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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.

The *Journal* is distributed to the heads of all Supreme Audit Institutions throughout the world who participate in the work of INTOSAI. Others may subscribe for US\$5 per year. Checks and correspondence for all editions should be mailed to the *Journal's* administration office, P.O. Box 50009, Washington, D.C. 20004, U.S.A.

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Maintaining Information Exchange – A Key to the Future

By Mr. Bjarne Mork-Eidem, Auditor General of Norway and Chairman of the IDI Board



Mr. Bjarne Mork-Eidem

Since it was established back in 1953, INTOSAI has always had, as important aims, to exchange experience and share information, and to contribute to the dissemination of knowledge and build-up of expertise. The INTOSAI Development Initiative (IDI), “the training arm of INTOSAI”, has been one of the means of fulfilling those aims since its formation in 1986.

Over the years IDI has changed its focus and shifted its emphasis in response to changing needs and circumstances. The overall thrust for the first ten years was to assist Supreme Audit Institutions from developing nations to strengthen their training and audit capabilities through the direct provision of training programs, to strengthen existing and to introduce new audit techniques and tools.

Another important task for IDI in the first years was to develop and distribute its *International Directory of Information for Audit Training*, the focus of which is a comprehensive information catalogue. It contains descriptions of more than 100 courses and case studies tailored to fit the courses, and recommended procedures for surveying training needs and evaluating measures that have been implemented.

IDI shifted its direction significantly when the Long Term Regional Training Program was launched in 1996. The primary focus then became to strengthen the training capacity in INTOSAI regions through the establishment of a sustainable regional training infrastructure. Some of the key elements of the program are the establishment of a regional training committee in regions where such a committee did not exist, long-term regional training plans, and the formation of a pool of about 25 regional training specialists, available to the region

and to their respective SAIs. An anticipated result of this capacity-building approach was that participating regions and their member SAIs would increasingly assume responsibility for assessing regional and local training needs and priorities, and for offering regional and local technical training workshops to meet those needs and priorities. IDI concentrated all its resources in the period 1996-2000 on the delivery of the Long Term Regional Training Program, and by October 2001 it has been completed in six regions (two of them sub-regions of AFROSAI); namely AFROSAI English Speaking Assembly, AFROSAI Francophone Assembly, ARABOSAI, ASOSAI, OLACEFS and SPASAI. An adapted version of the program is on its way in EUROSAI for SAIs of Central and Eastern European countries.

When the new IDI Strategic Plan for the period 2001-2006 was written, it was based on the assumption that the Long Term Regional Training Program would have been implemented in INTOSAI's regions. The new long-term plan therefore seeks to consolidate the results of the Long Term Regional Training Program with continued support being provided to the regional Training Committees and the Training Specialists who graduated from the program.

Expansion of IDI's information exchange program and exploration of ways and means to develop and expand training initiatives in co-operation with various INTOSAI standing Committees and Working groups are other important IDI goals. The goal to establish an IDI web-site is already accomplished, and the next phase is to use the internet to disseminate information, improve communication channels and to explore modern ways of managing distance learning programs (E-learning).

Included in IDI's capacity-building activities is a continuation of the “train the trainers” approach established through the Long Term Regional Training Program. A cornerstone of this approach is the belief that the practice of audit is best enhanced through the provision of technical knowledge and skills and through the introduction of new audit methodologies and tools, and that the most cost-effective way to accomplish this is through the current regional and local training infrastructure.

Key components of this training infrastructure are the IDI-certified Training Specialists who are positioned to provide local and regional workshops to member SAIs in their regions. The Training Specialists have obtained a unique competence in assessing training needs and in the design, development and delivery of relevant training activities. They were educated

as part of a regional group of specialists, and during the Long Term Regional Training Program they met colleagues from other SAIs of their own region.

When, in June 2001, the IDI gathered 115 Training Specialists from 72 SAIs to an International Symposium in Oslo, Norway, it was to add to their skills and knowledge by providing them with an occasion to participate in an international forum where both technical audit issues and training issues were discussed. The Symposium had three main objectives; to strengthen the Regional Training Specialists' network, to establish a worldwide Training Specialists' network, and to promote the exchange of training and audit-related technical knowledge and information.

Throughout the Symposium participants shared personal and professional information with delegates from other regions. Barriers posed by language and cultural differences were overcome and cross-regional bonds created. Regional group meetings offered an excellent opportunity to discuss current issues and future plans, and each of the regions prepared and delivered a presentation introducing their group to all participating regions. This activity did not only introduce participants to the different regions, but in many cases also to the cultures within. It also summarized the progress and activities that have taken place in the regions since the Long Term Regional Training Program, thus encouraging a better understanding of how conditions vary in each region, which, in turn, could potentially lead to greater cross-regional co-operation.

It could be assumed, as a matter of course, that the Training Specialists were assigned to design and deliver training courses in their SAIs. Some of them, however, reported that this had not been the case, and others said that their potential could be better exploited. Seen from the IDI perspective, considerable efforts have been made to invest in building up the competence of the Training Specialists, and it should therefore be in the interest of all concerned parties to maximize the return on the investment. The Training Specialists underscored the importance of support not only from senior management in their SAIs, but also from the Regional Training Committee and IDI. In this respect IDI can play an important role by inviting management to IDI seminars and regional courses and emphasising the importance of continuous involvement of graduates in providing local and regional training. Furthermore,

it was said that IDI could help to promote the exchange of resources and specialists between SAIs.

The Training Specialists highlighted the importance of ongoing training. They recommended that IDI organizes other symposiums to gather the Training Specialists and enable them to share their knowledge and experience on a variety of audit-related topics. It was also suggested that IDI promotes the exchange of information regionally and cross-regionally and creates a database of important courses and course materials.

The establishment and strengthening of networks is largely, in the end, a consequence of good communication. The networking sessions of the Symposium, and the panel discussions that formed an integral part of it, gave the participating delegates the opportunity to build communication channels. The participants indicated that the objectives of the Symposium addressed the important need to strengthen regional and cross-regional networks for the Training Specialists very well. These networks would guarantee continuity of exchange of crucial training and audit-related technical knowledge between the SAIs. IDI's initiative to launch the IDI web-page and an electronic bulletin board to support the development and sustainability of these exchanges, was highly praised.

From the evidence of the evaluation forms filled in by the great majority of the participants (89 percent) it was clear that delegates see the maintenance of information exchange mechanisms as key to the future. The achievement of this will depend on the activities and efforts of many parties. On the national level key players will be Heads of SAIs, managers responsible for human resource development, managers of training units and the graduate Training Specialists. At the regional level support and action is needed from the regional governing bodies, the regional secretariats and the regional training committees. At the international level the same is required from the various INTOSAI bodies, and IDI is there to assist, advise and actively promote SAI training and cooperation on training and exchange of experiences and information.

For more information, contact: Office of the Auditor General, Riksrevisjonen, Pilestredet 42, Postboks 8130 Dep, 0032 Oslo, Norway, telephone: 47 (2) 224 10 00, fax: 47 (2) 224 10 01, e-mail: <riksrevisjonen@riksrevisjonen.no>. 

News in Brief

Bhutan

Audit Information Computerized

The Royal Audit Authority (RAA), the SAI of Bhutan, has computerized its audit information, and is now using the computerized system to maintain and administer audit reports and to perform the following functions:

- Collect and maintain information about each audit, including the agency involved, associated dates and milestones, audit participants, and findings.
- Manage the amounts for which individuals are accountable to government and account for any payments or settlements.
- Produce management information that assists in planning future audits and evaluating those performed.
- Facilitate audit clearance of individuals, as required by the government to process promotions, training, transfers, and retirement by quickly retrieving information related to them.
- Produce statistical information that the government uses in determining areas for improvement by identifying the common problems found during auditing.
- Centralize information so that it can be collected promptly and systematically.

For additional information, contact: Royal Audit Authority, Post Box 191, Thimphu, Bhutan; fax: ++975 2 32 34 91; email: raa-md@druknet.net.bt.

Canada

New Commissioner of the Environment and Sustainable Development

In August 2000, the Auditor General of Canada announced the appointment of Johanne G  linas as the second Commissioner of the Environment and Sustainable Development. Ms. G  linas began her duties in September 2000, succeeding Brian Emmett.

