

INTOSAI



# JOURNAL

INTERNATIONAL  
of GOVERNMENT AUDITING



January 2006



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U.S. Government Accountability Office  
Room 7814, 441 G Street, NW  
Washington, D.C. 20548  
U.S.A

Phone: 202-512-4707  
Fax: 202-512-4021  
E-mail: [intosaijournal@gao.gov](mailto:intosaijournal@gao.gov)

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

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

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**Bjarne Mørk-Eidem**

*Auditor General of Norway*

I feel privileged and very honored to have been asked to write this editorial on the eve of my retirement. Retirement is a step I take with mixed emotions. Since 1990, I have served as Auditor General of Norway; I have also been a member of the INTOSAI Governing Board and Chairman of the Board of the INTOSAI Development Initiative (IDI). Serving in these roles has been very rewarding, both personally and professionally. I would, therefore, like to share with you some of the highlights from my experience as part of the INTOSAI community and my perspectives about the future of the organization.

It gives me great pleasure to reflect on how INTOSAI has evolved during the last 15 years. I have witnessed its growth from what was primarily a network for sharing experiences into a stronger and more dynamic organization. While this development has not been automatic and has required great effort on the part of many colleagues, it has consistently moved the organization in the right direction.

I remember attending my first INCOSAI in Washington in 1992— an experience that certainly made an impression on me! Three new committees—on environmental auditing, privatization, and program evaluation—were established, and the Governing Board was enlarged to make it more representative of various auditing systems and of INTOSAI's seven regional working groups. This was a big step toward focusing INTOSAI's efforts and incorporating the wide range of diversity found in the organization for the common good.

At the XV INCOSAI in Cairo in 1995, environmental audit emerged for the first time as a major congress theme, thus providing an overall framework for this work and incorporating sustainable development into the governmental policies and programs subject to audit. Today, environmental audit is carried out in many SAIs, and sustainable development is on the agenda of many international organizations.

At the XVI INCOSAI in Montevideo in 1998, one of the themes was the SAI's role in the prevention and detection of fraud and corruption—a theme that is unfortunately more relevant today than ever, bearing in mind that corruption is the single largest obstacle to development. SAIs need to play a key role in this important area.

The 2001 INCOSAI in Seoul marked an important development for IDI as INTOSAI revised its statutes to ensure that the SAI hosting IDI would have a permanent seat on the INTOSAI Governing Board. This was the first step in formally integrating IDI into INTOSAI. Another important milestone reached in Seoul was establishing a task force to develop a strategic planning framework for INTOSAI to guide it into the 21st century.

At the 2004 Budapest congress, INTOSAI's first strategic plan was adopted, and thus began a new era in INTOSAI's development. The strategic plan is an important vehicle for achieving INTOSAI's goals—it provides the organization a strategic focus shared by 186 SAIs. I am very grateful to have had the opportunity to take part in the task force as it drew up the plan. It was an inspiring and rewarding task, and I strongly believe that the plan points the organization in the right direction. INTOSAI has already taken important steps in implementing the plan and should now use it to bring additional vitality to the organization. Guided by a spirit of consensus and united by a common purpose, INTOSAI members must now mobilize the will and the resources to continue this implementation.

It is my firm opinion, however, that INTOSAI must set far-reaching goals and have high ambitions if it is to be an efficient and high-quality model international organization. I would like to make two key points in this regard.

First, in order to operate as a model international institution, INTOSAI has to strengthen its coordination and support capabilities. Priority should be given to developing an international secretariat for INTOSAI that would (1) take charge of implementing and marketing the standards, guidelines, and best practices developed by INTOSAI committees and working groups; (2) assist committees and working groups in translating working products; (3) have sufficient research and evaluation capacity; and, last but not least, (4) incorporate the training activities that IDI presently carries out. Establishing such a secretariat presupposes financial funding for INTOSAI that is more sustainable and independent of the financial goodwill of a few member SAIs, as is the situation today.

Second, INTOSAI's statutes state that INTOSAI shall maintain its present links with the United Nations (UN). I think it is important that INTOSAI go further and aim to be more closely connected to the UN, either by becoming a UN institution or by having strong formal ties with the UN. This would place INTOSAI in a framework that consolidates its goals, secures a financially sound basis for its work, and gives it the recognition and the legitimacy needed to facilitate closer cooperation with international donors such as the World Bank.

The SAI of Norway has had the opportunity and privilege of hosting IDI since 2001. One of my driving motivations as chairman of the IDI Board has been the vision of shared responsibility—helping SAIs to help themselves. In the years to come, INTOSAI must focus on investing in knowledge so that opportunities become available to everyone, not just a few. Bridging the gaps between nations is our common responsibility and a task to which I urge SAIs to attach even greater importance in the future.

Finally, let me share a personal reflection. Achieving cooperation between sovereign nations is a demanding task. INTOSAI gives us the opportunity to interact with colleagues from around the world, and it gives auditors a broader understanding of the international context of governmental auditing. My experience in working with INTOSAI illustrates the importance of personal relations in international cooperation. A wide variety of benefits flows from the trust, reciprocity, information sharing, and cooperation that accompany social networks and help to lay the groundwork for establishing mutually beneficial relations at both the personal and institutional levels.

It has been a privilege to work together with so many colleagues in INTOSAI, to get to know many of you personally, and even to develop friendships. I would like to take this opportunity to thank the INTOSAI members for their cooperation and goodwill throughout the years, and I wish INTOSAI and all member SAIs much success in their important work in the future.



INTOSAI continues to make significant and timely progress in implementing its strategic plan. Events and activities that have occurred since the October 2005 issue of this *Journal* are summarized below. In addition, INTOSAI's new organization chart (see p. 6) illustrates how the strategic plan is shaping INTOSAI's structure and operations.

The strategic plan was prominently featured at the annual meeting of the INTOSAI Governing Board in Vienna on November 10-11, 2005 (see "Inside INTOSAI," p. 23, for additional information on the meeting). The board's agenda was structured to reflect the plan's four goals. The board discussed and acted on issues the Finance and Administration Committee identified at its July 2005 meeting, including the following:

**Selection of Director(s) of Strategic Planning:** Selecting a person to fill the newly created position of director of strategic planning, which was established under the strategic plan, was a major agenda item at the November Governing Board meeting. The director of strategic planning will be responsible for supporting the board as it provides continued leadership and organizational focus on strategic plan implementation. Specifically, the director of strategic planning will help to ensure that the elements of the strategic plan are integrated by coordinating with the chairman of the Governing Board, the General Secretariat, chairs of the goal committees, goal liaisons, regional secretariats, IDI, and this *Journal*.

As a result of the Secretary General's call for candidates from member SAIs worldwide and in consultation with the Finance and Administration Committee, the names of two candidates were presented to the board for review and selection. After much discussion, the board decided to select both candidates to serve sequential terms: Dr. Klaus-Henning Busse of Germany will serve as director of strategic planning

through the 2007 INTOSAI Congress in Mexico, and Ms. Kirsten Astrup of Norway will succeed Dr. Busse and serve in that role following the 2007 Congress.



Klaus-Henning Busse

Dr. Busse is a member of the German SAI (*Bundesrechnungshof*), holds a doctorate in law, and is qualified to hold judicial office in Germany. He has worked for the German SAI since 1980 and has participated in many international professional events. Dr. Busse is known to the INTOSAI community through papers he has given at international conferences (e.g., the 8th Tokyo International Audit Forum 2004 and the World Ethics and Transparency Forum, Kuala Lumpur 2005) and through his work as an auditor of development aid projects around the world. Furthermore, Dr. Busse has been actively involved in training events in Europe, Africa, and Asia. He is the author of numerous publications on Germany's system of government auditing and has also written a manual on the audit of public works for China's National Audit Office.

