fiscal Exposures: Implications for Debt Management and the Role for SAIs* (INTOSAI Public Debt Committee, Feb. 2003), available online at [www.intosaiipdc.org.mx](http://www.intosaiipdc.org.mx).

stimulate the development of a set of key national indicators to assess the United States' overall position and progress over time and in comparison to those of other industrialized nations.

GAO and other budget experts continue to urge enhancements to the federal budget process to better reflect the government's commitments and signal emerging problems. Among other things, GAO has recommended that the government issue an annual report on major fiscal exposures.

"We might hope to see the finances of the Union as clear and intelligible as a merchant's books," U.S. President Thomas Jefferson wrote his Secretary of the Treasury in 1802, "so that every member of Congress, and every man of any mind in the Union, should be able to comprehend them, to investigate abuses, and consequently to control them." Unfortunately, timely, reliable, and useful government financial information can seem as elusive in 2004 as it did in Jefferson's day.

But the way in which a government measures and keeps score still matters. Government auditors and policymakers alike need to start facing fiscal facts squarely so that future financial stresses can be anticipated and addressed. The importance of speaking out on these issues cannot be overemphasized. Elected officials will have more incentive to make difficult but necessary choices if the public knows the truth and comes to support serious and sustained action to address fiscal risks. Without meaningful public debate, however, real and lasting change is unlikely. SAIs, with their reputation for professionalism, independence, and integrity, are in a unique position to lay the facts on the table and get the discussion going. The time to start is now.

# Five Countries Pioneering Accrual Budgeting and Accounting in Central Government

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By Martin Dees and Paul Neelissen, Netherlands Court of Audit

## Introduction

*In its 2001 Budget Memorandum, the Dutch government announced that accrual budgeting and accounting would replace the current obligation-cash budgeting and accounting system in ministerial budgets and accounts in several years' time.*

In order to support the Dutch parliament and the government in their preparations to introduce this system, the Netherlands Court of Audit published a report on this subject in April 2003, *Accrual Budgeting and Accounting in Central Government-Budgets and Accounts in Balance*. The report discusses the government's proposals and describes and analyzes accrual budgeting and accounting standards and practices in the Netherlands and abroad.

The report states that accrual budgeting and accounting have been introduced in many countries. This has happened because results-oriented and transparent budgeting, accounting, and management require a focus on costs instead of (or as well as) expenditures and a greater understanding of income, expenses, and financial position.

It should be noted, though, that at present no two countries have introduced identical systems. No trend towards international harmonization has developed as yet. Even within individual countries, the details differ significantly from one part of the public sector to another. In addition, many countries are reluctant to apply accrual systems to their budgets. Many members of parliament consider the authorization of cash expenditures to be a great benefit; they have an abiding fear of cash overruns and are daunted by the technical complexity of the accrual system and the attendant potential for manipulating financial data. In a more technical sense, moreover, the system must take account of specific government issues as well as those known from the private sector, such as the valuation of buildings and the recognition of provisions.<sup>1</sup> These issues include the appropriate accounting treatment of defense equipment, cultural heritage, social security obligations, and obligations relating to the government's position as ultimate guarantor of the continuity of such privatized services as public transport and the electricity supply.

The remainder of this article compares the technical manifestations of the accrual system in five countries (New Zealand, Australia, the United Kingdom, the United States, and Sweden) that have been pioneers in this area. These examples may serve as a source of

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<sup>1</sup> Provisions are part of an organization's liabilities created for a clear and specific purpose to meet certain future obligations.

reflection for other countries that are considering introducing this system. This also goes for the Netherlands, whose government has recently decided to postpone the introduction of the new system for several years.

## **Five Pioneering Countries Compared**

With respect to the general design of the accrual system, the following can be observed about the five countries whose practices we compared:

- Most introduced an accrual system that was both comprehensive (for all central government entities) and full (including complete statements of financial position and financial performance and a link between these two main documents).
- Most adopted an accrual basis for both budgeting and accounting.
- The budgets and, in particular, the accounts of most include the three main accrual-based financial statements (statement of financial position, statement of financial performance, and cash flow statement).
- The financial statements of the various parts of central government are generally consolidated into central government financial statements; the public sector as a whole is generally not consolidated.
- The legislature authorizes various items: costs, cash expenditures, obligations, or both; in most cases it principally authorizes costs.
- Accounting standards in most pioneering countries are based on private sector standards, with certain departures to allow for the unique characteristics of their government. National and government accounting are separate; national accounting standards played virtually no role in the development of government accounting standards in most pioneering countries.

The details of these observations are presented in table 1.



**Table1: Design of Accrual Systems in Five Countries**

General design issue	New Zealand	Australia	United Kingdom	United States	Sweden
Comprehensive accrual system	Yes	Yes	Nearly comprehensive	Yes	
Full accrual system	Yes	Yes	Nearly full	Nearly full	Yes
Accrual budgeting and accounting	Yes	Yes	Yes	No budgeting	Yes, budgeting being developed (2004)
Main budget statements					
Estimated statement of financial position	Yes	Yes	No	No	Yes (2004)
Estimated statement of financial performance	Yes	Yes	Yes	No	Yes (2004)
Estimated cash flow statement	Yes	Yes	Yes	Yes	Yes (2004)
Main accounting statements					
Statement of financial position	Yes	Yes	Yes	Yes	Yes
Statement of financial performance	Yes	Yes	Yes, but in specific form <sup>a</sup>	Yes, but in specific form <sup>b</sup>	Yes
Cash flow statement	Yes	Yes		No	Yes
Consolidation of central government accounts	Yes	Yes	Yes, being developed (2005)	Yes	Yes
Consolidation of public sector accounts (incl. Local government)	No	No	Yes, being developed (2007)	No	No
Authorization	Costs (of outputs) <sup>c</sup>	Costs (of outcomes) <sup>c</sup>	Net costs and cash expenditures	Cash expenditures/ obligations	Cash expenditures (2004: costs)
Based on existing accounting standards	Yes: NZ GAAP (private sector)	Yes: AAS (private sector)	Yes: UK GAAP (private sector)	No: standards specifically developed for federal government	Yes: Swedish GAAP (private sector)
National accounting of relevance to government accounting	No	No (relevant to budget)	No	Some relevance	No, barely relevant

**Legend**

AAS = Australian Accounting Standards

GAAP = Generally accepted accounting principles

<sup>a</sup>Operating cost statement (costs less direct program revenues)<sup>b</sup>Statement of net costs (costs less direct program revenues)<sup>c</sup>And partly cash expenditures.

With respect to the main accounting principles applicable in each country, the following observations were made:

- There are considerable differences in valuation policies from primarily historical cost (Sweden, United States) to primarily modified historical cost (New Zealand, United Kingdom) to primarily current value (Australia).
- The main statement of financial position classification agrees with the generally accepted classification of fixed and current assets, liabilities, and equity as a balancing item.
- The depreciation method is either straight-line or optional.