In her new position, Ms. G  linas reports directly to and assists the Auditor General in performing duties related to the environment and sustainable development. On behalf of the Auditor General, the Commissioner is required to report annually to the House of Commons, through the Speaker of the House, matters that should be brought to the attention of that House relating to environmental and other aspects of sustainable development. The Commissioner has a budget of \$3 million and is supported by a highly qualified staff of approximately 35 with backgrounds in environmental studies, business management, accounting, economics, political science, geology, biology, law, urban planning, public administration, and engineering.

Ms. G  linas, who has a Master's degree in Environmental Science from the University of Quebec, began her career in 1984 as a planning officer with the Quebec Ministry of Environment. From 1986 through 1990, she worked in the field of environmental health in Quebec, and for the next 10 years served as Commissioner of the Quebec Environmental Public Hearing Board. From June 1995 through August 2000, Ms. G  linas was a member of an independent federal agency mandated to provide the Prime Minister with objective information and advice on the environment and the economy. Ms.

G  linas chaired the agency's task force on sustainable transportation for four years. More recently, she was a member of the National Secretariat on Climate Change and a senior adviser to the Canadian Pulp and Paper Association.

Ms. G  linas will be attending INCOSAI XVII in Seoul and is committed to an active and ongoing role in the INTOSAI Working Group on Environmental Auditing.

For additional information, contact: Office of the Auditor General, 240 Sparks Street, Ottawa KIA 0G6/Ontario; fax: ++1 (613) 957-4023; email: communications@oag-bvg.gc.ca or web site: <http://www.oag-bvg.gc.ca>.

Chile

Public Report of the Comptroller General of Chile

On May 7, 2001, Dr. Arturo Aylwin Azocar, the Comptroller General of Chile, delivered the public report of his office for the year 2000. Top-ranking government officials and members of the press were present. During his presentation, Dr. Aylwin discussed management changes in the Chilean SAI during the year that changed the way the office plans strategically for the future. He also provided detailed information about the SAI's work during the year.

Dr. Aylwin praised the progress of Chile's regionalization process, and his office's participation in the process. He suggested ways to improve the management of law and discussed his office's internal management, emphasizing the strategic planning, training, and information technology advances that occurred during the year. He also discussed the SAI's development of a national audit system, and an Inter-American Development Bank mission to finance some of the SAI's modernization projects.



Dr. Aylwin surrounded by media during press conference.

Dr. Aylwin emphasized the importance of his office's relationships with INTOSAI, at a global level; OLACEFS, at a regional level; and MERCOSUR, at a subregional level.

In closing, he emphasized the core values of Chile's SAI: legality, honesty, protection of the public good, efficiency, effectiveness, rationality, and transparency.

For additional information, please contact: Contraloría General de la República, Teatinos 56-58 9. Piso, Santiago de Chile; fax: ++56 (2) 870 13 94; e-mail: aylwin@contraloria.cl and website: www.contraloria.cl.

Croatia

Recent Activities of the State Audit Office

Since its establishment in 1993, Croatia's State Audit Office (SAO) has continued to develop into a more effective public institution with a high level of performance. The SAO is constantly strengthening its powers, organizational structure, and working methodology.

The legal basis of the office changed recently when its mandate was extended to the audit of privatization. The SAO has also made changes to its recruitment process and organization; as a result, its staff size increased from 249 to 280, and it established a privatization audit department and a public relations unit.

To promote effectiveness, the SAO provides extensive training for its staff. The SAO holds an annual seminar for all

auditors, while smaller seminars focused on core activities are organized at various times during the year based on need. In February 2000, the SAO held a seminar on performance auditing in government authorities. The seminar was organized in cooperation with the Austrian Court of Audit, whose representatives made excellent presentations and provided useful practical examples.

The SAO has participated actively in the international sphere. This year, the office carried out its first parallel audit, initiated by the EUROSAI Working Group on Environmental Auditing and coordinated by the Romanian Court of Audit, the regional coordinator of the group. The SAO joined this working group at the beginning of the year. During the year, representatives of the SAO also participated in several national and international conferences and seminars on varied auditing issues and EU-related matters.

To achieve better audit quality, the SAO developed its own audit manual, which contains detailed descriptions of audit procedures, technical procedures for particular audit areas, and practical examples. Also, the *European Implementing Guidelines for INTOSAI Auditing Standards* has been translated in Croatian and made available to auditors.

The office's annual report on the year 2000, with a brief description of how effectively the SAO carried out its tasks, is to be presented to Parliament in October 2001. The complete report will be available on the SAO's Web site, <http://www.revizija.hr>.

For more information, please contact: State Audit Office, Tkalciceva 19, 10000 Zagreb, Croatia; fax: 385(1)4873 385; email: dur@zg.tel.hr; website: <http://www.revizija.hr>.

Czech Republic

Reforms and Modernization

During 2001, the Czech Republic's Supreme Audit Office (SAO) has been involved in a number of important national and international projects.

In January, SAO adopted the Strategic Development Plan (SDP), which was prepared based on its self-evaluation of its experiences and the recommendations of the SIGMA expert groups. The SDP includes intended amendments to legislation and many methodological and training activities. In August, after lengthy deliberations, both houses of the Czech Parliament approved the Financial Control in Public Administration Act. SAO experts participated actively throughout the process of adopting this act.

On an international level, SAO is currently focused on the EU membership expansion, and participates actively in the "twinning project" with the German Court of Audit. The SAO also participates in EU Contact Committee meetings and other EU programs.

In the near future, the Czech SAO will release its Audit Process Software Package, which was developed as a generally applicable audit tool.

For further information, contact: Nejvyšší kontrolní úřad, Jankovcova 63, 170 04 Praha 7, Czech Republic; fax ++420 (2) 3304-5350; e-mail: lubomir.volenik@nku.cz; website: www.nku.cz.

Italy

Independence Strengthened

The independence of the Court of Audit, which was granted by Italy's 1948 Constitution, has been recently strengthened by a special law concerning the appointment of its president. In the past, the Court's president was appointed by the President of the Republic at the proposal of the Prime Minister. The Prime Minister could propose the president from among the Court's membership or from outside. Under the new law, the Prime Minister's choices are limited to three senior members of the Court (the Presidents of Chamber) who themselves are proposed by the Court's governing board (the Council of Presidency). This ensures that the choice of president for the Court is not political in nature.

In addition, the Court has restructured its audit function by setting up regional auditing chambers in the

chief towns of Italy's 20 regions. The regional chambers' main functions are performance audits of regional management and local authorities' budgets, and financial and performance audits of the budgets of regional government administrations.

International Meetings Hosted

In May 2001, the Court organized a successful international conference, which was partially funded by the European Commission, on preventing and combating fraud in the European Union (EU) based on the field experiences of EU member states. The conference addressed difficulties and successes in detecting fraud and mismanagement of public money in the EU and its member states; also discussed were the challenges raised by the interconnected international money laundering market.

At the end of September 2001, the Court also organized the annual meeting of the liaison officers of the European Union SAIs. At the meeting, the liaison officers dealt with issues of common interest in auditing community funds.

For additional information, contact: Court of Audit, Via Baiamonti, 25, I-00195 Rome, Italy; fax: ++39 (06) 3876-8011; e-mail: uric@corteconti.it.

Japan

Organizational Reform of the Board of Audit

On January 6, 2001, Japan's Board of Audit reformed its organizational structure in the General Executive Bureau in order to carry out its audit activities more efficiently and flexibly. This reform, the first in nine years, is in keeping with the central government's reform—to streamline the national government's organization and functions for the new century—which was put into effect on the same day.

In recent years, the 120-year old Board of Audit's situation has been drastically changed due to the diversification of society, administrative and fiscal reform, the public con-

sciousness of taxpayers, and the increasing administrative oversight function of the Diet. The Board, therefore, decided to reorganize its internal structure to correspond with government reform and the introduction of policy evaluation systems that would operate in each ministry and agency.

The main purpose of this reform is to build

- the ability to audit more effectively and analyze policy evaluation of ministries and agencies;
- the system for performing audits requested by the Diet on specific matters stipulated by law;
- the ability to analyze the state final accounts and financial statements prepared by government corporations; and,
- the structure for auditing ministries, agencies, and other government-affiliated organizations of the newly organized central government.