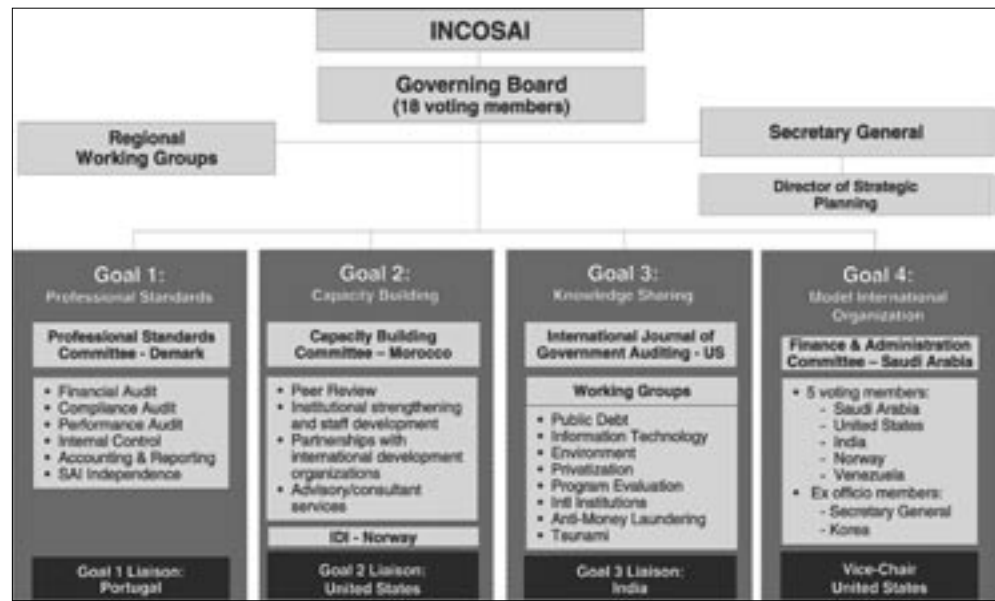
Ms. Astrup has worked in the Office of the Auditor General (*Riksrevisjonen*) of Norway since 1986, and the Norwegian Parliament appointed her Director General in 1995. She served on the NATO Board of Auditors in Brussels from 2002 through January 2006. Ms. Astrup has extensive experience in the field of international audit cooperation and attended the 2001 and 2004 INTOSAI congresses in Seoul and Budapest, respectively. She represented the Norwegian SAI on INTOSAI's Working Group on the Audit of Privatization for several years and has been a member of the international board of the INTOSAI Development Initiative (IDI) since 2000. Ms. Astrup received her education at the University of Oslo, where she graduated with a degree in law.

By unanimously approving both candidates, the board provided for continuity in this important position and expressed the hope that Ms. Astrup would be able to “support Dr. Busse occasionally during his term and thus make available to INTOSAI her broad international experience.”



Kirsten Astrup

Figure 1: INTOSAI's New Organizational Chart



Source: INTOSAI

□ **Goal 1, Professional Standards Committee:** The Governing Board adopted the committee's terms of reference. Chaired by Denmark and with Portugal serving as goal liaison, the committee held its inaugural meeting in Oslo in September 2005 (see October 2005 *Journal*) and is well on its way to implementing its work plan. Chairman Henrik Otbo, Auditor General of Denmark, expressed his vision for the committee in the October 2005 editorial of this *Journal*.

For more information, including a copy of the terms of reference, contact: SAI/Denmark at [yvan.pedersen@rigsrevisionen.dk](mailto:yvan.pedersen@rigsrevisionen.dk) and SAI/Portugal at [geral@tcontas.pt](mailto:geral@tcontas.pt).

□ **Goal 2, Capacity Building Committee:** The Governing Board adopted the committee's terms of reference. Committee chair Dr. Ahmed El-Midaoui, President of the Court of Audit of Morocco and goal liaison David Walker, Comptroller General of the United States, held extensive top-level consultations with major international and bilateral donors in Washington, D.C., in October 2005. The committee's first meeting will be held in London March 13-14, 2006.

For more information, including a copy of the terms of reference, contact: SAI/Morocco at [comptes@courdescomptes.ma](mailto:comptes@courdescomptes.ma).

□ **Goal 3, Knowledge Sharing:** Goal 3 is a collection of a variety of knowledge-sharing vehicles, including task forces, working groups, and this *Journal*. The SAI of India serves as the board's goal liaison and has been actively developing concept papers



for an INTOSAI-wide communication policy and a web-based collaboration tool. In addition, the goal liaison is surveying relevant bodies to assess needs and determine how best to share knowledge and best practices globally.

For more information, contact: SAI/India at [cag@cag.gov.in](mailto:cag@cag.gov.in).

□ **Goal 4, Finance and Administration Committee:** With this committee's fourth meeting to be held February 21-22, 2006, committee members are busy drafting a variety of documents for review and deliberation. Under the chairmanship of Osama Faqeh, President of the General Auditing Bureau of Saudi Arabia, and the vice-chairmanship of David Walker, Comptroller General of the United States, the committee's agenda in Riyadh will include the issue of potential associate INTOSAI members, strategies for approaching donors to support INTOSAI programs, and further analysis of INTOSAI's financial condition with a special emphasis on revenue enhancements.

For more information, contact SAI/Saudi Arabia at [ajlan33@yahoo.com](mailto:ajlan33@yahoo.com) and SAI/USA at [spel@gao.gov](mailto:spel@gao.gov).

# NEWS

IN *brief*

## *Afghanistan*

### **Development of the Control and Audit Office**

Afghanistan's Control and Audit Office (CAO) audits the financial and accounting affairs of ministries, departments, and organizations at the national level and has a 60-year history. The CAO is an independent entity under the direct supervision of the State President. Since the establishment of the Afghanistan Interim Administration, the CAO has audited World Bank grants, the Afghanistan Reconstruction Trust Fund, national executive projects of United Nations Development Programme, and many more entities. The CAO has carried out this work with the technical cooperation of foreign experts from PKF London and Deloitte India based on agreements between the government of Afghanistan and the World Bank.

Professor Muhammad Sharif Sharifi was appointed Auditor General in March 2002. Since his appointment, significant changes have been made in the CAO.

The CAO has expanded its relations with international organizations such as ASOSAI, INTOSAI, and ICOSAI and with the SAIs of such countries as Iran, Pakistan, India, the United States,

England, Bangladesh, Canada, Russia, Latvia, Turkey, Bulgaria, Sri Lanka, and Indonesia.

Building the capacity of CAO employees is a core function and priority. Foreign trainers have instructed CAO employees in professional audit skills, such as planning and implementing the audit, reporting, and new audit methods. Some CAO employees have participated in international seminars and programs in countries such as India, Russia, Bulgaria, Turkey, Sri Lanka, Latvia, and Pakistan.

CAO activities are being computerized. Plans have been made to extend Internet access so that it can be used by all CAO employees. The CAO also plans to

- establish offices in Afghanistan's provinces, an environmental audit branch, and a committee in Parliament to monitor the audit results in government ministries and departments;
- assess strategic plan execution at other departments; and
- establish an audit and accounting institute to promote the economy, effectiveness, and efficiency of projects and prevent deficiencies and shortcomings in all departments.

For additional information, contact CAO:

Fax: ++93 0 20 210 2285  
E-mail: [auditoffice\\_afghanistan@yahoo.com](mailto:auditoffice_afghanistan@yahoo.com)

## Australia

### ANAO's Role in the Implementation of Australian Equivalents to International Financial Reporting Standards

In 2004, Australian Equivalents to International Financial Reporting Standards (AEIFRS) became law and were released by the Australian Accounting Standards Board (AASB). AEIFRS were introduced to increase the transparency and comparability of financial statements on a global basis by fully adopting International Financial Reporting Standards. AEIFRS apply to all reporting entities in Australia for reporting periods beginning on or after January 1, 2005. The Australian government sector must report both its 2004-05 and 2005-06 financial information in accordance with AEIFRS.

To date, Australian government entities have made progress with the transition in the following areas:

- inclusion of a note in the 2004-05 financial statements to explain how the transition to AEIFRS is being managed, the key differences in accounting policies arising from the transition, and any known or reliably estimable information about the impact on the financial report had it been prepared using AEIFRS (the ANAO has audited this disclosure as part of its 2004-05 financial statement audit) and
- preparation of audited AEIFRS opening balance sheets and 2004-05 transitional year financial statements.

In addition to being the external auditor of the AEIFRS financial statements of Australian government entities, the ANAO's roles and responsibilities in the transition to AEIFRS include providing relevant training, audit work programs, and technical support for its financial statement audit workforce; responding to requests to comment on proposed AEIFRS standards by the AASB; and working through a series of implementation and interpretation issues with government entities.

While all Australian government reporting entities will be affected by the introduction of AEIFRS, the impact will vary depending on the nature of an entity's operations and the obligations it enters into. Nevertheless, it is generally accepted, from a financial reporting perspective, that AEIFRS will introduce more volatility into the results reported on an accrual basis, particularly by recognizing more rights and obligations in financial statements and by requiring that the present value of long-term liabilities be measured.

For additional information, contact ANAO:

Fax: ++61 (2) 6203 7519  
E-mail: [ag1@anao.gov.au](mailto:ag1@anao.gov.au)  
Web site: [www.anao.gov.au](http://www.anao.gov.au)

## Barbados

### Auditor General's Office Celebrates 150th Anniversary

In December 2005, the Barbados Auditor General's Office celebrated its 150th anniversary.

In 1855, when Barbados was a colony of Great Britain, the office was established under the Act of Better Auditing and Inspection of Public Accounts. In the office's early years, its role entailed checking payment vouchers before any money was paid, certifying retirement benefits, and undertaking a quarterly review of the records of the Treasury.