- Provisions are permitted in all five countries.
- All five countries calculate equity (under a variety of names) in accordance with generally accepted principles as the balance of assets and liabilities.
- In all five countries, tax revenue allocated by the central tax collecting agency is accounted for by the other parts of central government receiving the revenue.
- All five countries calculate an operating result (in a variety of ways) as the balance between income and expenses.
- Three of the five countries apply a capital charge.

Table 2 presents the main accounting principles applicable in each country.

<b>Table 2: Accounting Principles Applicable in Five Countries</b>					
<b>Accounting principle</b>	<b>New Zealand</b>	<b>Australia</b>	<b>United Kingdom</b>	<b>United States</b>	<b>Sweden</b>
Main valuation policy for fixed assets	Modified historical cost (with revaluation) or market value	Market value (previously historical cost or market value) or replacement value	Modified historical cost or replacement value or realizable value	Historical cost	Historical cost or, in certain cases, lower market value
Main statement of financial position classification	Assets (current and non-current); liabilities (as above); equity	Assets (financial and non-financial, and current and non-current); liabilities (as above); equity	Assets (fixed and current); liabilities; equity	Assets (entity and non-entity); liabilities (covered and not covered by budgetary resources); equity	Assets (intangible fixed, tangible fixed, financial and various categories of current assets); liabilities; equity
Depreciation method	Straight-line; with residual value; prescribed terms	Straight-line; with residual value; prescribed terms	Optional, but in principle straight-line; no prescribed terms	Optional, provided systematic, rational and best reflecting use; with residual value	Optional, but normal method (straight-line) and normal terms are named
Provisions permitted	Yes: provisions	Yes: provisions	Yes: provisions for liabilities and charges	Yes: loss contingencies	Yes: provisions
Determination of equity	Yes: public (tax payer's) equity (consolidated: crown balance)	Yes: equity (consolidated: net assets)	Yes: taxpayer's equity	Yes: net position	Yes: agency capital plus funds (consolidated: net capital plus funds)
Allocation of tax revenue to parts of central government	Yes	Yes	Yes (in notes)	Yes	Yes
Determination of operating result	Yes: operating surplus/deficit (consolidated: operating balance)	Yes: net surplus/deficit (consolidated: net result)	Yes: net operating costs (but excluding tax revenue, etc.)	Yes: net result of operations	Yes: change in capital for the year
Use of capital charge	Yes: 6% of equity	Yes: 12% of equity	Yes: 6% of equity	No	No

## Conclusion

The optimal design of accrual systems in the public sector is expected to remain hotly debated both nationally and internationally in the years ahead. Organizations and networks such as INTOSAI, the Organisation of Economic Co-operation and Development (OECD), the International Federation of Accountants (IFAC) Public Sector Committee, and Comparative International Accounting Research (CIGAR) might provide valuable information and stimulus for further development and international harmonization.

An English copy of the report *Accrual Budgeting and Accounting in Central Government–Budgets and Accounts in Balance* is available on request from the author (m.dees@rekenkamer.nl) or on the Internet (www.rekenkamer.nl). Further information on government budgeting and accounting in nine European countries (Finland, France, Germany, Italy, Netherlands, Spain, Sweden, Switzerland and the United Kingdom/Ireland) can be found in a recent book, *Reforming Governmental Accounting and Budgeting in Europe*, Klaus Lüder and Rowan Jones (eds.), (Frankfurt, Germany: Fachverlag Moderne Wirtschaft, November 2003), ISBN: 3-934803-13-X.

## **Ninth ASOSAI Assembly and 2<sup>nd</sup> Symposium**

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By Alberta E. Ellison, U.S. General Accounting Office

*The Asian Organization of Supreme Audit Institutions (ASOSAI) held its 9<sup>th</sup> Assembly and 2<sup>nd</sup> Symposium in Manila, Philippines, October 20–26, 2003. Hosted by the SAI of Philippines, the Assembly drew delegates from 33 SAIs as well as observers from other SAIs, the Asian Development Bank, the INTOSAI Secretariat General, the INTOSAI Development Initiative (IDI), and this Journal.*

### **Opening Ceremony**

The 9<sup>th</sup> Assembly of ASOSAI opened on October 21, with Dr. Panya Tantiyavarong, ASOSAI Chairman and Chairman of Thailand's State Audit Commission, and Chairman Guillermo N. Carague of the Assembly host, the Philippine Commission on Audit, leading the opening ceremonies. They both welcomed the 130 delegates and observers from 33 ASOSAI member countries.

Philippine Vice President Teofisto T. Guingona, Jr., was the guest of honor and keynote speaker at the opening ceremony. In his address, he called the attention of ASOSAI to “the need for auditing to be responsive to the demands of globalization and technology advances as well as to the goals and development needs of its member countries.”

Chairman Carague urged the delegates to make use of the 9<sup>th</sup> Assembly as a “venue to renew old ties, bid farewell to those whose terms are expiring, and warmly welcome those who are joining for the first time” and to perpetuate the bond of friendship and camaraderie to ensure the continued smooth functioning of ASOSAI in the future. In addition, he stressed that everyone must be more “vigilant in the discharge of the responsibilities of their own SAIs in the face of recent developments that have buffeted the world of accountancy and which saw the unraveling of a number of supposedly financially sound companies and even the collapse of one of the world's oldest and largest auditing firms.”

### **Ceremony to Unveil ASOSAI Marker**

The 130 ASOSAI assembly delegates and observers gathered at the Professional Development Center Building of the Commission on Audit to witness the unveiling of the souvenir architectural representation celebrating the 9<sup>th</sup> ASOSAI Assembly and 2<sup>nd</sup> Symposium. Upon arrival, the delegates were greeted by top Commission officials. The special guest speaker during this event was Dr. Francisco Tantuico, Jr. (former Chairman of the Commission on Audit, ASOSAI founding member, and first ASOSAI Secretary General), who briefed the delegates on the founding of ASOSAI.

## First Plenary Session Summarizes Governing Board Meeting

The first plenary session reviewed the report of Secretary General Vijayendra N. Kaul on ASOSAI's activities since the previous Assembly. Highlights of the report included the

- approval of financial statements for 2000-2002 and the report of the audit committee,
- ASOSAI training activities,
- the sixth ASOSAI research project on IT audit,
- presentation and discussion of audit guidelines on fraud and corruption, and
- IDI's report on training initiatives in ASOSAI.



During the first plenary session, Mr. Vijayendra N. Kaul (India), Secretary General of ASOSAI, second from left; Mr. Guillermo N. Carague (Philippines), Incoming ASOSAI Chairman, center; and, Dr. Panya Tantiyavarong (Thailand), Outgoing ASOSAI Chairman, second from right; addressed the assembly.

The SAIs of Afghanistan, Bahrain, Georgia, the Lao People's Republic, and Mauritius were admitted as members of ASOSAI. It was also reported that ASOSAI, the Asian Development Bank, and the Government Auditing Foundation of Japan had signed an agreement to provide technical assistance that aims to enhance the training capabilities of member SAIs by expanding the existing pool of training specialists. This pool of 27 certified training specialists was created in 1998 under the Long Term Regional Training Program.