The Special Issues Audit Division was established in the Fifth Bureau to respond to audit requests from the Diet based on the provisions of Article 105 of the Diet Law and other special issues of interest to Japan's citizens. While other divisions audit specific ministries, agencies, and other government organizations, the Special Issues Audit Division may audit several ministries or agencies and can perform audits when quick turnarounds are required, regardless of the ordinary audit cycle. The Office of Accounts Verification was established in the First Bureau as part of the Finance Audit Division, not only to present the figures but also to analyze the final accounts of the state in detail, thereby promoting greater transparency regarding the government's fiscal condition.

For additional information, contact: the Board of Audit, 3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8941, Japan; fax: ++81 (3) 35 92 1807; e-mail: liaison@jbaudit.go.jp; website: www.jbaudit.go.jp.

New Zealand

Current Developments in the Office of the Controller and Auditor-General

Public Audit Act 2001

The Public Audit Act 2001 came into effect on July 1, 2001, and the Act has two purposes. The first is to establish the Controller and Auditor-General formally as an officer of Parliament; the second is to reform and restate the law relating to auditing public entities. Reform has long been needed; until this Act came into effect, New Zealand operated under the Public Finance Act 1977. Most of this statute was repealed during the state sector reforms in the late 1980s, except for the part concerning the audit office.

The Public Audit Act 2001 provides:

- a statute that is clear and consistent with the Public Finance Act 1989; and,
- a consistent effectiveness and efficiency mandate over public entities, including the many new institutional forms, such as state-owned enterprises and Crown entities, that have been developed in New Zealand since 1977.

Meeting International Environmental Obligations

The Office of the Controller and Auditor-General's (OAG) recent report, entitled *Meeting International Environmental Obligations*, is available both in hard copy and on the OAG's website, www.oag.govt.nz. New Zealand is party to almost 50 multilateral environmental agreements (MEA), and in its report the OAG examined four of these specifically related to:

- processes for negotiating and accepting the agreements;
- implementation of and compliance with the agreed obligations;

- the adequacy of information provided to Parliament; and,
- lessons for future agreements.

The OAG found uneven levels of implementation in New Zealand. It recommended more transparency in reporting to Parliament, including the amount of annual appropriations spent and agencies' performance in meeting the obligations to implement MEAs, and periodic oversight information prepared by the Ministry for the Environment.

Reporting Public Sector Performance

The OAG has taken part in many discussions about how public entities can best report performance because, based on its observations, stakeholders are not getting the quality of information they should. The OAG has published a report entitled *Reporting Public Sector Performance*, which is also available in hard copy and on OAG's Web site.

The following are some key points from the report.

- A comprehensive model of performance includes all elements of performance—outcomes, processes and outputs (goods or services) that are delivered, inputs, and the capability to deliver services now and in the future.
- Comprehensive external accountability reporting selects, forecasts, and reports relevant information from these elements, including risk and strategy assessments.
- It may be useful to report at levels other than the entity level—for example, the issue, sector, or government-wide levels.

For additional information, contact: Office of the Controller and Auditor-General, Level 7, Hitachi Data Systems House, 48 Mulgrave Street, Thorndon, Wellington 1, New Zealand; fax: ++64 (4) 917 15 00; email: oag@oag.govt.nz; website: www.oag.govt.nz.

Poland

New President of the Supreme Chamber of Control

On July 20, 2001, Miroslaw Sekula was elected President of Poland's Supreme Chamber of Control. Before this appointment, Mr. Sekula served in numerous positions in the nation's government.

In 1980, Mr. Sekula earned an M.A. from the Faculty of Chemistry at the Silesian University of Technology. He was employed by the Institute of Chemical Coal Processing in Zabrze from 1980 through 1994. At the institute, he served as a junior professor, member of the Scientific Council, and member and Deputy Chairman of the Employees' Council. In 1990, Mr. Sekula was elected to the Zabrze City Council and was later elected Council Chairman.



Mr. Miroslaw Sekula

In 1994, Mr. Sekula was elected Deputy Mayor of Zabrze. He served as Deputy Mayor from 1994 through 1998. In 1997, he was elected to Parliament from AWS – Wyborcza Solidarno (the "Solidarity" Election Action). He served as a member of Parliament through 2001. He was also a member of the Silesian Regional Parliamentary Assembly from 1998 through 2001.

For further information, contact: Najwyższa Izba Kontroli, ul.Filtrowa 57, PL-00-950 Warsaw, Poland; fax: ++48 (22) 825 89 67; email: nik@nik.gov.pl; website: www.nik.gov.pl.

Qatar

New President of the SAB

The Emir of Qatar appointed His Excellency Sh. Abdullah Saoud Abdul-Aziz Al-Thani as the new President of the State Audit Bureau (SAB), effective May 29, 2001.

President Al-Thani is the sixth president of the SAB since it was established in 1973. He earned his B.A. in Public Administration and Economy and his M.A. in Finance from universities in the United States. In addition, he earned a second M.A. in Banking in the United Kingdom. Before his appointment, he had served as Deputy to the Governor of Qatar Central Bank since 1984.

First Part of Auditing Manual Issued

As part of a continuing effort to update its auditing programs, the SAB has issued the first part of its auditing manual, which contains updated instructions and regulations for the SAB's government auditors. This part of the manual includes information on audits of revenue, expenses, and main capital projects.

For additional information, contact: State Audit Bureau, P.O. Box 2466, Doha, Qatar; fax: ++974 441 21 01; email: qsab@qatar.net.qa.

Trinidad and Tobago

Report on Public Accounts

On April 27, 2000, the Auditor Generals report on Trinidad and Tobago's public accounts for the financial year ended September 30, 1999, was signed. The report was signed within the period stipulated by law, and it was issued to the houses of Parliament on April 28, 2000, and May 2, 2000.

The report contained a general chapter on the Auditor General's Department, and its other chapters covered Treasury statements, accounts of accounting officers, and accounts of revenue receivers and administering

officers. It was the second time that the Auditor General reported on the accounts of the Unemployment Fund, Road Improvement Fund, and Infrastructure Development Fund. Local government bodies and regional corporations administered these funds on behalf of the Ministry of Local Government.

The report also raised concerns about transferring money between funds, treatment of interest earned on fund balances, and internal controls.

For additional information, contact: Auditor General's Department, Eric Williams Finance Building, Independence Square, 2nd Podium Floor, E. Williams Plaza, Port of Spain, Trinidad and Tobago; fax: ++1 (868) 627-0152.

Tunisia

Annual Report Issued

On June 11, 2001, Raouf Najar, Prime President of Tunisia's Court of Accounts, issued the Court's 16th annual report to the President of the Republic. He also gave the report to the President of the Chamber of Delegates (Parliament). This report comprises the Court of Account's observations on management of public funds, as well as two annual reports—1999 and 2000—of the Financial Discipline Court.

The President of the Republic, Zine El Abidine Ben Ali, has reiterated his endorsement of the Court of Accounts' efforts to improve the management of public funds, and has encouraged government entities to act on the Court's audit observations and recommendations.

In addition, after the annual report was released, the President of the Republic ordered the creation of four regional chambers of the Court of Accounts. The first of these is to be operational by the year 2002. The President also ordered, for the first time in Tunisia's history, the publication of an extract of the annual report.

For additional information, contact: Cour des Comptes, 25 Avenue de la Liberté, B.P. 1002, 1004 Tunis, Tunisia; fax: ++216 (1) 76 78 68.

United Kingdom

Annual Report 2001: Helping the Nation Spend Wisely

The National Audit Office (NAO) has saved the taxpayers £1.4 billion over the past three years, according to Sir John Bourn, Comptroller and Auditor General. The NAO had thereby exceeded its performance target of saving £8 for every pound it costs to run.

Last year, the NAO audited some £650 billion of income and expenditures and produced 53 major value-for-money reports, covering topics from the Millennium Dome to how the National Health Service (NHS) confronts health issues such as obesity.

The NAO meets its savings targets by using its wide range of expertise to identify opportunities for government departments to save money. The NAO is often able to make comparisons with the way things are done in the private sector or overseas, or use management science and other techniques to systematically explore new ways of tackling problems. For example, its evaluations of Private Finance Initiative (PFI) deals have led to improved approaches to subsequent projects, which last year achieved savings for the taxpayers of £124 million. And the NAO's work on the National Insurance Fund led to additional debt recoveries worth £51 million.