When Barbados became an independent nation in 1966, the Auditor General's Office was embodied in the Constitution. The office has responsibilities for the annual audit of ministries, departments, and statutory bodies that receive funding from the Crown. In addition, the office can examine the



Staff of the Barbados SAI

economical, efficient, and effective use of resources of any ministry or department that it is required to audit.

Mr. Hallam Phillips, Auditor General, has indicated that the office is reviewing its operations with a view to strengthening its independence, especially as it relates to staff recruitment and the provision of training for its officers.

For additional information, contact Auditor General's Office:

Fax: ++1 (246) 228 – 2731  
E-mail: [audit@boa.gov.bb](mailto:audit@boa.gov.bb)

## Colombia

### Auditor General Calls for Cost-Benefit Analysis of Antidrug Policy

In October 2005, the SAI of Colombia and a private Colombian foundation cosponsored an international seminar

on drug trafficking. In his address to the seminar, the Comptroller General of Colombia, Antonio Hernández, said it was legitimate for Colombians to demand that the war on drugs be viewed from a different perspective.

He said that it is worth questioning whether the current policy of repressing production is more effective than prevention and whether it is not time to treat the consumption of drugs as a public health problem. The Comptroller General stated that it would be worthwhile to evaluate the costs and benefits of national antidrug programs, which have almost exclusively focused on the problem as a criminal affair. In his address, the Comptroller General also referred to the effects of drug trafficking on Colombia's economic, social, environmental, and political spheres.

For further information, contact Office of the Comptroller General:

Fax: ++57 (1) 353-7616  
E-mail: [oorjuela@contraloriagen.gov.co](mailto:oorjuela@contraloriagen.gov.co)  
Web site: [www.contraloriagen.gov.co](http://www.contraloriagen.gov.co)

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## Indonesia

### Investigative Audit to Combat Fraud and Corruption

In recent years, an increasing number of significant fraud and corruption cases have come to light in Indonesia. The Indonesian government has made the fight against corruption a key agenda item. In line with this, the Audit Board of Indonesia (BPK) plays an active role in promoting good, clean, and transparent governance by focusing its audit work on areas prone to corruption, collusion, and nepotism. BPK is also responsive to its stakeholders' concerns, particularly when it can substantively contribute to the national anticorruption program. The BPK believes that close cooperation with its stakeholders is a key element in carrying out its role.

Recently, the BPK conducted an investigative audit of the Development of Community Health Program, a project financed by the World Bank under the Ministry of Health and implemented in 2003 and 2004. This audit was undertaken at the request of the World Bank and the Minister of Health to follow up on an anonymous complaint. Four auditors carried out the investigative work over 1-1/2 months. They used rigorous methods including data analysis, document and physical examination, observation, and interview techniques. In its report, the BPK concluded that false and fictitious documentation and transactions had been used to claim money for several budgeted activities that, in fact, had never been carried out. The fictitious activities included workshops, consulting services, procurement of goods, and business travel. From the samples examined, the BPK reported that US\$420,000, or approximately 20 percent of total expenditures, was fraudulent. The investigative audit report was sent to the Parliament and the Office of the Attorney General in September 2005 for legal action.

This case shows the value of solid collaboration among agencies in combating fraud and corruption.

For additional information, contact BPK:

Fax: ++62 (21) 572 – 0944  
E-mail: [sekjen@bpk.go.id](mailto:sekjen@bpk.go.id)  
Web site: [www.bpk.go.id](http://www.bpk.go.id)

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## Japan

### Board of Audit Issues Updated Informational Brochure

In November 2005, the Board of Audit of Japan (BOA) issued its latest informational brochure, entitled *Board of Audit of Japan—An Organization That Reviews Public Finance*. The brochure outlines the BOA's organization and

gives the full text of the Board of Audit Law.

In addition, it summarizes special reports on audit implementation and outlines emerging BOA fields and information Japan's citizens want to know about their country, their government, and where and how their money has been spent. The final section of the brochure summarizes the audit findings from the formal audit report for fiscal 2003.

For additional information, contact Board of Audit:

Fax: ++81 (3) 32 92-6915  
E-mail: [liaison@jbaudit.go.jp](mailto:liaison@jbaudit.go.jp)  
Web site: [www.jbaudit.go.jp/engl](http://www.jbaudit.go.jp/engl)

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## Philippines

### Commission on Audit Develops Risk-Based Audit Approach

The Philippines' Commission on Audit (COA) has developed and introduced a risk-based audit approach (RBAA) that emphasizes the need for the auditors to focus on high-risk areas that are potential breeding grounds for graft and corruption.

The COA embarked on a project to improve its audit services by institutionalizing the RBAA after receiving unsolicited financial assistance from AustralianAid and the United Nations Development Programme (UNDP). Working with a UNDP consultant, a technical working group of COA officials developed the *Risk-Based Financial Audit Manual*, which includes templates tailor-made for e-auditing. This partnership ensured that the *Manual* would be customized and adopted for use by national, local, and corporate audit sectors. As an initial step toward nationwide implementation, a trainers' training for 39 audit supervisors and audit team leaders was conducted October 17- November 9, 2005. These participants will be deployed to select-

ed government agencies, where pilot audits will be conducted. The results of these audits will serve as input to the review and finalization of the *Manual*.

For additional information, contact COA:

Fax: ++63 (2) 931 92 23  
E-mail: [gemcarague@coa.gov.ph](mailto:gemcarague@coa.gov.ph)  
Web site: [www.coa.gov.ph](http://www.coa.gov.ph)

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## South Korea

### Book on BAI's 2004 Activities Is Published

The Board of Audit and Inspection (BAI) of Korea has published a book on its activities for fiscal year 2004 to promote a better understanding of the BAI and share its audit experiences with other SAIs. The publication, entitled *Fair Audit, Fair Society (Board of Audit and Inspection)*, covers the BAI's history, organization, duties, and functions and summarizes selected major audit reports released in 2004.

In fiscal year 2004, the BAI carried out 119 audits on 1,100 entities. As a result of its audit and inspection activities, it made 1,528 resolutions, including 144 requests for disciplinary actions against 348 public officials who had been negligent in performing their duties. The BAI's works led directly to US\$351 million of financial benefits, such as additional revenue collection. In addition, budget savings from improving unreasonable practices were expected to save about US\$22.7 million.

The publication also briefly introduces system-based auditing, the BAI's new audit approach characterized by three guiding principles: strategic, performance-oriented, and proactive auditing. A detailed article about system-based auditing was published in the October 2005 issue of this *Journal*.

The publication is available online at: [http://english.bai.go.kr/HPBEKnow-BoardAction.do?method=listData&HP\\_TYPE=BEN&TASK\\_TYPE=BE6](http://english.bai.go.kr/HPBEKnow-BoardAction.do?method=listData&HP_TYPE=BEN&TASK_TYPE=BE6)

To obtain a hard copy, contact BAI:

E-mail: [koreasai@koreasai.go.kr](mailto:koreasai@koreasai.go.kr)  
Or: [bai\\_kor@hotmail.com](mailto:bai_kor@hotmail.com)

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## United Arab Emirates

### Visit by a Delegation from the SAI of Iraq

A six-member delegation from the Board of Supreme Audit of Iraq, led by Dr. Mohmoud Rasheed Ibrahim, Deputy Auditor General, visited the State Audit Institution in the United Arab Emirates. The objective of the visit was to exchange ideas and experiences related to auditing and human resource development programs. During the visit, Majid Mohd El-sheikh, President of the U.A.E. SAI, briefed the delegates on his institution's roles and responsibilities, followed by an open discussion between the delegation and the host SAI. The topics included the SAI's organizational structure, standards and guidelines for preparing and executing yearly work plans, roles and responsibilities of different departments, and guidelines for performance audits (the latter were derived from ASOSAI performance audit guidelines). The visit concluded in Dubai, where the delegates were briefed about audits of local government departments.

For additional information, contact State Audit Institution of the U.A.E.:

Fax: ++97 (2) 644 86 88  
E-mail: [saiuae@emirates.net.ae](mailto:saiuae@emirates.net.ae)  
Web site: [www.saiuae.gov.ae](http://www.saiuae.gov.ae)

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## The World Bank

### Fiduciary Forum Highlights SAIs' Anticorruption Role

The World Bank's biannual Fiduciary Forum, held in Washington, D. C.,

November 28-30, 2005, brought together almost 500 of the bank's field-based financial management and procurement specialists and other staff and guests for a series of presentations and discussions on how to fight corruption and promote governance and accountability. Participants heard from experts in the field of public financial management and engaged in active discussion with them. The role of supreme audit institutions (SAI) was a recurring theme in many presentations, with all agreeing that stronger, more independent SAIs play an essential role in any country's sound financial management system. Mr. David Walker, Comptroller General of the United States, highlighted this role in his presentation, "Different Cultures, Common Values, Shared Challenges: The Role of Supreme Audit Institutions in Promoting Accountability and Combating Corruption."