## Second Symposium on Quality Management in Public Audit

The 2<sup>nd</sup> Symposium on "Quality Management in Public Audit" was held with the former Philippine Finance Secretary and now Asian Institute of Management President Roberto de Ocampo as guest speaker. In his speech on "Public Audit and Good Governance," he stated that his topic "is timely as countries all over the world today are very concerned about good governance in both the public and corporate sectors." He also stated, "Quality audit means a balance between discretion and common sense versus being a stickler for the absolute letter of rule. It means not losing sight of the forest by being too finicky about the trees. It means the ability to prioritize so as not to waste time—both the auditor's and the auditee's. It means not overburdening either of them by an overzealous passion for detail so that one ends up losing sight of the overall objective of the audit—was government money spent properly?"



Assistant Commissioner Roberto B. Catli moderated a panel presentation on quality management in public audit. Participants included Dr. Gertrude Schlicker (INTOSAI General Secretariat), Mr. Muhammad Yunis Khan (Pakistan), Mr. Asif Ali (Bangladesh), Mr. Kevin Brady (New Zealand), and Mr. Sunil Bahri (India).

Dr. Schlicker stated, “Assuring high level quality in an audit organization involves a succession of steps that must be taken over a period of time.” The standards of quality should first be defined and ensure that quality control procedures are put in place. Once this is done, the auditor has to see to it that the quality control procedures are working efficiently and “identify ways of improving the effectiveness or efficiency of procedures.” She even suggested techniques on how to do this—“use of various types of post-audit quality reviews, building an institutional culture wherein high quality is a fundamental value that is reflected in the management of the SAI’s human resources and its relation with other institutions.”

Mr. Muhammad Yunis Khan, the Auditor General of Pakistan, stated that “the clientele of the SAI is the public, the taxpayer, and the public representatives who approve public spending and scrutinize the audit reports.” Therefore, for SAIs, the challenge of quality management in public audit is to come as close as possible to meeting the differing expectations of the clientele. Pakistan’s strategies include dissociating itself from direct involvement in accounting and promoting implementation of accounting reforms, among them the installation of a national network of core accounting systems with accrual reporting features and the potential for upgrading to full accrual in the coming years. Pakistan’s expectation is that “sound accounting and financial reporting will provide the basis for effective auditing during the next 5 years.”

To Mr. Asif Ali, Comptroller and Auditor General of the Bangladesh SAI, quality management in public audit is “certification of the accounts; compiling of the audit reports; the organizational capability of manpower, techniques, and practices; as well as implementation of the auditing standards and guidelines issued by the INTOSAI and the ASOSAI.” Mr. Kevin Brady of the New Zealand SAI emphasized four elements: “(1) understanding the environment in which auditors work; (2) ensuring that the office has the best people; (3) [determining] how to go about promoting good governance; and (4) practicing what is being preached.”

The Indian SAI’s experiences and quality initiatives include “measurement of the effectiveness of audit based on a desirability-acceptability matrix that grades the audit paragraphs or audit comments found in the audit reports; information technology-related initiatives such as workflow automation to standardize processes; external certification, starting with the training institutions; peer reviews; and revamping the technical inspection and internal audit within the organization.” Of course, all these initiatives have taken into account “that standards are complied with at all levels and there is a way of ensuring quality.”

## **Election of Governing Board and Audit Committee Members**

Mr. Carague advised the Assembly participants that the SAI of the People’s Republic of China will host the 10<sup>th</sup> Assembly of ASOSAI in 2006 and that the SAI of India will continue as the Secretary General of ASOSAI for the next 3 years.

Elections were held during the meeting to determine the SAIs that would constitute the ASOSAI Governing Board for the next 3 years. The Governing Board consists of nine member countries, of which five are elected by the Assembly. The countries of Bangladesh, Bhutan, Malaysia, Pakistan, and Saudi Arabia were elected for a 3-year term at this meeting. The other three members are the head of the SAI where the last Assembly was held (Philippines), the head of the SAI where the next Assembly will be held (Peoples' Republic of China), and the Secretary General of ASOSAI (India). The Governing Board unanimously appointed Japan as its fourth member. The SAIs of Indonesia and Turkey were elected to positions on the Audit Committee.

For additional information regarding the 9<sup>th</sup> ASOSAI Assembly, please contact Mr. Guillermo N. Carague, Chairman of the Commission on Audit, Central Office, Commonwealth Avenue, Quezon City 1119, Philippines; telephone: ++63-2-93192-32; fax: ++632-9319223; e-mail: [gemcarague@coa.gov.ph](mailto:gemcarague@coa.gov.ph); or Web site: [www.coa.gov.ph](http://www.coa.gov.ph).

## **XIII OLACEFS General Assembly Held in Cuba**

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By Monika González-Koss, INTOSAI General Secretariat

*Delegates from SAIs throughout Latin America met in Havana, Cuba, to celebrate the XIII General Assembly of the Organization of Latin American and Caribbean Supreme Audit Institutions (OLACEFS). The Assembly was hosted by the Cuban SAI (the Ministry of Audit and Control) November 12-15, 2003. Participating OLACEFS member SAIs were Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, the Netherlands Antilles, Panama, Paraguay, Peru, Portugal, Spain, and Venezuela. Delegates of those countries were joined by observers representing the INTOSAI General Secretariat, the INTOSAI Development Initiative, and the SAIs of Algeria, China, the Russian Federation, and the United Kingdom.*

### **Inaugural Ceremony**

The inaugural ceremony took place in the Hotel Melia Cohiba. In his opening speech, Dr. Clodosbaldo Russián Uzcategui, Comptroller General of Venezuela and President of OLACEFS, expressed his gratitude to the Cuban SAI for the excellent organization of the event and gave a heartfelt welcome to all participants. Dr. Enrique Lau Cortés, representing Dr. Alvin Weeden Gamboa, the Panamanian General Secretary of OLACEFS, stressed the importance and ongoing relevance of the ideas of Cuban hero José Martí regarding Latin American integration as a factor in strengthening the Latin American SAIs.

Ms. Lina Pedraza Rodriguez, head of the Cuban Ministry of Audit and Control, explained the importance for her SAI of celebrating the 2003 OLACEFS Assembly in Cuba, where INTOSAI had been founded exactly 50 years earlier. Dr. Ricardo Alarcón de Quesada, President of the National Assembly of Cuba, underscored the importance of the work done by SAIs as the principal public organ for auditing and detecting irregularities. The last guest speaker, Mr. Sergey Stepashin, President of the Russian SAI, pointed out the necessity of close cooperation among SAIs all over the world, especially taking into consideration the increasingly transcontinental character of financial offenses.

### **Technical Theme Presentations**

The XIII OLACEFS General Assembly was organized around three technical themes. Plenary addresses introduced each theme followed by delegate debates on the

professional and technical issues mentioned in the principal papers and other presentations. Conclusions and recommendations were developed and approved for each theme.