Karen Taylor, one of the NAO's managers, won the Central Government Public Servant of the Year Award for her work on hospital-acquired infections. This work has led to significant improvements in the way NHS deals with this major human and financial problem.

An important initiative in the past year has been to work harder to encourage government entities to act on NAO recommendations. For example, the NAO has hosted major good practice conferences on hip surgery, further education, PFI, and risk management. The NAO has been putting a greater emphasis on studying programs that have worked well in order to determine the key success factors.

The focus on working with others to minimize the demands on audited bodies has continued. For example, last year the NAO published the results of joint work with the Audit Commission on training for nurses and other health professionals and with the Ombudsman on State Earnings Related Pensions.

The NAO has a strong international presence. It continues to expand its European Union-funded work, helping those countries that are seeking to join the union to develop effective scrutiny of public finances. The NAO is currently working in Hungary, Slovenia, and Estonia.

Looking to the future, Sir John said, "In the coming year our priority will again be to present Parliament with high quality work that adds real value to the accountability process whilst also providing those we audit with the best possible service. We always aim to make our contribution as constructive as possible and to make recommendations that will make a real difference to the quality of services delivered to citizens. We will do this by continuing to be very keen students of success and proponents of good practice."

International Training Course

The NAO hosted its ninth Annual International Training Course from September 13-October 3, 2001. Built around two modules, financial and value-for-money audits, the intensive 4-week program concentrated on the NAO's audit methodologies. The course is classroom based, but both modules include practical illustrations, examples, and case studies drawn from accounts audited and value-for-money studies carried out by the NAO. The course aims to be interactive, with participants encouraged to ask questions and introduce elements from their own experiences.

A major goal of the program is to promote dialogue between the course participants while they are at the NAO, and it also encourages sustained communication once participants return home. In addition to the classroom component, there are many opportunities for participants to meet and exchange views with NAO staff.

Since the pilot course in 1993, more than 130 employees from SAIs and other organizations have participated in the course. INTOSAI's regional working groups have been strong supporters of the program.

For more information, contact: National Audit Office, International Relations, 157-197 Buckingham Palace Road, Victoria, London SW1W 9SP, United Kingdom; fax: ++44-20 7798 7466; or e-mail: bruce.bedwell@nao.gsi.gov.uk.

United States of America

SAI Responds to National Counterterrorism Agenda

In the aftermath of the September 11 terrorist attacks in the United States, GAO has an important role to play, Comptroller General David Walker told his employees. "Once again, Congress and the nation will call on GAO to get the facts, lay out the options, and talk about the pros and cons in order to minimize the possibility that an event like this will never occur again."

GAO's work has already played a role in shaping the nation's early response. GAO's comprehensive report on the nation's strategy, policies, and programs for combating terrorism, based on years of reviews, was released just days after the attacks. In that report, GAO recommended that the president establish a single focal point within the Executive Office of the President "with the time, responsibility, authority, and resources for overall leadership and coordination of federal programs to combat terrorism." Six hours later, in his September 20 address to Congress and the nation, President Bush announced the establishment of the new White House Office of Homeland Security. Comptroller General Walker said the White House had an advance look at the recommendation when it reviewed the draft report over a month earlier, and he had discussed the recommendation with the White House and Defense Department officials in the days following the attacks. "In any event, it's

the quickest that a recommendation of such significance and to the president has ever been adopted."

Mr. Walker put this issue in the context of GAO's strategic planning process when he said, "We must ask ourselves what kind of oversight, insight, and foresight activities we should be focusing on to add the most value and make the biggest difference both today and tomorrow. The impact of the events of September 11 must also be factored into GAO's strategic planning process."

Journal readers may be interested to know that the GAO website www.gao.gov has been updated to include a comprehensive listing of GAO reports and testimonies on counterterrorism, airport security and related issues; the listing includes reports dating back to 1980 as well as reports and testimonies as recent as September 28, 2001. For more information, contact: U.S. General Accounting Office, External Liaison, room 7826, 441 G Street NW, Washington, D.C. 20548 USA (tel 202-512-4707; fax 202-512-4021; email el@gao.gov).


Uruguay

School of Government Auditing

Created by law, the School of Government Auditing aims to strengthen the training of public officials and contribute to improving the transparency and management of Uruguay's government. The school is technically independent and chaired by an Academic Council. A representative of Uruguay's SAI heads the Council; the other four Council members represent the state university, private universities, the planning and budget office, and the national internal audit office. The last two entities are part of the executive branch of government. The council is fully representative as it includes (1) entities of central government administration connected with the national budget and internal audit, (2) the entity responsible for external audit, and (3) both public and private higher education institutions.

The school's four principal duties are to:

- design, provide, and maintain an up-to-date training program for government auditors that includes modern techniques for preventing and correcting fraud and corruption within the public sector;
- establish training systems that allow auditors to share knowledge and experiences on national, regional, and international levels;
- establish a specialized center for documents and a reference library, and investigate, publish, and issue results; and,
- organize forums, workshops, or seminars open to the public.

For additional information, contact: Tribunal de Cuentas de la República, C.P. 11000, Montevideo, Uruguay; fax: ++598 (2) 916 18 06; e-mail: tribinc@adinet.com.uy; website: www.tcr.gub.uy 

XI OLACEFS Assembly Held in Panama

By Linda Sellevaag, Assistant Editor, *International Journal of Government Auditing*

Delegates from 21 SAIs gathered in Panama City, Panama, to celebrate the XI Assembly of the Organization of Latin American and Caribbean Supreme Audit Institutions (OLACEFS) from August 20-24, 2001. Participating countries included Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Portugal, Panama, Peru, Puerto Rico, Spain, Uruguay, and Venezuela. Delegates from these countries were joined by observers representing the INTOSAI General Secretariat; the INTOSAI Development Initiative; the Inter-American Development Bank; the World Bank; EUROSAI; the European Court of Audit; the SAIs of the Russia, Taiwan, the United Kingdom, and the United States; Transparency International; the Court of Accounts of Madrid; the Universidad Complutense of Madrid; and this *Journal*.



Mr. Arturo Vallarino, the First Vice-president of Panama, greeted the delegates at the inaugural ceremony of the XI OLACEFS Assembly.

Inaugural Ceremony

The inaugural ceremony took place in the Grand Ballroom of the Miramar Intercontinental Hotel. Mr. Arturo Vallarino, the first vice president of Panama, brought greetings to the assembly from the Honorable Mireya Moscoso, President of Panama, who was traveling outside the country. Mr. Vallarino emphasized the importance of the work of supreme audit institutions in the life of the nation. In his opening remarks to the assembly, Mr. Alvin Weeden Gamboa, Comptroller General of Panama, underscored the challenges facing governments and SAIs in an increasingly interdependent world immersed in the process of globalization. He stated that SAIs must undertake new actions and strategies designed to guarantee that expenditures of public funds are administered in a responsible manner and in accordance with laws and controls. He pointed out the importance of technological applications and human resource development in addressing these challenges. Mr. Weeden was also named to preside over the assembly because the president of OLACEFS was unable to attend.

Technical Theme Presentations

The XI OLACEFS Assembly was organized around three technical themes addressed on three consecutive days. Plenary addresses introduced each theme, following which delegates discussed related professional and technical issues in principal papers and other presentations. Conclusions and recommendations were developed and approved for each theme.

Theme 1: Audits of Privatization, Grants, and Regulatory Entities. Two plenary addresses were presented: Dr. César Arias, of the Office of the Auditor General of Argentina, discussed his office's experiences with the process of privatization of public services in Argentina. Dr. Juan Velarde Fuerte, a member of the Court of Accounts of Spain, analyzed the process of privatization in general. Argentina was the coordinator, Venezuela was the moderator, and Uruguay was the rapporteur for this theme. The conclusions and recommendations included the following:

- Transformations in the role of government brought about by privatization, deregulation, government concessions, etc., demand changes in the way that SAIs approach their role as external auditor.
- The goal of these transformations is the modernization of the state and they should not be considered resources to be used to hide signs of corruption.
- SAIs should make legislative bodies aware of the necessity of their participation in developing legislation related to privatization and other transformations in the role of government. This participation brings benefits to both parties. SAIs become knowledgeable about the objectives and implementation of the transformation and are thus better able to carry out their function in protecting the public good and the rights of the individuals. Concurrently, SAIs can raise the legislative bodies' awareness of the risks involved.