For more information on the forum, including a video of the presentations, see:

<http://info.worldbank.org/etools/BSPAN/EventView.asp?EID=802>,

or The World Bank's INTOSAI liaison officer Ms. Rafika Chaouali:

E-mail: [rchaouali@worldbank.org](mailto:rchaouali@worldbank.org)

# The Development of the National Audit Office of Mongolia: A Case Study in International Cooperation

By Batbayar Badamdorj, Deputy Auditor General of Mongolia, and Jens Harms, President of the Audit Court of Berlin, Germany

As part of Mongolia's transformation from a socialist dictatorship to a parliamentary democracy, the Law on State Control of March 1995 established the State Audit and Inspection Committee (SAIC) as the SAI as well as financial control organizations for the capital city of Ulaanbaatar and the 21 provinces (called Aimags). The following year, the SAIC became a member of INTOSAI and committed itself to the principles expressed in the *Lima Declaration of Guidelines on Auditing Precepts*: independence guaranteed under constitutional law, reporting to Parliament and the general public, comprehensive authority to carry out investigations, qualified auditors, and competent methods.

To establish modern financial control in accordance with the Lima principles, the Mongolian government and the SAIC sought the help of a consultant. On March 30, 1998, the governments of Mongolia and Germany signed an agreement of cooperation. The task of carrying out this consultancy project was assigned to the German Society for Technical Cooperation, and German state audit courts handled the implementation—the Hessian audit court from 1998 to 2001 and the Berlin audit court from 2001 to 2004.

## Setting Up the Project

Work on the project began in April 1998 with a review of the status of financial control in Mongolia, a definition of the modules required for the consultancy work, and the organization of a project office.

## Review of the Status of Mongolian Financial Control

The review of financial control in Mongolia revealed that the new audit authority was still characterized by many aspects of the old system. Deficiencies were noted in the following areas:

- independence guaranteed under constitutional law;
- a clearly defined division of tasks between external and internal auditing;
- modern auditing methods;
- the professional competence and number of employees;

editor's note

This article summarizes a successful case study in international cooperation: the 7-year collaborative project to establish a modern SAI that Mongolia undertook with Germany. While the details of Mongolia's experience are unique, INTOSAI members will find principles applicable to modernizing audit institutions in times of significant national change.

- a clearly defined operational and organizational structure, particularly the structural division of authority according to expertise and mandatory examination regulations; and
- technical equipment, in particular information technology (IT).

In addition, the transformation of the basic structure of the Mongolian administrative system was incomplete, and additional changes were expected in both the administration and the SAIC. At the end of 1997—and as a result of consultation with the Asian Development Bank—the draft Public Sector Management and Finance Act (PSMFA) was introduced into the parliamentary advisory process. This bill proposed a reorganization of the Mongolian administration based on the principles of new public management (such as accrual accounting and contract management) and changes to the activities of the SAIC. The bill proposed that a Mongolian audit office be responsible for the annual audit of the financial statements of government agencies. At the beginning of the project, Mongolian officials asked the German consultants to take into account the changes and new responsibilities for the SAIC that would result from the eventual passage of this bill (the law itself was not finally passed until June 2002).

### Project Objectives

The project's primary strategic objective was to improve the auditing of the national budget and property by the state audit and inspection organizations. To accomplish this objective, the following project tasks were to be completed:

- the presentation of the content and methods of modern financial control in the areas of truth and fairness, cost-effectiveness, and certification;
- consultation on creating a legal basis for unified and independent financial control;
- consultation on establishing an effective operational and organizational structure; and
- a survey of the IT needed for auditing and training (knowledge management).

Mongolia's goal was to set up a financial control authority in accordance with INTOSAI standards, but the SAIC was far from this stage at the beginning of the project.

### The Project Office

A project office was set up to be a point of contact between the Mongolian and German associates and to ensure coordination in the areas of content and culture. The office manager was a German Mongolia expert who had already provided invaluable assistance on other projects in country; the other employees were an SAIC official and

a translator. The office proved to be of great value throughout the project, primarily because it effectively coordinated the ideas of the German consultants and their Mongolian associates and promoted trust and cooperation between the leadership of both parties.

### **First Project Phase: Knowledge Transfer**

This phase of the project consisted mainly of imparting the basic knowledge, capabilities, and methods needed to carry out modern financial control. Training courses, each lasting 1 to 2 weeks, were offered in the following areas:

- procurement,
- prevention of corruption,
- cost-effectiveness and the organizational efficiency of state actions,
- grants and subsidies to bodies outside the administration,
- audits of state companies, and
- audits of revenue administration (customs, taxes, and fees).

The knowledge transfer also covered reporting and advisory activities related to Parliament and the government as well as reporting to the public. By the end of the first project phase, auditing regulations had been transformed and passed by the SAIC.

The Mongolian and German associates agreed that the project should encompass financial control activities of the new public management system described in the proposed PSMFA legislation. It was therefore necessary to consider the basic principles of the new system and their effect on financial control activities. In addition, SAIC employees needed to be trained to carry out the attestations required in the bill. Therefore, in 1999 and 2000, seminars were held on double-entry bookkeeping and reporting according to International Accounting Standards (IAS). Since Germany did not have IAS experience in a state context, the accounting firm KPMG was commissioned to hold two seminars on reporting.

To learn more about reforming the legal basis of Mongolian financial control and setting up the Mongolian financial control organization, delegations visited the German cities of Bonn in 1999 and Berlin in 2001. The delegations primarily included executives from the Mongolian audit offices and members of the Mongolian Parliament (called the State Great Hural). During the course of these visits, various discussions were held with members of German state and federal parliaments.

In addition, many consultations and two primarily political events were held regarding the principles of the *Lima Declaration*. The first took place in September 1998 at the beginning of the consultation process with the former president of the German Federal



Court of Audit, and was directed mainly to executives of Mongolian authorities and parliamentarians. The Management Academy of Mongolia organized a second event in 1999, chiefly to inform its own professors on the tasks of financial control in a democratic system. Since the Academy has an important function in training executive staff of the Mongolian administration, it was an important cooperation partner.

The first phase ended with a project progress check, which confirmed that although the project was proceeding well, considerable deficits remained. To consolidate achievements and successfully conclude the project, a second phase was recommended.

## **Second Project Phase: Consolidation of Gains**

The second project phase began in autumn 2002 and ended in autumn 2004. This phase was designed to consolidate gains, build on the knowledge already transferred, and work on the further implementation of the project objectives.

The focus of the knowledge transfer changed from transferring basic knowledge to strengthening its practical application. During work placements of several weeks duration in Germany, Mongolian auditors participated in selected audits in the following areas: audits of public companies, checking on cost-effectiveness, auditing organizations, IT tests, procurement, and prevention of corruption. The German-Mongolian auditing teams communicated with each other over a long period of time and developed a relationship of trust, which was a good basis for knowledge transfer. In this way, the gap between transferring theoretical knowledge and its practical implementation began to narrow.

In January 2003, the Law of Mongolia on State Audit (LMSA) was enacted. It provided the legal basis for the Mongolian National Audit Office (MNAO) as well as the audit offices of the Aimags and the capital city. Essentially, this law regularized

- the external government auditing authority's responsibility for auditing state revenue, expenditures, and corporate activities;
- the institutional independence of the MNAO according to the Westminster model;
- the specifications of the audit mandate (to include certification and cost-effectiveness);
- reporting to Parliament and the general public; and
- the recruitment and continuing professional education of auditors.

The LMSA thus adopted the principles of the *Lima Declaration* and was an important step forward. However, to date, the existence and main tasks of government auditing have not yet been incorporated into Mongolia's Constitution. An additional deficiency

in Mongolia's current financial control structure is the considerable overlapping of authority with the old mandatory financial control that is now incorporated into the State Professional Control Agency in the executive branch of the Mongolian government.

At the beginning of 2002, changes were made in the organizational structure of the former SAIC. After the MNAO was established in 2003, it was divided into four departments: two concerned with content, one with basic principles, and another primarily responsible for administration. Thus, the MNAO has effectively divided work according to auditing activities as well as the specialization and qualifications of staff.

During the second project phase, the number of central office employees rose by 50 percent. This increase in human resources was necessary after the Public Sector Management and Finance Law, enacted in June 2002, transferred certification audits to the MNAO. Due to the large number of agencies involved in these audits, the MNAO can also commission accounting firms to carry them out.