### Theme 1: Methods to Plan and Carry Out Audits of Public Debts

Mexico was the coordinator for this theme and prepared the lead paper. Ecuador was the moderator, and El Salvador acted as rapporteur. A number of other SAIs prepared country papers on the theme. The representative of the INTOSAI Development Initiative (IDI) also took part in the debate, explaining the progress in the training courses and workshops on public debt audits being organized as a pilot project in the OLACEFS region by IDI and the INTOSAI Committee on Public Debt, chaired by the SAI of Mexico. The conclusions and recommendations on this theme included the following:

- SAIs should evaluate the quality of internal control, corroborate the importance of complete and reliable registers of debt transactions, and promote the elaboration of complete public reports.
- SAIs should assess the support for short- and long-term debts and express their opinion on the actions taken to refinance, convert, and write them off.
- SAIs should analyse the structure of public debt in order to define its effects on the cash flow of a country and evaluate the strategies applied to minimize risks and costs.
- SAIs should, within the framework of their national competencies, permanently control a country's public debt to guarantee clear, transparent, and adequate contracting, utilization, administration, registering, pay control, and accountability.
- SAIs should inform their parliaments, the executive power, and taxpayers of the public debt situation and its effect on future generations to foster government responsibility on this important topic with high transgenerational impact.

### Theme II: Information Technology

Mr. José Bidot Pelaez, Director of Information Security of the Cuban Ministry of Information and Communications, gave the plenary address on this theme, explaining the great potential, as well as the risks, of using information technology in public administration. The SAI of Chile as coordinator stressed the necessity for SAIs to increase the overall use of these techniques in their audits as part of their modernization process. The SAI of Honduras as moderator and the SAI of Paraguay as rapporteur and several participating SAIs provided further analysis and discussion. The most important conclusions and recommendations on this theme include the following:

- SAIs should adapt to the changing conditions of their auditees, taking into account the fact that nearly all their data and processes are electronically based.
- SAIs should elaborate within their technical frameworks special audit methods for the different fields of information technology.
- SAIs should actively accept the challenges of e-government and join this virtual world.

- SAIs should prepare their staffs to cope with and handle all kinds of new technologies.
- SAIs should implement a plan permitting the exchange of experiences and IT programs used in IT-related audits.

### Theme III: Strengthening the SAI

The SAI of Bolivia was coordinator and had also prepared the lead paper. The SAI of Colombia was the moderator and the SAI of Guatemala the rapporteur. In the debate, several delegations outlined the importance of SAI independence and institutional capacities, of fostering the public's confidence in the SAI, and of ethics.

The conclusions and recommendations include the following:

- SAIs should seek from their legislative bodies adequate legal frameworks to guarantee their independent work.
- SAIs should take preventive efforts to reinforce personal ethical and moral conduct, thus helping to establish an ethical culture.
- SAIs and OLACEFS should continue their efforts to strengthen and improve their situation by empowering their human resources and systems as well as by elaborating strategic plans for their institutions.

### Signing of Agreements

Along with the celebration of the OLACEFS General Assembly, the SAI of Cuba signed cooperative agreements with the SAIs of the Russian Federation, the Dominican Republic, and Brazil.



Delegates to XIII OLACEFS Assembly in Cuba



## **OLACEFS Business**

During the general business plenary on the last day of the General Assembly, the OLACEFS Regional Training Committee reported on its multiple training projects, especially the great success in implementing the IDI-OLACEFS Long Term Regional Training Plan and their efforts to strengthen the training infrastructure in the region.

The Chamber of Accounts of the Dominican Republic was accepted as a new member of OLACEFS. The following SAIs are members of the new OLACEFS Governing Board: Argentina, Cuba, Honduras, Panama, Paraguay, and Venezuela. The SAI of Chile and Colombia were designated as auditors of OLACEFS.

Argentina was named as the site of the OLACEFS General Assembly in the year 2004.

The representative of the U.K. National Audit Office invited the participants to the third joint EUROSAI-OLACEFS Seminar to be held in London in May 2004.

## **Other Activities**

Throughout the conference, the Ministry of Audit and Control treated participants with overwhelming hospitality and Caribbean warmth. Delegates and special invited guests attended a cultural gala offered by the National Cuban Symphony Orchestra as well as a ceremony in the old port fortress of Havana. On Thursday afternoon, the participants had the unique opportunity to visit the Latin American School of Medicine, which offers underprivileged students from developing countries in Latin America and Africa a complete course of medical studies in Cuba, focusing their preparation on social medicine to prepare future doctors for work in their home countries.

On the last day of the Assembly, delegates and guests were taken to Varadero, the most famous tourist seaside center in Cuba, where the regional minister for tourism explained the development of international tourism in Cuba in the past 10 years.

For more information, please contact the OLACEFS General Secretariat, Contraloría General, Av. Balboa y Av. Federico Boyt, Apartado 5213, Zona 5, Panama City, Panamá; telephone: ++507 264 00 59; fax: ++507 263 93 22; e-mail: [centrodeinformacion@contraloria.gob.pa](mailto:centrodeinformacion@contraloria.gob.pa); and Web site: [www.contraloria.gob.pa](http://www.contraloria.gob.pa).

# **Audit Profile: Auditor-General's Office of Papua New Guinea**

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By Mr. Mark Wani, Auditor General

Until 1973, the audit responsibilities relating to what was then the Territory of Papua and New Guinea were vested with the Australian National Audit Office (Commonwealth Audit Office of Australia). However, when the Territory of Papua and New Guinea attained self-government status from Australia in 1973, it signaled the beginning of a new era marked by passage of the Public Finances (Control and Audit) Act, 1973. The same year, the Office of the Auditor-General was established and the first Auditor-General of Papua New Guinea was appointed. With the attainment of independence in 1975 and the birth of Papua New Guinea as an independent nation, Sections 213 and 214 of the Constitution of the Independent State of Papua New Guinea established the Office of Auditor-General of Papua New Guinea (PNG AGO) as the supreme audit institution of Papua New Guinea (PNG).

## **Scope of Audit Authority**

Section 214 of the Constitution of the Independent State of Papua New Guinea requires the Auditor-General's Office to inspect and audit and report to the Parliament at least once in every fiscal year (as provided by an act of the Parliament) on (1) the Public Accounts of Papua New Guinea, (2) the control of and transactions with or concerning the public moneys and properties of Papua New Guinea, and (3) other functions prescribed by or under constitutional law. The authority of the PNG AGO to become a Parliamentary Auditor is entrenched in the Constitution and was amplified in the Audit Act (1989) to include inspection and audit of accounts, finances, and property of all arms, departments, agencies, and instrumentalities of the national government, as well as all bodies set up by an act of Parliament or by an executive or administrative act of the national executive for governmental or official purposes. The Audit Act elaborates on the provisions of Section 214 of the Constitution by expanding the mandate of the PNG AGO to include the audit of provincial governments, together with their arms, agencies, and instrumentalities. Under the Constitution and the Audit Act, the objective of the PNG AGO is to conduct independent audits and examinations that provide professional and objective information, advice, and assurance to the PNG Parliament on the financial operations of the PNG public sector.