Ms. Pilar Burgos, Secretary General of OLACEFS, addressed the assembly. Seated with her are members of the OLACEFS Executive Committee from (left to right) Nicaragua, Brazil, Panama, Ecuador, and Peru



Heads of delegations gather for official OLACEFS Assembly in Panama.

- SAIs need to audit all stages of privatization projects and other efforts to transform government. In all cases, the ultimate destination of public funds needs to be clearly defined to make auditing possible and to avoid irregularities.
- SAIs should cooperate with one another in order to share experiences and lessons learned in this area. This cooperation can initially take the form of training and later, institutional cooperation.
- Any regulatory entities that emerge as a result of privatization should also be subject to audit by SAIs to ensure the efficiency of the management of privatized activities.
- When any public service is privatized, the new provider must ensure that users have adequate access to the services and that the quality of the services is enhanced. The state must protect the user if these conditions are not met.

Theme 2: Information Systems and Auditing Information Technology Risk. Mr. Johann Tello Meryk of Panama gave the plenary address on this theme, discussing standardized norms and processes for auditing risks associated with the use of information technology. Panama, the coordinator of this theme, presented the principal paper and reported the results of a questionnaire demonstrating significant differences in the levels of information technology and related risk assessment used by OLACEFS members. Ten additional delegations provided further analysis and discussion. During this session, the SAI of Chile presented to OLACEFS its translation of the INTOSAI Information Systems Auditing course. In addition, Colombia presented a written manual and CD of its *Automated Guide for Integral Governmental Auditing*. Chile was the moderator for this theme, and Cuba was the rapporteur. Conclusions and recommendations included the following:

- OLACEFS should distribute a document containing all the information technology standards used by member SAIs.

- The awareness of top management and the user community should be raised so that efforts to prevent and mitigate information technology risks can be carried out and integrated in institutional and governmental domains.
- Computer-assisted auditing tools are useful in completing audit work, and existing software can be used. Some member SAIs of OLACEFS have experiences in this area that they can share.
- SAIs should share information through technology to promote greater transparency in public management.
- The OLACEFS web page should be updated with content related to information technology.
- More specialized training of specialists in information technology is needed to upgrade the SAIs' technical capacity.

Theme 3: Preventing, Identifying, and Combating Corruption. Mr. David Walker, Comptroller General of the U.S. General Accounting Office, gave the opening plenary address, calling on SAIs to lead by example in the fight against corruption. He discussed a three-fold "audit portfolio" for SAIs in this effort: fighting corruption (oversight), making government work better by improving program economy, efficiency and effectiveness (insight), and examining the role of government in the future (foresight). The keys to success for SAIs in using this model include independence, professional standards, strategic planning, and performance and accountability reporting. Dr. Sergey Stepashin, Chairman of the Russian Chamber of Audits, outlined the efforts his SAI is making in the fight against corruption in his country, noting the common challenges Russia and Latin America face in this area. Dr. Carlo DiFlorio, of PriceWaterhouse Coopers, gave the final plenary address on the opacity index, which has been developed to give an estimate of the costs that accrue from a country's lack of transparency in relation to five measures (corruption, legal, economic, accounting, and regulatory) and

how this impedes economic progress. He shared the results of a study of Latin American countries (the complete study is available at: <http://www.respondanet.com>).

For this theme, Nicaragua was the coordinator, Brazil was the moderator, and Ecuador was the rapporteur. The conclusions and recommendations included the following:

- SAIs should put forth the greatest preventive efforts possible to reinforce personal ethical and moral conduct and promote the establishment of an ethical and honest culture.
- Through their investigative work, SAIs should strengthen their actions and structure to detect and identify instances of corruption.
- SAIs should seek from their respective legislative bodies adequate legal authority to carry out their mandate, especially the independence and autonomy they need, and sufficient resources to handle their obligations and responsibilities.
- SAIs should establish cooperative mechanisms with the judiciary to combat and eradicate impunity, a social phenomenon as pernicious as corruption. Severe penalties should be imposed so that society and the state can be compensated for the damages they have suffered as a result of corruption.
- The members of OLACEFS should propose in their respective countries the necessary regional and worldwide cooperation that will facilitate the fight against corruption. They should seek to promote the in-depth implementation of the Interamerican Convention Against Corruption that was adopted in Caracas in 1996 by the members of the Organization of American States.

General Business Issues

During the general business session on the last day of the assembly, the OLACEFS Regional Training Committee reported that OLACEFS, the Inter-American Development Bank, the INTOSAI Development Initiative, and the U.S. General Accounting Office are developing a joint technical assistance project. This project will support the implementation of the OLACEFS long-range regional training plan and strengthen the training infrastructure throughout the region. Also, the Executive Committee recommended and the assembly approved a change in the regional infrastructure. At the end of the term of the current president, the presidency of OLACEFS will be held for a 2-year, non-renewable term while the OLACEFS secretariat will be for a 6-year term that can be extended for 4 more years. Mexico was named as the site of the OLACEFS



The head table for the Third Theme (Preventing, Identifying, and Combating Corruption) included Dr. Carlo di Florio, Price Waterhouse Coopers; Dr. Sergey Stepashin, President of the Russian Chamber of Accounts; Mr. Alvin Weeden, Comptroller General of Panama; Mr. David Walker, Comptroller General of the United States; and, Dr. Enrique Lau, Deputy Comptroller General of Panama.

assembly in 2002. Chile and Costa Rica were elected to the Executive Committee, and Puerto Rico was received as a new member of OLACEFS. It was also announced that joint EUROSAI-OLACEFS meetings would be held in Cartagena, Colombia, in July 2002.

Other Activities

Throughout the week, the Office of the Comptroller General of Panama treated participants in the OLACEFS assembly to what Comptroller General Alvin Weeden called the “hospitality and tropical warmth” of the country. Delegates and invited guests attended a reception at the Miraflores Locks of the Panama Canal, where they were able to observe the canal in action. Another reception was held in the historic Bolivar Salon in the old quarter of Panama City, where delegates learned of the role of Panama in Simon Bolivar’s early efforts to bring freedom and unity to Latin American countries. On Thursday, participants were treated to a train journey across the isthmus to the Free Zone of Colon and a visit to Portobello, a city that played a significant role in the development of commerce between Spain and Latin America in the colonial period. On Friday, delegates and invited guests attended the inauguration of a new training institution for auditing and public management sponsored by the Office of the Comptroller General of Panama.

For more information, contact the OLACEFS General Secretariat, c/o Contraloría General de la República, Jr. Camilo Carrillo No. 114, Jesús María, Lima, Perú (fax: ++51-1-471-7888; email: OLACEFS@contraloria.gob.pe; web site: <http://www.contraloria.gob.pe>).

Data Envelopment Analysis in Performance Evaluation

By Armagan Tarim, Ph.D., Advisor to the President, Court of Accounts of Turkey; and, Mehmet Baha Karan, Ph.D., Associate Professor, Department of Management, Hacettepe University

Introduction

The principle of using public resources to the benefit of the whole public forms the basic philosophy underlying public audit. The relatively new performance audit has gained more importance when compared to the more traditional regularity audit which includes financial and compliance audits. This new type of performance-based audit is defined in the INTOSAI's *Lima Declaration* in 1977 as follows: "The new audit type is directed to the performance, efficiency, thrift and productivity of public administration organs. This audit covers not only specific aspects of administration, but also managerial activity, which includes organizational and managerial systems." The key words that form the scope of performance audit are efficiency, effectiveness and economy, the 3Es. Performance methodology has been widely discussed and the INTOSAI Audit Standards have been developed. Although the methodology proposed in the framework of Auditing Standards guides and addresses data analysis techniques, it does not claim to provide detailed information about analytical methods/procedures. However, development in the field of analytical methodology has brought with it new methods that allow performance audits to be done with a higher degree of certainty and objectivity.

In this article, one of the 3Es, efficiency, is addressed and a related technique, Data Envelopment Analysis, is introduced. The purpose of the study is to meet the objectivity criterion by basing performance audits on scientific methods, and to encourage the use of models, techniques and approaches developed in the field of production economics and operational research.