Finally, the second project phase included the introduction of more IT equipment and an intranet and the establishment of a systematic training program to use these technical capabilities. The increase in IT resources was based on an inventory and needs analysis as well as the requirements of the audit office. The establishment of a central database and intranet made it possible to provide up-to-date work materials, exchange information on current audits, and organize an IT-supported work flow among the employees involved in the audits. Use of the intranet has remained limited mainly to the MNAO, since the necessary technical facilities are not yet available at the Aimag audit offices.

## **Project Evaluation and Final Comments**

Much was achieved during the 7 years of the consultancy project. The Mongolian financial control authorities, both the MNAO and the regional and capital city audit offices, have changed. External financial control has undergone a remarkable transformation—from financial inspections responsible primarily for tests of truth and fairness to tests of efficiency, effectiveness, and economy according to international standards based on the *Lima Declaration*.

At the end of the second project phase in October 2004, an evaluation compared the original project objectives with the actual results. Many tasks that the Mongolian and German associates had undertaken had been implemented, although much was still incomplete. The MNAO is dealing with these issues during a 2-year postprocessing phase to bring the project to a successful conclusion.

The success of such a consulting project within a relatively short period should not be taken for granted. Considering the frequent lack of willingness to learn new systems and the cultural dissonances that often occur in international cooperation projects, the original ambitious objectives might well have been curtailed considerably. However, this did not occur. The commitment of many employees of the Mongolian and German auditing organizations, the cooperation between the executives on both sides, and the mediation of the exchange processes by the project office were keys to the project's success. If the first phase was defined by a general knowledge transfer, the second phase served above all to consolidate and practically apply the knowledge and implement structural and legislative measures. While the process had not been planned this way initially, it later became obvious that it could scarcely have been organized more sensibly.

The project was based on the cooperation of two financial control authorities in countries at differing stages of economic development. The goal was not to introduce German financial control in Mongolia. Rather, it was to offer Mongolian associates the opportunity to learn from German governance experiences. The Mongolian associates were tasked with constructing a system for financial control that suited their needs: to both meet international standards and account for requirements specific to Mongolia. This was the case, and the result was optimal.

For additional information, contact the authors:

E-mail: [batbayarb@mnao.pmis.gov.mn](mailto:batbayarb@mnao.pmis.gov.mn) and [JHarms@rhvb.verwalt-berlin.de](mailto:JHarms@rhvb.verwalt-berlin.de)

See also the April and October 2003 issues of the *Journal* for more information about the recent developments in the Mongolian National Audit Office.

## Audit Profile: The Controller and Auditor-General, New Zealand

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By Kevin Brady, Auditor-General

The Controller and Auditor-General (Auditor-General) is a statutory office of the New Zealand Parliament and is independent of the executive government.<sup>1</sup> The Auditor-General's mandate and responsibilities are set out in Public Audit Act 2001.

### Role and Functions

The Auditor-General's role is to provide assurance to Parliament and the public that public sector organizations are operating and accounting for their performance as required by Parliament. This involves annual audits of all public sector organizations as well as more detailed performance audits and inquiries into specific issues.

The Auditor-General also provides independent assurance about local government, as local authorities are accountable to the public for the activities they fund through rates levied on landowners within their districts.

To help carry out its role, the Auditor-General employs staff in two business units—the Office of the Auditor-General and Audit New Zealand—and appoints private sector auditing firms (audit service providers) to conduct audits on the Auditor-General's behalf.

The **Office of the Auditor-General** (OAG) undertakes strategic audit planning, sets standards, oversees auditor performance, carries out performance audits and special studies, and advises and reports to Parliament.

**Audit New Zealand** is the operating arm and carries out annual audits allocated by the Auditor-General. It also provides other assurance services to public entities within the Auditor-General's mandate and in accordance with rules about the independence of auditors. It is the largest provider of audit and assurance services to the public sector in New Zealand and covers the full spectrum of public sector operations, including central government, local government, Crown research institutes, producer boards, state-owned enterprises, education, energy, airports, ports, licensing trusts, and Maori trust boards.

The Auditor-General's "Controller" function under the Public Finance Act 1989 involves monitoring departmental and Crown financial reporting systems to ensure that the release of funds is supported by parliamentary appropriations and that all Crown and government department expenditures are for lawful purposes. The Public Finance Amendment Act 2004 made a number of significant changes to the controller

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<sup>1</sup>The term Auditor-General also refers to the individual officer of Parliament who heads the SAI.

function. These changes took effect from July 1, 2005 (see our report, *Central Government: Results of the 2003-04 Audits*, on the OAG's Web site, [www.oag.govt.nz](http://www.oag.govt.nz)).

## Strategic Direction

The OAG's 5-year strategic plan, first published in 2004 (and available on the OAG Web site under Corporate Documents), sets out our operating vision and strategy. Overall, we want to be acknowledged as an innovator in designing independent public-sector assurance services and as a high-quality deliverer of such services. We refer to this internally as being "product leaders."

## Key Auditing Criteria

Under the Public Audit Act 2001, we apply the following criteria when auditing the activities of public entities:

- Performance: Have the activities of those entities been carried out in accordance with Parliament's intentions and in an effective and efficient manner?
- Authority: Have those activities, as well as resourcing and accountability requirements, been undertaken within the authority granted by Parliament?
- Waste: Have the resources of those entities been obtained and applied in an economical manner (that is, without wasting taxpayers' dollars)?
- Probity and financial prudence: Are the entities meeting parliamentary and public expectations of an appropriate standard of behavior in the public sector?
- Accountability: Have the entities given full and accurate accounts of their activities and compliance with Parliament's requirements through the annual reporting cycle? Are governance and management arrangements suitable to address the concerns identified above?

## Who We Audit and How We Report

Under the Public Audit Act 2001, the Auditor-General is the auditor of every public entity and other entities that a public entity controls. The Auditor-General has a statutory duty to audit the financial reports of about 4,000 public entities.

Based on our strategic plan, we received funding to increase the number of performance audits and other studies that we do each year from 10 to 21 by June 30, 2006. We also respond to about 250 inquiries each year from taxpayers, ratepayers, and Members of Parliament.

We provide reports and advice to parliamentary select committees and portfolio ministers. About 140 reports are prepared for financial reviews of entities and estimates

evaluations (the reviews of estimates for appropriations for the government's budget); about 120 reports are prepared on the results of annual financial report audits.

We also administer the provisions of the Local Authorities (Members' Interests) Act 1968. This legislation concerns pecuniary interests of members of local authorities. There are 80-100 inquiries each year related to this act.

Our annual planning, particularly our strategic audit planning, identifies our work program for the coming year. Our annual plan sets out our proposed performance audits, special studies, and program for research and development. While we consult with Parliament to finalize our work program, the final decision on what to do is ours.

Also, section 20 of the Public Audit Act 2001 requires the Auditor-General to report annually on matters arising from exercising his functions, duties, and powers. Under section 20, we produce separate reports on the results of financial audits for central government and local government. Copies of the Auditor-General's latest reports are available on the OAG Web site.

## **Current Capability**

As of June 30, 2005, 244 staff were employed in the OAG and Audit NZ; the staff were based in nine locations throughout New Zealand. We also engaged 61 external audit service providers, in addition to the Audit NZ staff, to carry out annual audits of public entities.

For the financial year ending June 30, 2005, we received revenue of \$NZ 43.5 million—\$NZ 8.2 million from Crown revenue and \$NZ 35.3 million from audited entities.

## **Key Objectives**

For the financial year ending June 30, 2006, we aim to achieve the following objectives:

- strengthen our organizational capability, especially in leadership and professional areas;
- adjust to our increased capability, particularly in terms of managing our people and accessing additional resources more flexibly;
- further improve our timeliness to report the results of our major inquiries;
- deliver an effective product mix with an increased focus on nonfinancial reporting and on waste, probity, governance, and accountability;

- continue to look for efficiencies in our operational and corporate processes; and
- make real gains in creating a mindset for innovation and collaborative working.

For additional information, contact OAG:

Fax: ++64 (4) 917 15 49

E-mail: [oag@oag.govt.nz](mailto:oag@oag.govt.nz)

Web site: [www.oag.govt.nz](http://www.oag.govt.nz)

## Reports in Print

*Journal* readers may be interested in obtaining a copy of the report on the 18th United Nations/INTOSAI Seminar on Government Auditing, "Symposium on the Application of Information and Communications Technologies (ICT) in the Audit of e-Government." The seminar was held in Vienna, Austria, during April 2005. Sixty delegates attended the event, which featured speakers from the United Nations; the World Bank; and the SAIs of Argentina, Canada, India, Oman, South Africa, and Austria. A number of topics were discussed, including (1) legal provisions and audit mandates, (2) the status and future aspects of e-government, (3) the risks of e-government, (4) auditing e-government online, (5) the challenges of auditing e-government, and (6) e-procurement issues.