## **SAI Independence**

Section 213(i) of the Constitution of PNG guarantees the independence of the Auditor-General in terms of planning, executing, and reporting on audits performed as the Parliamentary Auditor. Section 20 of the Audit Act amplifies the constitutional provisions by giving the PNG AGO powers to appoint its officers and set its own terms and conditions of employment within the finances provided to it, as stipulated under Section 21 of the same act.

## Audit Planning

Effective in the year 2000 and after the Auditor-General's Office finalized the task of documenting its audit processes and procedural guidelines for compliance and attestation audits, the planning and execution of audit work has been performed in accordance with international standards on auditing and guided by professionalism, independence, ethics and integrity, objectivity, and responsiveness in serving the state and public interest with commitment and excellence. Audit work is executed in the following three stages.

- The Annual Plan is formulated within the broad context of the PNG AGO Corporate Plan. For each of the three major portfolios—the national government departments; provincial and local level governments; and statutory bodies, government-owned companies, and project audits—it spells out the staff days required to perform the audits as well as the staff days available from the audit operations staff. Audits to be done in-house by AGO staff and those to be done by contract auditors are also identified so that a strategy to identify shortfalls in manpower is put in place.
- Entity-oriented field plans specify in detail the financial statements and records to be audited, including specific staff allocations. The field plans also specify the scope, nature, timing, and extent of procedures to be applied as well as other requirements, including detailed reviews of internal control systems.
- Audit programs are developed for each audit. These programs put in place the nature, timing, and extent of specific audit procedures for each financial statement component (auditable area); the timing and extent of specific audit objectives (for each auditable area); and assertions to be verified, materiality levels, etc.

All audits undertaken by contract auditors are reviewed in-house and the reports are finalized by AGO staff.

## Organization, Size, and Types of Work Done

The PNG AGO is currently organized into two wings, operations and support services.

The audit operations wing is further divided into three branches, each of which performs specific audits through its respective divisions. The AGO has been structured so that its branches and divisions can address accountability, transparency, and related governance issues in the public sector. The three branches and the operations divisions under them are as follows.

- The National Government Branch. Under this branch, the National Government Expenditure Division is responsible for auditing the 28 national government departments and their agencies, while the Public Accounts and Revenue Division is responsible for the audit of the Public Accounts of PNG.
- The Provincial Government and Local Level Governments Branch has two divisions, which share the task of auditing the 19 provincial governments and their business arms, as well as the 286 local level governments and their business arms.

- The Statutory Bodies and Special Audits Branch houses two divisions. The Statutory Bodies Division audits all public bodies and their subsidiaries and government-owned companies. The Special Audits Division is responsible for project audits, performance audits, and audit investigations.

The support services wing comprises two divisions, the Finance and Administration Division and the Corporate Services Division. The latter, among other functions, oversees strategic as well as operational planning and implementation functions, the human resources management function, and the legal services unit. The division also develops various operational and administrative systems for the office.

In all, the PNG AGO employs 109 staff, 82 of whom are attached to audit operations. The branches are headed by First Assistant Auditors-General, while the divisions are headed by Assistant Auditors-General. Together with the Auditor-General and the Deputy Auditor-General, they constitute the PNG AGO's senior management. Middle management comprises section heads designated as Directors of Audit/Managers. Various levels of auditors—Senior Auditors, Principal Auditors, and Senior Principal Auditors—perform under each section head. As shown in table 1, AGO divisions and branches are currently required to perform 1,478 audit jobs annually, and these jobs take a total of 11,584 staff days per year. (One staff day is defined as 7.21 hours of audit work per auditor per day.)

**Table1: PNG AGO Audit Jobs Required Annually**

<b>Division</b>	<b>Audit jobs</b>	<b>Staff days</b>
Provincial and local level governments	1,095	3,767
Line departments	28	2,245
Public accounts and revenue-generating agencies	10	1,929
Programs and projects	10	50
Statutory bodies	335	3,593
<b>Total</b>	<b>1,478</b>	<b>11,584</b>

## Human Resources Management

The PNG AGO has always sought to improve its staff's abilities to perform their jobs by continuing to impart the necessary knowledge and skills through in-house seminars and workshops as well as on-the-job training through attachments to audit offices overseas. Giving staff the opportunity to pursue professional development courses leading to membership in various professional accounting bodies has been a priority, with the AGO assisting staff with payment of membership and examination fees. The AGO has also strengthened and undertaken an ongoing review of the terms and conditions of employment, while maintaining its policy of recruiting graduates to fill various positions within the office. All these activities are aimed at improving the AGO's human resources management.

The AGO has put in place its Five-Year Training Programme, 2000–2005, which provides strategic direction on the knowledge and skills that staff need in order to perform their audit and other tasks. The program is incorporated into the Human Resources Strategic Framework contained in the AGO Corporate Plan (2000–2010).

The office is also finalizing a report that will provide essential inputs to the overall training and staff development agenda for the AGO. The AGO Institutional Strengthening Project has become an integral part of the PNG Government Public Sector Reform agenda, which is being funded through an Asian Development Bank loan. This project is expected to strengthen the PNG AGO's ability to audit for impact by enabling it to perform audits more efficiently, add value to systems, and develop best practices and methods in auditee organizations. It is expected to cost 3.8 million Kina (US\$1.4 million) over a period of 3 years. This funding will only address a few selected components of the AGO Corporate Plan.

The project will focus not only on the human resources aspect of training and staff development, but also on modernizing audit processes and the equipment of the PNG AGO, as defined in the AGO Corporate Plan. The Corporate Plan aims at enhancing the capacity of the AGO to perform not only the compliance and attestation audits it currently handles, but also the value-for-money and forensic audits required under the AGO mandate.

For additional information, contact: Office of the Auditor-General of Papua New Guinea, fax: ++675 325 28 72; e-mail: agois@dg.com.pg.

## Reports in Print

The Institute of Internal Auditors (IIA) continues to publish its magazine *The Internal Auditor*, an invaluable resource for all *Journal* readers. In the October 2003 issue, the article “Savvy Solutions for Small Audit Shops” tells how small audit staffs can address challenges such as human-resource constraints, tight budgets, and the imperative to do more with less. When staff sizes are limited, circumstances can arise that large audit offices are not likely to encounter. For example, if a member of a small audit team leaves the department, a well-planned audit agenda can be decimated, and replacing the team member can be very difficult. To overcome these challenges, the article describes seven strategies that illustrate ways in which small audit offices have succeeded in making the most of limited resources and maximizing their impact. These strategies are (1) define the risks, (2) choose staff wisely, (3) set aside time for consulting, (4) expand your network, (5) amplify outside resource engagements, (6) trumpet auditing capabilities, and (7) use technology wisely. The article also describes the advantages of small audit offices, such as reduced bureaucracy, streamlined processes, and easy access to senior management. For more information about the magazine and the IIA, contact The Institute of Internal Auditors, 247 Maitland Avenue, Altamonte Springs, Florida 32701-4201, USA; Web site: [www.theiia.org](http://www.theiia.org).