Difficulties in Efficiency Measurement

Production units that transform various input factors (personnel, expenditure, investment) to output factors (goods and services) are called decision-making units (DMU). For performance audits, it suffices to assume that DMUs are black boxes which only turn input factors into output factors.

The productivity of a goods and service producing decision-making unit is the ratio of produced output to the used input and is defined as $\text{productivity} = \text{output}/\text{input}$. The calculation becomes a very simple ratio in cases where there is a single input and single output. However, when the number of input and output factors is higher than one, a methodology

which makes it possible to calculate the productivity score by augmenting multiple input to an aggregate virtual input and multiple output to an aggregate virtual output is required. When we refer to productivity, we are referring to total factor productivity, which is a productivity measure involving all factors of production. Other traditional measures of productivity, such as labor productivity in factories, fuel productivity in power stations, and land productivity (yield) in farming, are what is known as partial measures of productivity. These partial productivity measures can provide a misleading indication of overall productivity when considered in isolation.

The terms productivity and efficiency are often used interchangeably, but this is unfortunate because they are not identical concepts. Productivity is a performance indicator which can be calculated for a single DMU without the need for a reference point. On the other hand, efficiency is a relative concept and can only be calculated with respect to a reference point. Determining the right reference set is the most important dimension of efficiency analysis. This issue, which has been widely dealt with in the field of production economics, has engaged and still engages econometricians. A technique has been developed in the field of operational research with which the difficulties involved in determining the parameters of the reference set to be used for the measurement of the efficiency of any DMU can be overcome.

The present problem can be defined as follows: An analyst wants to measure the relative efficiency of units operating similarly to so-called decision units. Beside various companies and organizations, these units could also be elsewhere located activities of a certain program or organization, such as job centres, hospitals, prisons and remand centres, welfare benefit offices, schools, post offices, national parks, etc. Each DMU utilizes different kinds and quantities of input to produce a different kind and quantity of output. Moreover, the method employed by each DMU while using certain input to produce the desired output may differ for each DMU. In general, traded outputs have market prices which can be used to form financial summaries of performance, such as profitability. However, for some input and output factors—especially for those without a market value—it is not possible to express costs and prices. Public programmes, such as health and education, are currently non-traded. This is usually the case when the activities of public service or non-profit organizations are examined. The difficulties above are faced in most efficiency analysis.

Data Envelopment Analysis

DEA has been applied over a wider range of cases since Charnes, Cooper and Rhodes (A. Charnes, W. W. Cooper, E. Rhodes, "Measuring the efficiency of decision making units," *European Journal of Operational Research*, 2, 1978, pp.429-444) introduced it in 1978. Today there is a vast literature on DEA. Seiford's (L. M. Seiford, "Data envelopment analysis: the evaluation of the state of the art (1978-1995)," *The Journal of Productivity Analysis*, 7, 1996, pp.99-137) review of the literature sheds light on the development of DEA. Most of the theoretical contributions have also found their way into practical applications. DEA is mostly used to measure efficiency in situations where multi-input and multi-output cannot be transformed into an aggregate input or aggregate output (virtual input/output).

Another basic method used beside DEA is "ratio analysis". This method appears to be very inefficient when the difficulties above are considered. DEA, on the other hand, proves to be useful for the calculation of relative efficiency in cases where ratio analysis is not suitable. Gaining a better understanding of the strengths of DEA requires a comparison between the ratio analysis approach and DEA.

Ratio analysis, which is widely used in efficiency calculations, proves to be insufficient in efficiency calculations involving multiple input and output as this approach is defined as the ratio of one input to one output. When all the input factors cannot be transformed into one aggregate input or output unit, the input and output factors involved in the efficiency measurement process need to be evaluated separately. This usually yields results which are impossible to interpret. To illustrate, while hospital *A* has reached a certain level of service using high technology and a small number of personnel, hospital *B* has preferred a more labor intensive work model and has reached the same service level using more personnel. In this case, the productivity of hospital *A* will be higher than that of hospital *B* when personnel expenditures are considered. However, when investments are considered, hospital *B* will appear more productive as this hospital reaches the same level of service with a relatively small number of investments in tech personnel. Ratios in isolation are not meaningful. Neither are they when several ratios are evaluated together. As the number of input and output factors increases, the vagueness in the analysis also increases because there are xy different ratios to be examined in an efficiency model where there are x input factors and y output factors. Indeed, the Audit Commission (Audit Commission, 1986, *Towards Better Management of Secondary Education*, London:HMSO) suggests about 60 indicators for secondary education, but assigns no weights to these, nor does it suggest any other means of forming an overall picture of the performance of schools. A good example of the difficulties posed by traditional measures is a UK database on local authority performance containing 400 indicators of activity and resource use (see Department of Health and Social Security, 1985, *Performance indicators for the NHS: Guidance for users*, London: DHSS;

Department of Health and Social Security, 1983, *Performance indicators: National summary for 1981*, London: DHSS). Thus, it is argued that the derivation of a single overall-performance index will provide a more operational and practical basis for evaluating the relative performance of competing agencies.

Data Envelopment Analysis is a method used for the measurement of efficiency in cases where multiple input and output factors are observed and when it is not possible to turn these into one aggregate input or output factor. DEA, about which thousands of articles have been published, has been used in various fields.

In DEA, the relative efficiency of a decision-making unit is defined as the ratio of the total weighted output to the total weighted input. The question is how the separate input and output factors, which are all expressed in different units, are to be weighted. The essence of DEA lies here. Using DEA, the most suitable weighted set that will maximize the efficiency score for each DMU is found. While determining the weighted set, it is essential to follow the constraint that no DMU can have an efficiency score higher than one if the same weights were to be chosen by the other DMUs involved in the analysis. Computer programs that carry out the calculation process are available. What the analyst has to do is to determine the DMUs to be compared, select the input and output factors, and finally to load the input and output factor values. With DEA programs, the relative efficiency scores of DMUs are calculated.

The results of DEA carry information that is of great managerial significance. DEA measures efficiency relative to that of all other DMUs in the set analysed. Thus, less efficient DMUs are determined and data as to how their efficiency can be increased are obtained. Managerial organs can concentrate on less efficient units. If a DMU is not efficient, DEA suggests strategies required to increase the efficiency of this unit with reference to the DMUs selected as best-practice. In the light of these data, managers can evaluate the extent to which a less efficient unit underuses or overuses which input factors, how unproductive a unit is with respect to which output factors, and what needs to be done to improve the situation.

The Results of an Application of DEA

The growing number of studies carried out using DEA in the public sector indicates the success of this method. An example of a successful application of DEA is given below.

Ganley and Cubbin (J.A. Ganley and J.S. Cubbin, *Public Sector Efficiency Measurement*, Elsevier Science Publisher: Amsterdam, 1992) examined the relative efficiency of 33 UK local prisons and remand centres in the financial year 1984/1985. The factors considered in the efficiency analysis are (1) manpower costs (remand element), (2) manpower costs (non-remand element), (3) non-manpower costs (remand element), (4) non-manpower costs (non-remand element), (5) overcrowding (designated population less actual), (6) prisoner days (remand element), (7) prisoner days (non-remand element), and (8) serious offences by inmates.

Total efficiency (defined under the constant return to scale assumption) and technical efficiency (defined under the variable return to scale assumption) scores were calculated and the results showed that the thirteen establishments in the sample were diagnosed as operating with technical inefficiency. The mean level of the efficiency coefficient for inefficient prisons was 88 percent, suggesting that these institutions could, on average, reduce their operating costs by around 12 percent. Savings in all items rose to a potential figure of 13.1 percent of the total costs. In absolute terms this implied excess costs of £31.1 million. Only 11 prisons were earmarked best-practice (i.e., units with total efficiency score 1.0) with constant return to scale which contributes 37.4 percent to aggregate efficiency (the aggregate total efficiency scores is 29.4 and the best-practice share in aggregate total efficiency is 11.0). Best-practice targets include a contraction in resources to account for scale inefficiencies. This revealed that nearly two-thirds (64 percent) of total costs are accounted for by scale inefficiencies. Seventeen prisons were identified operating in regions of increasing returns to scale, and 5 with decreasing returns to scale. The prevalence of non-constant returns suggests that a general policy of adjusting the scale of operations might yield substantial cost benefits to the prison service as a whole.