Participants agreed that SAIs must play a proactive role in promoting e-government, as it can lead to more transparency and better services to citizens. However, there are some challenges because not all SAIs are fully independent and their budgets may be approved and managed by their individual governments. In addition, because countries are at different points in using e-government, SAIs face different styles of implementation and differing maturity of solutions. Along with other government agencies and departments, SAIs should consider themselves part of e-government initiatives, as they also provide services and information to citizens. A copy of this informative summary is available online at the INTOSAI Web site.

For additional information, contact INTOSAI General Secretariat:

Fax: ++43-1-712-9425

E-mail: [intosai@rechnungshof.gv.at](mailto:intosai@rechnungshof.gv.at)

Web site: [www.intosai.org](http://www.intosai.org)

Detecting fraud and abuse in government programs continues to be a major concern for *Journal* readers. The *CPA's Handbook of Fraud & Commercial Crime Prevention* is a unique and comprehensive publication that gives auditors tools and guidance on many areas of fraud prevention and detection, including the following: managing the risk of fraud, promoting an ethical environment, risk financing and fidelity insurance, computer security and system recovery, internal fraud, external fraud for personal gain, commercial crime, computer crime and computer criminals, dealing with known or suspected fraud, and fraud sector by sector. Published by the American Institute of Certified Public Accountants (AICPA), the handbook is a key tool for controllers responsible for preventing fraud as well as for practitioners who are auditing clients and are exposed to lawsuits if they fail to detect fraud.

For a copy of the handbook, contact the AICPA:

Web site: [www.cpa2biz.com](http://www.cpa2biz.com)

Telephone: 1-888-777-7077 (within the USA) or ++201-938-3000 (outside the USA).

For additional information, contact AICPA:

1211 Avenue of the Americas  
New York, NY 10036, USA.

According to a new report published by the Fraser Institute and the Oman based International Research Foundation, Lebanon and Oman are the most economically free nations in the Arab world. *Economic Freedom of the Arab World* is a report on a new initiative to measure economic freedom. It discusses how free enterprise throughout the Arab world is lifting individuals and families out of poverty. Economic freedom is key to increasing prosperity, particularly among emerging nations. Fact-based studies in top academic journals have shown that economic freedom promotes growth, prosperity,

and other positive outcomes that allow businesses, individuals, and families to make economic decisions without government interference. Moreover, economic freedom has intrinsic value and is inextricably linked to other freedoms. The freedom of individuals or families to determine their own destiny liberates them from government dependence and opens the door to other freedoms. Moreover, investment is more productive in economically free nations.

In this report, five variables are used to measure economic freedom: the size of government expenditures, taxes, and enterprises; the legal structure and security of property rights; access to sound money; the freedom to trade internationally; and the regulation of credit, labor, and business. In some respects, the Arab world as a region is unusually homogenous in its culture. Arabic is the main language in all countries, which share a rich historic heritage. However, the Arab world has considerable diversity in economic freedom, with some nations having high levels of economic freedom and others, relatively low levels. A copy of this thought-provoking study is available online in English and Arabic at [www.freetheworld.com](http://www.freetheworld.com).

For additional information, contact Suzanne Walters Director of Communications, The Fraser Institute, Vancouver, Canada:

Telephone: ++(604) 714-4582

E-mail: [suzannew@fraserinstitute.ca](mailto:suzannew@fraserinstitute.ca)



## INSIDE INTOSAI

### Governing Board Meeting Advances Strategic Plan

The influence of INTOSAI's strategic plan was evident at the INTOSAI Governing Board's annual meeting in Vienna on November 10-11, 2005. The meeting agenda was structured to reflect the four goals in the strategic plan (see new INTOSAI organization chart on p. 6) and, under the able leadership of Dr. Arpad Kovacs, the board continued to make progress in implementing the plan's strategies and recommendations.



SAI heads and staff from Hungary, Mexico, Saudi Arabia, and Austria at the head table during the Governing Board meeting in Vienna in November 2005.

Board members were joined by observers representing committees, working groups, and task forces for 2 days of active discussion and deliberation on a range of critical issues. The terms of reference of the newly created Professional Standards (goal 1) and Capacity Building (goal 2) Committees were approved, and reports by their chairs were discussed and approved. In a departure from past practices, the Professional Standards Committee chair presented reports of its constituent subcommittees (e.g., the Accounting and Reporting and Financial Audit Subcommittees). In this way, the agenda was streamlined and subcommittee chairs did not necessarily need to travel to Vienna for the meeting. The annual reports of the General Secretariat, the INTOSAI Development Initiative, and this *Journal* were also presented and approved.

The Finance and Administration Committee chairman reported on the committee's ongoing work to provide oversight of INTOSAI finances and to help implement goal 4 of the strategic plan (to be a model international organization). He emphasized the importance of maintaining the board's March 2005 agreement, as noted in INTOSAI's new strategic plan, to apply sanctions to those INTOSAI members who have significant arrearages in their dues. The committee noted that efforts to collect past due amounts have been successful (e.g., over US\$20,000 in one case) and should continue and that the effective date for such sanctions would be determined at a future

meeting. In addition, the board approved the committee's recommendation that the savings gained by reducing INTOSAI's annual allocation to the *Journal* (from 35 percent to 25 percent of the overall INTOSAI budget) should be reallocated equally to capacity-building/IDI and knowledge-sharing/collaboration tool activities in support of the strategic plan. The committee believes that INTOSAI's enterprisewide relations with global donors should be coordinated centrally and in advance within INTOSAI's Governing Board and General Secretariat and with input from the Finance and Administration Committee. Regarding relations with external partners, the committee chairman stressed the importance of INTOSAI's presenting a clear and coherent plan for dealing with global donors; this issue will be discussed further at the committee's February 21-22, 2006, meeting in Riyadh.



Governing Board members, observers, and staff pause during the meeting for an official photograph.

The General Secretariat is finalizing the full proceedings of the board meeting and will make them available shortly. In the meantime, some of the board's major decisions are summarized below.

- The board selected the two themes for the 2007 INTOSAI Congress in Mexico City: Audit of Public Debt: Promoting Best Practice Approaches and Fiscal Sustainability (theme 1, chaired by Germany) and Performance Evaluation System: Performance Indicators for the Evaluation of Public Policy (theme 2, chaired by the United States). Theme chairs, the congress host, and the General Secretariat will meet in Vienna on January 20, 2006, for a planning meeting. In the coming

months, INTOSAI members can expect to hear more about the opportunity to write country papers on these themes.

- The Task Force on Accountability and Audit of Disaster-Related Aid was established under the chairmanship of the SAI of the Netherlands. The goal of the task force is to promote the exchange of information to support meaningful and effective audit coordination (for example, tsunami-related audits in Southeast Asia); enhance transparency in the flow of funds from donors to recipients and identify the role of international and nongovernmental organizations (NGO); and, based on lessons learned, develop best practices for national governments, international institutions, and NGOs to enhance accountability for disaster-related aid. The task force chair convened a preparatory meeting in The Hague on December 20-21, 2005. (See the report on this meeting on p. 31).

For more information on this new task force, contact: [ejongsma@rekenkamer.nl](mailto:ejongsma@rekenkamer.nl).

- The General Secretariat presented a proposed new Web site design for INTOSAI and asked members to provide comments before it is finalized.
- Noting that Bjarne Mørk-Eidem, Auditor General of Norway, would retire from office at the end of 2005, the Governing Board recognized Mr. Mørk-Eidem's many important contributions to INTOSAI during his 15-year term. He served as President of the INTOSAI Development Initiative (IDI), chair of various working



Arpad Kovacs, Chairman of the Governing Board, and Joseph Moser, Secretary General of INTOSAI, present a plaque of appreciation to Bjarne Mørk-Eidem, Auditor General of Norway, in recognition of his service to INTOSAI.

groups and task forces, and member, from 2001-2004, of the strategic planning task force. As he received a plaque of appreciation from the chairman of the board and the Secretary General, the full board demonstrated its high regard, respect, and affection by giving him a standing ovation. In turn, he showed his appreciation by singing a traditional Norwegian fishing song, reminiscent of his early days in the north of Norway and his later role as Minister of Fisheries.

- The next board meeting will be held in Mexico City on November 6-8, 2006.
- Looking to the future, the board accepted South Africa's offer to host the 2010 congress.