The Audit Office of New Zealand has issued its Report of the Controller and Auditor-General for 2003. The report, *Managing Threats to Domestic Security*, examines the wide range of arrangements in place to identify and respond to domestic security threats. To carry out its work, the Audit Office looked at (1) the adequacy of the framework in place

to guide domestic security efforts, (2) the collection and dissemination of relevant intelligence, its coordination, and its sufficiency to address risks, goals, and objectives, (3) the preparedness and capabilities of various agencies to respond to domestic threats, and (4) the effectiveness of arrangements for monitoring and evaluating the allocation of resources used to achieve domestic security goals. For a copy of this report, contact the Audit Office of New Zealand, Private Box 3928, Wellington, New Zealand; telephone: ++04-917-1500; Web site: [www.oag.govt.nz](http://www.oag.govt.nz).

E-government denotes the planned and coordinated use of information and communication technologies to perform functions for public institutions. These technologies can be introduced where good infrastructural facilities already exist, such as in industrialized countries. However, according to the article “E-government for Poor Countries?” in the June 2003 issue of *D+C: Magazine for Development and Cooperation*, e-government can also be feasible for certain purposes in less developed countries. The article details the benefits of e-government—such as greater efficiency, improved public services, and better transparency. For example, a municipal authority in Bangladesh recently introduced an electronic register of births to replace an outdated manual system. As a result, the data management and supply information processes now take only a fraction of the time they took previously, and the risk of mistakes has been lowered. E-government can also boost the efficiency of public institutions, thereby saving taxpayers’ money by increasing staff productivity and cutting procurement and contracting costs. However, the article cautions that e-government may not always result in greater efficiency automatically or overnight, and substantial initial and follow-up investment is often required. To see

the complete article and other issues of this magazine (published in German, English, Spanish and French), contact InWEnt (International Weiterbildung un Entwicklung, or Capacity Building International, Germany), Tupenfield 5, Bonn D-53113, Germany; telephone.: ++49-228-2434-5; fax: ++49-228-2434-999; Web site: [www.inwent.org](http://www.inwent.org).

The U.S. General Accounting Office (GAO) has published a report, *U.N. Peacekeeping: Transition Strategies for Post-Conflict Countries Lack Results-Oriented Measures of Progress* (GAO-03-1071, September 2003), examining the United Nations’ transition strategies for its peacekeeping efforts in Sierra Leone, East Timor, and the Democratic Republic of the Congo. The report concludes that “attempts to rebuild nations and keep peace after conflict are useless without adequate measures of progress.” GAO states that “although the U.N. uses some indicators to manage the withdrawal of peacekeeping troops, the U.N. does not have results-oriented measures to assess the security situation in the countries examined. Subsequent events in each country have proved that the situation was not as secure as available measures indicated.” For example, the report notes that a goal of training over 2,000 police in East Timor was based on a standard European police-to-population ratio using outdated population estimates. As a best practice model, the GAO report cites strategies developed by the U.S. Department of Justice for strengthening judicial independence: (1) identifying the country’s needs, (2) identifying a measure of output for strategies implemented, (3) creating a specific measure of specific outcomes, and (4) identifying measures of the impacts on the underlying conditions in the country. For more on the GAO report or to download or order a copy of it, see the GAO Web site, [www.gao.gov](http://www.gao.gov).



## **Governing Board Convenes, INTOSAI Celebrates 50<sup>th</sup> Anniversary in Budapest**

### **Special Program Honors 50<sup>th</sup> Anniversary**

From October 13-15, 2003, INTOSAI's 50<sup>th</sup> anniversary was highlighted at the Governing Board's 2-day business meeting and special 1-day commemorative program in Budapest. Following the Board meeting, SAI heads from 15 other national audit offices joined the 18-member Board for a program that included technical and ceremonial sessions tracing the organization's history and accomplishments since it was founded in Havana, Cuba, in 1953. The technical session included welcoming remarks from the chairman of the INTOSAI Board, Dr. Ock-Sup Noh of the Republic of Korea, followed by a lecture on the interpretation of the Lima Declaration by Dr. Attila Chikán, Rector of Budapest University. A presentation on the independence of SAIs by Secretary General Franz Fiedler focused on this most critical aspect of supreme audit institutions, and Dr. Arturo González de Aragón, Auditor General of Mexico, concluded the technical session with a presentation on the benefits of INTOSAI to SAIs.



Auditors general, staff, and accompanying persons from over 35 countries gather on the steps of the Hungarian Parliament building in Budapest as part of INTOSAI's 50<sup>th</sup> anniversary celebration.

The ceremonial session was conducted in the main chamber of the Hungarian Parliament. This part of the anniversary program featured welcoming remarks from Dr. Arpad Kovacs, President of the Hungarian State Audit Office and host of the program, and a speech on the relationship between SAIs and the parliament by Dr. Ferenc Wekler, Speaker of the Hungarian Parliament. The session concluded with a comprehensive speech on the history of INTOSAI by Secretary General Fiedler, followed by a reception in the elegant Parliament reception rooms.



Dr. Arpad Kovacs, President of the Hungarian State Audit Office, officially opens the 50<sup>th</sup> anniversary ceremony in the main chamber of the Hungarian Parliament.

A special 50<sup>th</sup> anniversary publication is being produced jointly by this *Journal* and the General Secretariat. It will include the full text and photographs of these proceedings, as well as additional historical information about INTOSAI and its many programs. The publication will be issued in each of INTOSAI's five official languages (Arabic, English, French, German, and Spanish) and distributed at the INTOSAI Congress in Budapest in October 2004.

### Board Focuses on Strategic Plan

At its business meeting on October 13-14, 2003, the Board dedicated a significant amount of time to discussions and debate on the report of its Strategic Planning Task Force. Mr. David M. Walker, Comptroller General of the United States and Task Force chairman, reported on the Task Force's work since the Board's 2002 meeting and presented the proposed plan, which covers goals related to professional standards, capacity-building, knowledge-sharing, and related governance issues. A lively and engaging discussion ensued with Board members and observers alike debating and contributing to the dialogue. There was broad-based support for the plan, and the Board approved a resolution adopting the Task Force's report, including the following points:

1. The Board endorsed the Strategic Planning Task Force's three proposed strategic goals and key related principles (see the following exhibit).
2. The Board endorsed the Strategic Planning Task Force's plan to consider comments received at the Board meeting—and other comments that were to be received by November 15, 2003—for inclusion in a revised proposed plan, including any related to governance issues and amendments to the Statutes. The Task Force will solicit comments from the regional working group general secretariats in connection with any proposed changes to the Statutes.
3. The Board endorsed the Strategic Planning Task Force's proposed process and timeline, including consideration of a final proposed strategic plan and any related amendments to the Statutes at the 2004 Congress in Budapest.