Concluding Remarks

It follows that DEA is a major technique that can be used in efficiency analysis. The appreciation and application of this technique by SAIs, will have a positive effect on the objectivity and certainty of the results obtained from performance audits. Accordingly, it is recommended that SAIs spend effort to promote the DEA technique. To this purpose, the Turkish SAI has prepared a DEA book and published it in 2001.

Integrating the technique into audit methodology is just as important as understanding the technique. Therefore, it is essential that SAIs share the experience they gain in the application of this technique in performance audits. Studies on the application of new theoretical findings on DEA in performance audits should be closely followed. The International Journal of Government Auditing, functions as a platform that serves this purpose.

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Audit Profile: The State Audit Office of Finland

By Leena Juvonen, Special Researcher, Internal Services

The State Audit Office (SAO) is Finland's oldest and main institution of state auditing. It was first established in 1824 as the General Revision Court and Revision Office. The court was subordinate to the Senate's Economic Division.

Section 71 of Finland's Constitution of 1919 created the basis for the present dual system of external financial monitoring and audit. Administrative audits of the state economy were performed by the State Revision Office while parliamentary control of the state economy was held by the parliamentary state auditors (who are elected by the Parliament from among its members).

The 1947 State Audit Act established the present SAO to audit the legality, appropriateness, and budgetary compliance of the state's financial management. In 1995, an act was passed giving the SAO the right to audit transfers of funds between Finland and the European Union.

The SAO's predecessors all operated under the Ministry of Finance or the corresponding department of the old Senate. The new constitution, which came into effect on March 1, 2000, broke this tradition by connecting the SAO to the Parliament on January 1, 2001.

Independence

The reform strengthens the SAO's independence by making the office organizationally and operationally independent from the administration that it audits. The office's tasks are prescribed by law and can be assigned only through an act of the Parliament. The office is responsible for independently auditing the state's financial management, and it cannot take commissions. It determines the focus, execution, and reporting of audits as well as the documents and information required for each audit. The SAO's independence has also been strengthened because it now decides on its own administration and operates as a separate agency.

Organization

The office is headed by the Auditor General, who is appointed by the Parliament for a renewable term of 6-years. The SAO has a statutory advisory committee whose task is to maintain and develop the SAO's connections with cooperation partners; present initiatives to develop auditing; and monitor the focus of audits, their effectiveness, and their ability to serve different cooperation partners. Representatives of key cooperation partners as well as experts from financial administration and the public economy have been named to the advisory committee.

The SAO is divided into the Financial Audit unit, two Performance Audit units, and the Internal Services unit. The Performance Audit and Financial Audit units are divided into audit groups that correspond to the jurisdiction of the 12 ministries. The audit groups are led by heads of audit. In addition, a special unit deals with complaints and denunciations to the SAO concerning malpractice and misconduct in the handling of state finances and also assists other units in clarifying improprieties revealed by audits.

The office has a staff of 140 people. Sixty-six auditors work in the Performance Audit unit and 58 in the Financial Audit unit. There are 16 posts in the Internal Services unit. The majority of the staff members (125) work in Helsinki, and the remaining 15 work in the two regional offices in Turku and Oulu.

All SAO audit staff have university degrees. The largest number have master's degrees in accounting or business economics; the second largest have postgraduate degrees in areas such as public administration, political science, economics, and sociology; and the third largest are lawyers with master's degrees in law.

In 2000, the average age of the staff members was 44 years, and the average length of service was about 10 years. About 40 percent of the staff members were women.

The SAO's Task, Vision, and Values

The SAO's task is to ensure the legality and effectiveness of the government's financial management and compliance with the state budget. The SAO's vision is to audit the state economy with top expertise.

The office's values are the foundation of its activities. The office's collective values are

- expertise,
- objectivity,
- cooperation,
- courage, and
- effectiveness.

These values guide the office's activities and quality and determine its image. Expertise and effectiveness are the most significant values, the ones on which the others depend. Only expertise based on objectivity, cooperation, and courage can lead to results. Objectivity is the cornerstone of the office's activities.

Auditing Rights and Reporting on Criminal Activity

Section 90.2 of the constitution states, "To audit the State's financial management and compliance with the State budget there shall be an independent State Audit Office in connection with Parliament. The position and tasks of the State Audit Office shall be prescribed in greater detail by legislation." The new law concerning the status and the duties of the SAO came into effect on January 1, 2001.

The SAO has the right to audit

- (1) the Council of State, ministries, agencies, and other units as well as funds outside the state budget and state enterprises;
- (2) companies in which the state has a controlling authority;
- (3) communities, corporations, and bodies receiving state aid;
- (4) certain organizations and other legal entities with permission to procure funds; and
- (5) fund transfers between Finland and the European Union.

The SAO has the right to obtain information needed to perform its duties from public authorities and other entities that are subject to the authorities' control.

The office has extensive statutory rights to obtain information and monitor activities. The SAO is responsible for ensuring that errors and deficiencies revealed in audits are corrected and that necessary steps are taken to recover losses incurred by the state. The SAO must report to the police any criminal activity involving state funds or property that it uncovers during its audits, unless the auditees have already reported them. State offices and agencies must also promptly report improprieties in the use of government funds to the SAO.

Financial Audits

Through its financial audits, the Financial Audit unit ensures that (1) auditees comply with the state budget, (2) the financial statements of the state and the accounting offices present a true and fair view of their activities, (3) the internal control structures of the auditees are adequate, and (4) the auditees comply with the laws, statutes, and principles of sound financial management.

In performing financial audits, the definition of audit tasks must be constantly refined based on estimated audit risk. This approach ensures that materiality and risk direct audit efforts and that these are relevant to the legality and soundness of financial management and compliance with the state budget. In the financial audits, the economic point of view is emphasised. The audits include expenditures and revenues of the state budget and income financing from other sources, such as the European Union's budget.

Each year, the SAO audits all the accounting offices, which numbered 116 at the beginning of 2001. An SAO audit focuses on the accounting and financial statements of the accounting office, with a special emphasis on the entity's internal control and compliance with the state budget. The annual audit of a ministry encompasses, in addition to the audit of its accounting office, assessments of performance contract procedures and of the annual report of the branch of government headed by the ministry. The audit of the state's financial statements focuses on compliance with the principle of uniformity in the financial statements of accounting offices, the integrity and reliability of the state's accounts, and the closing of the state's accounts. The audit is limited within the state budget economy. The results of the audits of accounting offices and ministries are used in the audit of state's financial statements.

Performance Audits

Performance audits provide new information on the effectiveness of administrative activities and compliance with regulations and the principles of good administration. The Performance Audit unit strives to meet the information needs of the Parliament, the administration, and Finland's citizens by evaluating

- the economy, efficiency, and effectiveness of the management of tasks;
- the reliability and adequacy of information used in decision-making;
- the setting of objectives and their grounds;
- the efficiency of control, monitoring, and evaluation systems;
- the legality of the management of tasks and compliance with objectives; and
- compliance with the state budget.

Performance audits focus on areas involving several actors, general administrative functions, restricted tasks handled by specific administrative sectors, authorities or recipients of state subsidies, funds outside the state budget, and state enterprises or state-owned companies.

The SAO selects audit topics annually from special selected focus areas. It also uses systematic risk evaluation in selecting topics.

Reporting

Under the terms of the new constitution the SAO will submit a report on its activities to the Parliament each year and submit separate reports as necessary. The SAO will submit its first annual report to the Parliament in September 2002. That report will include an account of the SAO's activities and its statements on the state's annual accounts as well as key audit observations and recommendations.

Besides the annual report to the Parliament, the SAO also sends reports of information and necessary measures to the auditees and the appropriate ministries. The SAI also sends information to the Parliamentary State Auditors, the Ministry of Finance, and other relevant bodies. The auditee and the ministry in charge must inform the SAO of the measures taken to respond to the findings presented in the audit report.


Reports are also made available to other interested parties. Generally, a press release is issued on performance audits. Press releases and reports are also published on the SAO's Internet site in Finnish, and abstracts of the reports are available in English.