For more information on the board meeting, contact the General Secretariat:

E-mail: [intosai@rechnungshof.gv.at](mailto:intosai@rechnungshof.gv.at)

or the Chairman of the Board:

E-mail: [kovacs@asz.hu](mailto:kovacs@asz.hu)

## Financial Audit Guidelines Subcommittee

In September 2005, the former Working Group on Financial Audit Guidelines became the Financial Audit Guidelines Subcommittee (FAS). The working group reported to the former Auditing Standards Committee (ASC); the subcommittee reports to the new Professional Standards Committee (PSC). Sweden chairs the subcommittee, as it did the working group, under the direction of Deputy Auditor General Gert Jönsson.

The subcommittee's work continues without interruption. It provided INTOSAI experts to staff several International Auditing and Assurance Standards Board (IAASB) task forces and two practice note task forces in 2005. In November 2005, a call was sent out to all INTOSAI members asking for new nominations of experts to the FAS reference panel. The Project Secretariat is currently updating its registers in response to the referrals received from many SAIs, and the work of finding suitable experts for International Standards on Auditing (ISA) task forces and ISA practice note task forces is about to begin. By the end of 2006, more than 80 positions will have been filled within the project. This will be possible only because of the generous support of the SAIs that have nominated experts to the FAS reference panel. This collaboration makes the Project Secretariat's task easier to handle and speeds progress on the work of developing financial audit guidelines.

### Subcommittee Meetings

The FAS held its first meeting in conjunction with the joint final ASC and initial PSC meetings in Oslo in September 2005. At that time, participants decided that a

new group was needed to focus on questions related to courts of account since the guidelines need to address specific aspects of the court system. A Court of Accounts Expert Group—initially including the SAIs of Turkey, Tunisia, Brazil, and Greece—was set up and will be chaired by the Greek reference panel expert, Mr. Aristides Alahouzos. At the meeting, the FAS also discussed audit scope, implementation of the guidelines, and the effect of the IAASB's Clarity Project (which is defining professional requirements) on the subcommittee's work. Since the Clarity Project is expected to influence the work of the FAS in many ways, the subcommittee decided to strengthen its focus group of reference panel experts to handle additional responsibilities related to providing comments on the project.

In December 2005, the subcommittee held a telephone conference, and it will hold a meeting in Namibia March 13-14, 2006, hosted by the Office of the Auditor General of Namibia.

### **Information about FAS**

During the fall of 2005, the Project Secretariat created a new Web site for the FAS (<http://psc.rigsrevisionen.dk/fas>). Since its launch at the end of November, 2005, the site has offered all SAIs, subcommittee members, and the general public current information on the subcommittee's work on the guidelines, exposure drafts of practice notes for comment from all INTOSAI members, and approved agendas and minutes from subcommittee meetings. A new version of the FAS brochure was printed and distributed to all SAIs in November 2005.

### **Exposure Drafts for Comment**

The subcommittee recently released the first practice notes for comment from INTOSAI members, other INTOSAI committees, and other parties. The practice notes and related ISAs, as well as information on the format for comments, can be found on the subcommittee Web site. Comments on the two first practice notes to ISA 230 and ISA 240 are due on March 31, 2006. The subcommittee will continue to post exposure drafts of all newly developed guidance on the Web site.

### **Ongoing Work on ISA Task Forces**

In each issue of the *Journal*, the FAS Project Secretariat offers a brief update of the ongoing work with ISA task forces. The International Federation of Accountants (IFAC) Web site ([www.ifac.org](http://www.ifac.org)) provides updated information on the ISA task forces, exposure drafts of ISAs, and related matters.

Work is in progress on the following ISAs where INTOSAI experts are involved:

**ISA 230 – DOCUMENTATION**

Expert: Ms. Kelly Ånerud, Norway

Back-office experts: Ms. Gail Vallieres, United States; Mr. Inge Danielsson, Sweden

Final version expected in September 2005 and final practice note expected in June 2006 (an exposure draft of the practice note has been posted for comments).

**ISA 705 – MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT AND**

**ISA 706 – EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTERS PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT**

Expert: Ms. Mary Radford, United Kingdom

Back-office experts: Ms. Marcia Buchanan, United States; Ms. Birgit Bach-Nielsen, Denmark

Final version expected in March 2006 and practice note expected in December 2006.

**ISA 260 – COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE**

Expert: Ms. Tove Myklebust, Norway

Back-office experts: Mr. Filip Cassel, Sweden; Ms. Gail Vallieres, United States

Final version expected in March 2006 and practice note expected in December 2006.

**ISA 800 – THE INDEPENDENT AUDITOR'S REPORT ON SPECIAL PURPOSE AUDIT ENGAGEMENTS**

Expert: Mr. Jonas Hällström, Sweden

Back-office experts: Mr. Demsash Betemariam, Ethiopia; Mr. Martin Dees, the Netherlands; Mr. Robert Cox, New Zealand

Final version expected in March 2006 and practice note expected in December 2006.

**ISA 550 – RELATED PARTIES**

Expert: Mr. John Thorpe, United Kingdom

Back-office experts: Ms. Zainun Taib, Malaysia; Mr. Uwe Schreiner, Germany; Ms. Goranka Kiralj, Slovenia

Final version expected in June 2006 and practice note expected in March 2007.

**ISA 580 – MANAGEMENT REPRESENTATION**

Expert: Ms. Vijaya Moorthy, India

Back-office experts: Mr. Martin Garrido, Chile; Mr. Ennio Colasanti, Italy

Final version expected in September 2006 and practice note expected in June 2007.

**ISA 620 – USING THE WORK OF AN EXPERT**

Expert: Mr. Cláudio Branco, Brazil

Back-office experts: Mr. András Morvay, Hungary; Ms. Monica Besetsa, Lesotho

Final version expected in December 2006 and practice note expected in September 2007.

The subcommittee is also charged with developing a practice note for each ISA to provide additional guidance that auditors in the public sector may need to apply to the ISA. The practice notes will be based on the contributions of the audit experts from the reference panel.

Practice notes will also be developed for ISAs already revised and approved by the IAASB where no experts participated in the IAASB task force. The Project Secretariat has started to form task forces with experts and back-office experts from the reference panel to develop practice notes for these ISAs.

The first practice note task forces will develop practice notes to the following ISAs:

- Practice Note Task Force 1: International Standard on Quality Control 1 and ISA 220
- Practice Note Task Force 2: ISAs 300, 315, and 330

These task forces were set up in December 2005 and will have two experts and two or three back-office experts. The timetable for developing practice notes to these ISAs will be 13 months, including the exposure period.

Four additional task forces will be formed during 2006 to develop practice notes to 11 other ISAs.

**New Sources for Financing of the Project**

The project entirely relies on the contributions of the experts and their respective SAIs, which have agreed to cover the costs. The Project Secretariat is continuously approaching external parties to seek funding. The project has so far been granted funding from the World Bank, and we are now very satisfied to have reached an understanding with the Asian Development Bank to fund parts of the project. These funds will, among other things, cover the costs for reference panel meetings, certain subcommittee meeting expenses, the operation of the Project Secretariat, translations

of standards and guidelines to the official INTOSAI languages, and printing and distribution of approved guidelines.

The IAASB has decided that as of January 1, 2006, it will cover the expenses related to all participation of INTOSAI experts in its task forces. This financial commitment shows that the IAASB recognizes the important role of INTOSAI experts in developing the ISAs. While the IAASB's action will not influence the need for external funding of the project, we hope it will allow more SAIs to nominate their best and most experienced experts.

For additional information about this project, contact the Project Secretariat in Stockholm, Sweden:

E-mail: [projectsecretariat@riksrevisionen.se](mailto:projectsecretariat@riksrevisionen.se)

Fax: +46-8-5171 4111

## **First Annual Report of OLACEFS**

The Organization of Latin American and Caribbean Supreme Audit Institutions (OLACEFS) issued its first annual report for the year 2004.

The President of OLACEFS, Mr. Gustavo Sciolla, presented the report to the OLACEFS Board in March 2005. The report was approved and ratified at the OLACEFS Assembly, which took place in El Salvador in June 2005. The Office of the Comptroller General of Chile prepared the document.

The report gives a brief history of OLACEFS and summarizes the main events the organization carried out during 2004. It also includes information about each member country. The heads of the OLACEFS SAIs wrote messages stressing the importance of unity and shared experiences, ethics and transparency in managing state enterprises, and the constant fight against corruption. Each member SAI shared information on its main reports, audit matters, and events for the year. These country reports demonstrate that financial and performance audits provided positive recommendations regarding government management, auditing of public works, and environmental audits to improve state administration. The reports also noted the importance of technological changes that occurred during the period and allowed for modernization and legal changes to enhance SAI performance. Some of the SAIs also reported on the importance of strategic planning in achieving their institutional aims.

The experiences recorded by each SAI, along with the issues and matters being audited, constitute a genuine exchange of knowledge and information. The OLACEFS annual report increases the value of this knowledge by comparing it in terms of time, manner, and place. In this way, the report helps to achieve the knowledge-sharing purposes of the INTOSAI strategic plan.