**Figure 1: INTOSAI Strategic Plan Overview as Modified in December 2003**

<b>Overview</b>	
<b>MISSION</b>	
INTOSAI is an autonomous, independent, professional, and non-political organisation established to provide mutual support, foster the exchange of ideas, knowledge, and experiences, act as a recognised voice of SAIswithin the international community, and promote continuous improvement amongst a diverse range of member supreme audit institutions (SAIs).	
<b>VISION</b>	
Promote good government by enabling SAIs to help their respective governments improve performance, enhance transparency, ensure accountability, maintain credibility, fight corruption, promote public trust, and foster the efficient and effective receipt and use of public resources for the benefit of their citizens.	
<b>CORE VALUES</b>	
Independence -Integrity -Professionalism Credibility -Inclusiveness -Cooperation -Innovation	
<b>STRATEGIC GOALS</b>	
<ol style="list-style-type: none"> <li>1. Accountability and Professional Standards</li> <li>2. Institutional Capacity Building</li> <li>3. Knowledge Sharing and Knowledge Services</li> <li>4. Model international organization</li> </ol>	

The Task Force subsequently met in Washington, D.C., December 1–2, 2003, to further develop the plan and to address and incorporate the comments received from INTOSAI members before and after the Board meeting. At that meeting, the Task Force proposed a new goal (strategic goal 4—model international organization) based in large part on a recommendation made by Portugal at the October 2003 Board meeting. This goal includes a number of recommendations to help ensure the successful achievement of the plan’s three other strategic goals.

As this issue of the *Journal* goes to press, the proposed plan has been sent to the Board for authorization to send it to all 185 INTOSAI members for their review and comment. In his letter to Board members, Mr. Walker wrote on behalf of the Task Force, “As Chairman of the Strategic Planning Task Force, I believe that this first-ever strategic plan for INTOSAI will be instrumental in guiding an already successful international organization toward becoming a model international organization for the future. The Task Force looks forward to continuing to work with the Governing Board on this important initiative.”



Members of the INTOSAI Board’s Strategic Planning Task Force take a break from their deliberations at their December 2003 meeting in Washington, D.C., to pose for a photo.

A special Board meeting will be convened in Vienna, Austria, June 21-22, 2004, to review and approve the plan that ultimately will be presented for approval by INTOSAI's members at the Triennial Congress in Budapest in October 2004.

## Other Business

The Board heard a number of reports from committees, working groups, and the General Secretariat and made the following decisions:

- On the recommendation of the General Secretariat, amended the Statutes related to a change in the Law on Associations of the Republic of Austria.
- Accepted the auditor's annual report and unqualified opinion on INTOSAI's financial statements.
- Accepted the report and work program of the newly created Task Force on Anti-Money Laundering.
- Accepted the reports of INTOSAI's eight committees and working groups, this *Journal*, and IDI.
- Noted that five new members of the Board will be elected at the 2004 Congress to replace five current members, whose terms come to an end at the Congress.
- Noted that the 17<sup>th</sup> UN/INTOSAI seminar, on the subject of SAI independence, will be held in Vienna, Austria, April 19-23, 2004.
- Accepted reports on the preparations for the 18<sup>th</sup> INCOSAI and appointed the following theme rapporteurs: Theme I (United Kingdom, Bhutan, Austria, Mexico, South Africa, Czech Republic, Cuba, and Ghana) and Theme II (Canada, Tunisia, Switzerland, Fiji, Peru, New Zealand, Cameroon, and Burkina Faso).
- Accepted the report of the host of the 19<sup>th</sup> INCOSAI (Mexico, 2007) on preliminary preparations for that Congress.

For more information on the Board meeting or for copies of reports tabled at the meeting, contact the General Secretariat at [intosai@rechnungshof.gv.at](mailto:intosai@rechnungshof.gv.at) or the meeting host at [incosai2004@asz.hu](mailto:incosai2004@asz.hu)

## Regional Course in Public Debt Auditing in OLACEFS

As reported in earlier issues of the *Journal*, the INTOSAI Public Debt Committee has been working together with IDI and OLACEFS to develop and deliver a pilot program to enhance the way that SAIs manage their auditing of public debt. The first regional public debt auditing training course was delivered to 24 OLACEFS auditors in Cartagena de Indias, Colombia, from October 27-November 7, 2003. Participants included auditors from 10 SAIs—Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Paraguay, Peru, Uruguay, and Venezuela. The course instructors had been participants in the 5-week “champions” workshop held in Mexico in April and May 2003. A second course is planned for the SAIs of Central America in 2004. Also, the instructors will support the SAI of Venezuela in a pilot debt audit planned for early 2004.

This course will provide immediate benefits to OLACEFS. The region can now count on 24 skilled auditors who possess knowledge of public debt issues and have been trained under a rigorous course structure. In the future, their public debt audits will be better planned, will be more in-depth, and will offer a comprehensive evaluation of public debt encompassing budget, economic, and fiscal effects.

The Public Debt Committee, in conjunction with IDI and the INTOSAI regions, will also be taking steps for translating a finalized version of the 2-week course into other INTOSAI languages. In order to extend the benefits of the public debt auditing training program to other regions, it will be necessary to adjust the design of the training program to meet the specific needs of each region.



## 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>

## Enhancing the Pool of Training Specialists in Anglophone Africa

A Course Design and Development Workshop (CDDW) was the focus of AFROSAI-E in November 2003. The workshop was led by the subregion's own training specialists, with audit practitioners who had completed one of the three previous AFROSAI-E Instructional Techniques Workshops comprising the participants. As a result of the workshop, a 5-day course on Detection of Fraud and Irregularities was developed for future delivery in the region. In addition, participants who successfully complete the workshop's requirements will be awarded an IDI Training Specialists Diploma.

## Performance Auditing in ARABOSAI

A 2-week Performance Audit Workshop, including a module on fraud and corruption, was delivered to a group of 25 ARABOSAI auditors at the beginning of December 2003. The workshop was delivered by a number of ARABOSAI's training specialists.

## IDI's EUROSAI Program Looks Eastward

A meeting was held in Oslo, Norway, November 17-19, 2003, to plan the delivery of the IDI/EUROSAI Phase II Long Term Training Program (LTTP) for countries in Eastern Europe, the Balkans, and Central Asia. A training consultant and IDI training specialists from EUROSAI and ASOSAI attended the meeting, as did a subject matter expert from the SAI of Russia.

The second activity of the Phase II LTTP, a Course Design and Development Workshop to be delivered in both Russian and English, will be held in Sofia, Bulgaria, April 26-June 4, 2004.

## ASOSAI Symposium for Training Specialists

At the recent 9th ASOSAI Assembly, the IDI proposal to hold a regional symposium for training specialists was approved. All of IDI's graduate training specialists in the ASOSAI region will be invited to the symposium, which will be held in Thailand from March 29-April 2, 2004. The main objectives of the symposium will be to enhance and upgrade training specialists' skills and to start preliminary course design work on several topics suggested by ASOSAI, such as the audit of fraud and corruption, and good management of public audit. It is expected that some of these course designs will subsequently be developed into full training courses.

## Environmental Auditing Project

The first delivery of a pilot 2-week environmental auditing workshop was held in Turkey November 3-14, 2003. The workshop is the first fruit of the cooperative project between IDI and the INTOSAI Working Group on Environmental Auditing (WGEA). A total of 29 participants from 15 ASOSAI member SAIs attended the workshop, which was designed using IDI's training methodology. An instructor team comprising eight training specialists from AFROSAI-E, ASOSAI, EUROSAI, and SPASAI delivered the workshop. By the end of the 2 weeks, each participant had prepared an environmental audit proposal and action plan to submit to their SAI's management upon return. The second delivery of the workshop is planned for AFROSAI-E in 2004.