The New Judicial Status and New Challenges

By constitutional amendment, the Finnish Parliament reformed the judicial status of the SAO. Reform was especially

motivated by two factors: first, the need to strengthen the budgetary (oversight) powers of the Parliament and, second, the need to strengthen the independence of the SAO in accordance with international (INTOSAI) standards.

Although the basic task of the SAO did not change in this renewal, the new status brings the SAO many new challenges, especially concerning the ways and methods it uses to report its audit results to the Parliament. The main challenge in this process is to develop the content of the SAO's reports so that it meets the expectations and needs of the Parliament.

For further information, please contact the State Audit Office of Finland, Annankatu 44, P.O. Box 1119, FIN-00101 Helsinki, Tel: +358 9 228 541 (switchboard), Telefax: +358 9 2285 4250, registers e-mail: kirjaamo@vtv.fi, Internet: <http://www.vtv.fi>. 

Reports in Print

The U.S. General Accounting Office (GAO) has published a new guide, *Internal Control Management and Evaluation Tool* (GAO-01-1008G, August 2001), and it is now available to the auditing community. The guide is intended to help government program managers and evaluators determine how well an agency's internal control structure is designed and functioning. It also helps determine what, where, and how improvements may be implemented. The guide supplements GAO's official guidance on internal controls, which is found in the *Standards for Internal Control in Federal Government* (GAO/AIMD-00-21.3.1 November, 1999). The guide is presented in five sections corresponding to the five standards for internal control: control environment, risk assessment, control activities, information and communications, and monitoring. An electronic version can be found under the "Other Publications" section of GAO's internet homepage at www.gao.gov. **Hard copies of the guide are also available at the U.S. General Accounting Office P. O. Box 37050 Washington, DC 20013.**

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JOURNAL readers may also be interested in obtaining the book, *Internal Control A Manager's Journey*. Written by K. H. Spencer Pickett, the book demonstrates that every employee in an organization has a stake in the internal control process by providing practical examples and workable solutions that can be used to institute improved control and accountability in any organization. Readers of the book will learn the components of the control framework and how they work together. Such components include (1) learning how to derive procedures from risk assessment to form control standards; (2) learning how to design, document, install, and monitor operational standards; (3) instituting fraud prevention, detection, and correction; (4) resolving conflicts between control-reporting standards and business innovation; and (5) implementing improved internal control and accountability. In addition, the book offers advice on policy and procedures along with numerous tips on internal control design, implementation, and review. The book may be ordered through **John Wiley & Sons, 605 Third Avenue, New York, NY 10158 (212-850-6336) for \$45.00.**

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The January 2001 edition of *Revista Espanola De Control Externo* offers several articles focusing on the (1) functions of the Chamber of Accounts in the Community of Madrid, (2) the relationship between the Parliament and the Audit Institution in decentralized states, (3) the European Court of Auditors and the Structural Funds, (4) the relationship between the Federal Court of Accounts and the Audit Institutions in the Federal Republic of Germany, (5) the audit of Community Funds managed by Territorial Administrations, and (6) the concept and ways of privatization. Articles are in Spanish with English


summaries included at the end of the publication. **For more information and/or to subscribe, contact Revista Espanola De Control Externo, Tribunal de Cuentas, Fuencarral, 81, 28004 Madrid, Spain (tel:++91-447-87-01 –ext.576 and 128; fax:++91-446-41-31.)**

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The website of the Canadian Comprehensive Audit Foundation (CCAF) offer several items of interest. The CCAF has brought on-line a new version of their interactive lexicon of terminology which now includes a fourth language in Arabic. The quadrilingual lexicon(in English, French and Spanish) is intended to support the growing international interest in advancing governance and public sector management, auditing and accountability regimes. The Arabic translation was undertaken by Jameleddine Khemakhem, President de Chambre, Cour des Comptes de la Republique Tunisienne and Secretary-General of the Tunisian Comprehensive Auditing Foundation (FOTUVI). FOTUVI is CCAF's sister organization in Tunisia.

Another resource recently added to the CCAF website is entitled "*Reporting on Effectiveness in Colleges and Institutions—A Proposed Accountability Framework for the British Columbia Public System*". This publication, previously available in printed format only, describes the application of an accountability framework for management reporting to governing boards in relation to British Columbia's college and institute system. Originally published as part of a series of applied research projects, reports such as these are available only in the language in which they were originally written. Although published some time ago, the CCAF believes the publication remains relevant to improving the quality of accountability for educational institutions. **To obtain copies of these publications or to view them, visit the CCAF website at www.ccaf-cvi.com.**

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The International Monetary Fund (IMF) has published another booklet in its series on Economic Issues. Written by Anupam Basu, Evangelos A. Calamitsis, and Dhaneshwar Ghura, *Promoting Growth in Sub-Saharan Africa* explores domestic and external factors that contributed to sub-Sahara Africa's poor economic performance in the 1980s and early 1990s. Key constraints to growth included inappropriate economic policies, inadequate human capital development, and low levels of private investment. The booklet attempts to determine which policies appear to have been the most effective in terms of increasing economic growth and suggests the key elements of a policy framework that could promote sustainable economic growth and reduce poverty in sub-aharan Africa. To order IMF publications, contact the **International Monetary Fund, Publication Services 700 19th Street, NW Washington, DC 20431, U.S.A. (tel++202-623-7430; fax++202-623-7201), or email: publications@imf.org.** 

Inside INTOSAI



IDI Update

IDI Update keeps you informed of developments in the work and programmes of the INTOSAI Development Initiative. To find out more about the IDI and to keep up-to-date between editions

of the Journal look at the IDI website: <<http://www.idi.no>>.

The IDI launched its website on 15 August this year (see above for the website address). It is multi-lingual (Arabic, English, French and Spanish) and was designed to provide background information to Internet users and more relevant information to the Training Specialists who have graduated from the IDI's Long Term Regional Training Programme. By the time you read this the report of the IDI's International Symposium, about which you read in the last edition of the Journal, will have been published on the website.

... and coming soon

The website will also be a key tool in assisting Training Specialists to communicate with each other. A series of discussion forums, planned for development before the end of the year, will enable users to communicate with each other and discuss training-related issues in an organized way, with summary reports of the discussions being published from time to time.

This will be followed up in 2002 with the re-development of the IDI International Training Directory, a key resource for anyone interested in audit training. Early plans are for a database of courses around the world, with course files, presentations and work plans made available electronically where available.

EUROSAI Training News

EUROSAI recently became the sixth INTOSAI region to plan for the Long Term Regional Training Programme (LTRTP). Phase I of the EUROSAI LTRTP reaches boiling point in October and November when 26 audit trainers representing the SAIs of 12 nations seeking entry to the European Union complete the Course Design and Development Workshop in Prague, Czech Republic. Further LTRTP courses are currently in the planning stage for 2002, as is Phase II, covering Eastern Europe and the Balkan states.

New Training in SPASAI

At the end of November six Training Specialists from the SPASAI region will meet in New Zealand to present a Regional Financial Audit Workshop to auditors from the Pacific region. The IDI is supporting SPASAI with technical and expert help to launch this workshop.


Congratulations

The IDI would like to congratulate the ASOSAI Secretariat and the five ASOSAI Training Specialists who delivered a two-week financial audit course in Dhaka, Bangladesh in September.

The International Dimension

The IDI Secretariat in Oslo is currently spreading its international wings. Already comprising staff from Norway, Canada and the United Kingdom, a new face will join the organization in the next six-months. Karin Kuller will be seconded from the Estonian State Audit Office to help manage the EUROSAI LTRTP. Further secondments are expected in the near future.

Contacting the 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 

2001/2002 Calendar of INTOSAI Events

October

*48th Governing Board Meeting
Seoul, Korea
October 22*

*XVII INCOSAI
Seoul, Korea
October 21-27*

*49th Governing Board Meeting
Seoul, Korea
October 27*

2002 January

April

*15th UN/INTOSAI Seminar
Vienna, Austria
April 8-12*

July

*IInd EUROSAT/OLACEFS Conference
Cartagena de Indias, Colombia
July 10-12*

November

February

May

*V EUROSAT Congress
Moscow, Russia
May 27-31*

August

December

March

*XXIV EUROSAT Governing Board Meeting
Copenhagen, Denmark
March 7*

June

September

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