For additional information, contact OLACEFS General Secretariat:

Fax: ++507 210 43 99

E-mail: [omar1@contraloria.gob.pa](mailto:omar1@contraloria.gob.pa)

Web site: [www.olacefs.org.pa](http://www.olacefs.org.pa)

## **Training Workshops in SPASAI**

From November 28 to December 2, 2005, the Government of Samoa Audit Office hosted a workshop entitled “Dealing with Fraud and Corruption While Auditing” for staff of SPASAI member offices. The workshop, held in Apia, Samoa, and funded by the INTOSAI Development Initiative, was designed to familiarize participants with basic issues of fraud relevant to the auditor’s role.

In addition, the National Audit Office of the Peoples Republic of China hosted an audit training program for auditors general from SPASAI member offices. The workshop was held November 20-30, 2005, in Guangzhou and Beijing, China.

For additional information, contact SPASAI:

Fax: ++64 (4) 917 15 49

E-mail: [oag@oag.govt.nz](mailto:oag@oag.govt.nz)

## **First Meeting of the Task Force on Accountability and Audit of Disaster-Related Aid**

The Task Force on Accountability and Audit of Disaster-Related Aid held its first meeting in The Hague on December 20-21, 2005. The INTOSAI Governing Board approved the establishment of this task force at its meeting in November 2005, naming the president of the Netherlands Court of Audit, Saskia Stuiveling, as the chair and Indonesia and Korea as vice chairs. As outlined in the proposal approved by the Governing Board, the task force consists of two branches. The first branch, chaired by Indonesia, will focus on developing a framework to enhance transparency in the flow and use of tsunami-related aid. The second branch, chaired by Korea, will focus on formulating best practices and guidance on exercising accountability for and auditing disaster-related aid.

Mrs. Stuiveling hosted the December meeting in The Hague, and participants included Anwar Nasution, chairman of the board of the BPK (the Indonesian SAI), and delegates from the SAIs of the Netherlands, Indonesia, Korea, the United States, the United Kingdom, and Austria. During the meeting, the structure and future

activities of the task force, as well as its relationship with the BPK Advisory Board, were discussed. In addition, presentations were made on the complexity of aid flows and on possibilities for a geographic approach to the task force's work.

The delegates to the meeting agreed to expand the task force to ensure regional coverage and the participation of both donor countries and countries affected by the tsunami or other natural disasters. SAIs that positively responded to the INTOSAI Tsunami Initiative will be invited to join. The delegates also decided how to perform pilot studies of aid flows that would reflect both donor and recipient perspectives.

Other issues discussed at the December meeting included funding for the initiative and establishing contacts with other relevant organizations, such as the United



Members of the Task Force on Accountability and Audit of Disaster-Related Aid at their December 2005 meeting in The Hague.

Nations, the Organisation for Economic Co-operation and Development, nongovernmental organizations, and worldwide accountancy firms. The delegates agreed to set up a Web site to inform all INTOSAI members and other interested parties about task force activities. The Web site is to be operational by February 2006.

The first meeting of the complete task force is to be held in March 2006, probably in Geneva. The core members will meet again in April 2006 in Jakarta during a meeting of the BPK Advisory Board. In June 2006, the Austrian SAI will host a conference in its Parliament on disaster-related aid, where the results of the pilot studies of aid flows will be presented.

For additional information, contact Egbert Jongsma, tsunami project leader, Netherlands Court of Audit:

E-mail: [e.jongsma@rekenkamer.nl](mailto:e.jongsma@rekenkamer.nl)

Telephone: ++0031-703427887

## 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: [www.idi.no](http://www.idi.no).

## IDI/OLACEFS Regional Workshop on the Audit of Public Services

The second phase of the Long Term Regional Training Program in OLACEFS was successfully completed with a 2-week Regional Workshop on the Audit of Public Services, which was held in Bogotá, Colombia, in September 2005. Seven new OLACEFS training specialists delivered the course to 30 participants from the region.

### IDI/ASOSAI Capacity-building Needs Assessment Project

Two needs survey missions have recently taken place in connection with the capacity-building program for newly established SAIs sponsored by IDI and the Asian Development Bank. The first needs survey was carried out in the Mekong region during October 2005. The purpose of this mission was to interview selected executives of the SAIs of Cambodia, Vietnam, and Myanmar on their broader capacity-building needs.

In November 2005, IDI, in cooperation with ASOSAI, arranged a focus group workshop with 12 senior members of four SAIs in Central Asia, namely Azerbaijan, Kazakhstan, Kyrgyzstan, and Mongolia. The aim of this 3-day event, held in Almaty, Kazakhstan, was to identify the training needs of these SAIs and to create a strategy for institutional strengthening.

### Global Survey on the Draft IDI Strategic Plan for 2007-2012

During November 2005, IDI distributed a survey regarding its new strategic plan to all the SAIs of developing and emerging countries. The respondents were asked to give feedback on the draft plan and also to rate its proposed goals, objectives, and indicators of success.

### IDI/OLACEFS E-learning Pilot

The e-learning pilot project run in OLACEFS, in cooperation with IDI and the Organization of American States, concluded at the beginning of December 2005. Sixty-two participants from the region attended the 10-week Workshop on Performance Auditing. The success of the course can be attributed in large part to the hard work and strong commitment of the seven online tutors (from the SAIs of Costa Rica, Chile, Argentina, Colombia, the Dominican Republic, Ecuador, and Panama) and the academic coordinator and the subject matter expert, both from the SAI of Venezuela.

### **IDI/ARABOSAI Capacity-building Program in IT Auditing**

A 3-week IT Audit and Instructional Techniques Workshop was held in Oman in December 2005. The workshop had 23 participants from seven countries in the region. The subject matter experts came from the SAIs of Oman and Qatar. This event is a part of the Champions Program in IT Auditing, which will conclude in 2006.

### **Global E-learning Laboratory in Malaysia**

In December 2005, a 2-week e-learning laboratory was held in Kuala Lumpur, Malaysia. The 19 participants from 18 countries were mainly IDI training specialists but also included others from developing SAIs of INTOSAI's English-speaking regions who have an interest in training. The idea was to build on participants' e-learning capacities and create a community of e-designers for the regions and SAIs. The participants received both theoretical and practical knowledge on the use of Lectora and Macromedia Captivate software. The workshop was delivered by an expert from the NIIT Company of India.

### **IDI/ASOSAI Workshop on Dealing with Fraud and Corruption**

In December 2005, a 1-week Workshop on Dealing with Fraud and Corruption was delivered in Lahore, Pakistan, to participants from 15 selected member SAIs of ASOSAI. The 30 auditors were trained in best practices and techniques for detecting and preventing fraud while auditing.

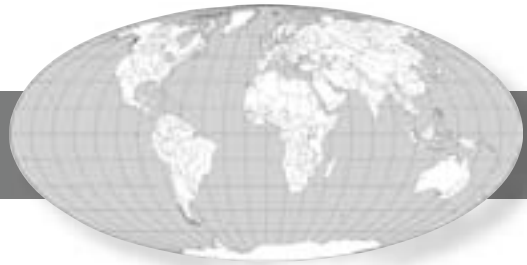
### **Contacting IDI**

To discuss any of the issues raised in this edition of IDI Update, contact IDI:

Telephone: ++47 21 54 08 10

E-mail: [idi@idi.no](mailto:idi@idi.no)

# INTOSAI Events



<p><b>January</b></p>	<p><b>February</b></p> <p>9-10 Internal Control Committee Meeting, Brussels, Belgium</p> <p>21-22 Finance and Administration Committee Meeting, Riyadh, Saudi Arabia</p>	<p><b>March</b></p> <p>13-14 Capacity Building Committee, London, England</p>
<p><b>April</b></p> <p>3-7 SPASAI Congress, Northern Mariana Islands</p>	<p><b>May</b></p> <p>4-5 Professional Standards Committee Meeting, Washington, D.C., United States</p> <p>17-19 INTOSAI Committee on IT Audit, Brasilia, Brazil</p>	<p><b>June</b></p> <p>20 International Tsunami/Disaster Relief Conference, Vienna, Austria</p> <p>26 Environmental Audit Steering Committee, Yogyakarta, Indonesia</p>
<p><b>July</b></p>	<p><b>August</b></p>	<p><b>September</b></p> <p>11-15 ASOSAI Assembly, Shanghai, China</p>
<p><b>October</b></p> <p>16-19 CAROSAI Congress, Freeport, Bahamas</p>	<p><b>November</b></p> <p>1-4 55th INTOSAI Governing Board Meeting, Mexico City, Mexico</p>	<p><b>December</b></p>

TDB = To be determined

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