## **CAROSAI Completes the Long Term Regional Training Program**

Following the Regional Audit Workshop in Trinidad and Tobago in November 2003, CAROSAI becomes the latest INTOSAI region to complete IDI's Long Term Regional Training Program (LTRTP). The LTRTP is a comprehensive series of workshops and training-related events that helps a region build its training capacity. CAROSAI now has a pool of regional trainers who can be used at both the national level and in any future regional course deliveries. The Trinidad and Tobago workshop saw eight recently graduated training specialists delivering an 8-day financial audit workshop combined with a 2-day fraud module to 30 participants from 18 SAIs in the region.

## **Web Site Changes Planned**

The IDI web site (<http://www.idi.no>) has been operational for over 2 years, and IDI is planning to upgrade its functionality and content during 2004. IDI invites comments from users, particularly from developing and emerging countries. If you are a Web site user and would like to help by answering a brief questionnaire (available in Arabic, English, French, and Spanish) please contact Patrick Callaghan (e-mail: [patrick.callaghan@idi.no](mailto:patrick.callaghan@idi.no); fax: ++47 22 24 10 24; telephone: ++47 22 24 11 14).

## **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 2004 Events

## January 2004

8-21 ASOSAI Instructors' Meeting (Audit of Privatization), Tokyo, Japan

## February

2-13 Pilot OLACEFS public debt audit, Venezuela

10-11 Internal Control Standards Committee Brussels, Belgium

16-27 AFROSAI-E Environmental Auditing Workshop, Kenya

## March

28-30 EUROSAI IT Working Group Meeting Bern, Switzerland

29-April 2 ASOSAI Regional Symposium for Training Specialists, Bangkok, Thailand

## April

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

26-June 4 EUROSAI Phase II Course Design and Development Workshop, Sofia, Bulgaria

## May

4 ARABOSAI meeting, Amman, Jordan

24-28 SPASAI, Apia, Samoa

31-June 4 Working Group on Environmental Auditing and the International Congress of Environmental Auditing, Brazilia, Brazil

## June

21-22 INTOSAI Governing Board (extraordinary meeting) Vienna, Austria

28-30 EUROSAI IT Working Group Meeting Bern, Switzerland

TBD Public Debt Committee Moscow, Russia

## July

## August

## September

## October

10-16 18<sup>th</sup> INCOSAI, Budapest, Hungary

## November

## December

**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 regionwide 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.

# **International Journal of Government Auditing**

## **INDEX—VOLUME 30—2003**

### **ARTICLES**

- Kofi A. Annan, United Nations, Internal Oversight—A Key to Reform at the United Nations, January, p. 9
- Sylvia van Leeuwen, Netherlands Court of Audit, The Development of Environmental Auditing Within INTOSAI, January, p. 13
- Jacek Mazur, The Supreme Chamber of Control of Poland, and Brian Vella, Malta, Relations Between SAIs and Parliamentary Committees, January, p. 16
- Alfred Enoh, Cameroon, Ninth AFROSAI General Assembly, January, p. 21
- Linda Sellevaag, International Journal of Government Auditing, XII OLACEFS Assembly Held in Mexico, January, p. 25
- Alberta Ellison, International Journal of Government Auditing, 18<sup>th</sup> Commonwealth Auditors General Conference, January, p. 28
- Gordon Carey, ANAO Better Practice Guides, April, p. 10
- Jocelyn Thompson, Accountability and Audit, April, p. 16
- Swedish National Audit Office, The Creation of a New Swedish SAI, July, p. 11
- Asif Ali, SAI Bangladesh: Work Plan for Enhancing Capacity, July, p. 16
- Batbayar Badamdorj, Mongolia, Overview of Reforms in the Mongolian SAI, October, p. 11
- J. Graham Joscelyne, Former Auditor General of the World Bank, Integrated Public Sector Financial Management: A Central Role for SAIs, October, p. 15
- Benjamin Ross, International Journal of Government Auditing, CAROSAI Convenes Its Sixth Triennial Congress in Bermuda, October, p. 19

### **AUDIT PROFILES**

- Burkina Faso, January, p. 31
- Bangladesh, April, p. 19
- Ethiopia, July, p. 20
- Saudi Arabia, October, p. 22

### **EDITORIALS**

- David G. Njorge, Republic of Kenya, INTOSAI Marks 50 Years, January, p. 1
- Paul R. S. Allsworth, Cook Islands, Governmental Auditing in the South Pacific Region: A Cook Islands Perspective, April, p. 1
- Sir John Bourn, United Kingdom, INTOSAI: 50 Years of Cooperation Between SAIs, July, p. 1
- Abdullah Bin Hamad Bin Saif Al Busaidy, Oman, New Initiatives in the State Audit Institution of Oman, October, p. 1

## **INSIDE INTOSAI**

Governing Board Charts Dynamic Course at 50<sup>th</sup> Meeting, January, p. 35  
INTOSAI Auditing Standards, April, p. 24  
Updating Guidelines on Internal Control Standards, April, p. 25  
Second Meeting of INTOSAI Strategic Planning Task Force, July, p. 24  
New Web Page for Working Group on Environmental Auditing, July, p. 25  
16<sup>th</sup> UN/INTOSAI Seminar in Vienna, July, p. 25  
OCCEFS Capacity Building Program in Central America, October, p. 26  
INTOSAI Working Group on the Audit of Privatization, October, p. 26  
Annual Meeting of INTOSAI Public Debt Committee, October, p. 27  
IDI Update, January, p. 39; April, p. 26; July, p. 28; October, p. 30

## **NEWS IN BRIEFS**

Bangladesh, January p. 4  
Barbados, January, p. 4  
Brazil, April, p. 5; July, p. 5  
Canada, January, p. 5; July, p. 6; October, p. 6  
Chile, January, p. 5  
China, October, p. 7  
Estonia, July, p. 6  
European Union, April, p. 6  
Hong Kong, April, p. 6  
Hungary, April, p. 7  
Iran, July, p. 7  
Malta, April, p. 7  
Mongolia, April, p. 8  
New Zealand, October, p. 8  
Nigeria, October, p. 8  
Rwanda, October, p. 8  
Saint Kitts and Nevis, April, p. 8  
Saudi Arabia, July, p. 7  
Switzerland, January, p. 6; July, p. 8  
Trinidad and Tobago, July, p. 8; October, p. 8  
United States, April, p. 9; July, p. 8  
Vietnam, July, p. 9  
Yemen, July, p. 9; October, p. 9  
European Court of Auditors, January, p. 6; October, p. 9  
International Consortium on Government Financial Management and World Bank  
Institute, January, p. 8  
NATO, October, p. 10  
United Nations, October, p. 10  
World Bank Institute/International Records Management Trust, January, p. 8



INTOSAI

