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INTOSAI

**THE ROLE OF SAIs
IN THE RESTRUCTURING OF
THE PUBLIC SECTOR**

Report on the
11th UN/INTOSAI Seminar
on Government Auditing

Vienna
April 25 - 29, 1994



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DEPARTMENT OF
DEVELOPMENT SUPPORT
AND MANAGEMENT SERVICES

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I. Introduction

The United Nations/INTOSAI interregional seminar on "The Role of SAIs in Public Sector Restructuring" was held in Vienna, Austria, from April 25-29, 1994. This was the 11th in a series of interregional meetings organised jointly by the Department of Development Support and Management Services of the United Nations (DDSMS) and the International Organisation of Supreme Audit Institutions (INTOSAI).

Traditionally, DDSMS has undertaken various training activities intended to help developing countries strengthen their public financial management systems. As part of these activities, DDSMS in co-operation with INTOSAI has been organising interregional meetings on government auditing every 2 years. Over the past two decades 10 such meetings have been held to discuss various subjects of common interest, such as audit of public enterprises, audit of public works, audit methodology, international management control systems, audit of major development programmes, application of government audit standards, accounting and auditing of foreign aid programmes, as well as computer-assisted auditing. The topic of the most recent seminar was The Role of SAIs in Public Sector Restructuring.

The main themes addressed at the 11th UN/INTOSAI Seminar were

- Fundamental issues in public sector restructuring
- Models and approaches to restructuring
- The role of SAIs in the restructuring process and the audit process in restructuring
- Background and major issues of public sector restructuring
- Problems facing the SAIs in the auditing of restructuring processes
- Experience gained in the auditing of restructuring processes.

This list of principal themes testifies to the multi-faceted and wide range of issues discussed during the seminar. A number of SAIs presented their experiences in case studies and provided participants with a good insight into the functions performed by government auditing and the challenges and problems encountered in this field.

Roundtable discussions and question-and-answer sessions with the speakers served to clarify points of detail and to summarise the main issues. Participants showed special

interest in questions such as the SAI's independence in privatisation audits, the methods employed in privatisation audits, the proper timing for auditing of privatisation projects, and the scope of such audits (what can the SAI audit once privatisation has been completed?). It was furthermore stressed that auditing of restructuring processes required specialist skills, know-how and professional judgement on the part of auditors who often had to work in novel fields for which a regulatory framework or auditing standards did not yet exist. Audits of such a type therefore posed great challenges for SAIs in terms of staff qualification and professional competence.

Dr. Franz Fiedler, President of the Austrian Court of Audit and Secretary General of INTOSAI, welcomed the participants on behalf of INTOSAI. He underlined the importance of the long-standing co-operation between the United Nations and INTOSAI in organising interregional seminars and experts' meetings on government auditing.

The topic of the 11th UN/INTOSAI seminar had been selected in view of developments in recent years which have led to political and economic upheaval on a global scale and thereby have also had a major impact on national budgets. The seminar would address these global changes, the restructuring processes within the individual countries, and the consequences arising for the SAIs in terms of new tasks and requirements as well as organisational structure, particularly with regard to privatisation audits. President Fiedler expressed the hope that the seminar would afford participants an opportunity of deepening their knowledge of auditing issues and other problems encountered in the context of public-sector restructuring and would thereby contribute to better budget management.

In his welcome address on behalf of the United Nations Department for Development Support and Management Services Mr. Blais, speaking as deputy for Mr. Bertucci, Director of the Division for Public Administration and Development Management, underlined the great importance attached by the United Nations to such seminars and events and their important contributory role in achieving better financial management in developing countries. Many countries were undergoing a process of restructuring aimed at creating a sounder economic basis for public sector enterprises. One potential modality in restructuring was privatisation. The United Nations felt that the SAIs had a very significant role to play in these restructuring processes. He expressed the hope that the 11th UN/INTOSAI Seminar would provide practical assistance to the SAIs in their task of assessing these restructuring processes critically and would thus contribute to more effective and efficient financial management in the individual countries.

The seminar was attended by some 40 participants, among them delegates from developing countries, from SAIs of developed countries, representatives of the United Nations and the World Bank, and observers from UN specialised agencies and INTOSAI (a list of participants is provided in Attachment II).

The seminar was opened with a plenary meeting on April 25, 1994 and closed on April 29, 1994 after a total of 12 plenary meetings.

II. The role of SAls in public sector restructuring

1. Fundamental issues

In the course of time, the perception of the role of government has changed so that today the government is no longer expected to perform central economic planning, which is now even blamed for major environmental damage and, moreover, associated with large-scale corruption, mismanagement and waste. Instead, it is called upon to promote the development of a market economy by creating the necessary macro-economic framework. As demands are being made increasingly for more efficiency and effectiveness in the public sector there is a growing need to cut back on outdated government functions and to transfer public-sector tasks to the private sector.

In the past it was widely believed that nationalisation of enterprises was a suitable tool for achieving economic growth, generating national income and creating new jobs, particularly in areas where the private sector was considered inefficient and its capitalisation inadequate for investment needs.

Beside supporting economic growth it was assumed that nationalised enterprises would be better able to contribute to the achievement of governments' social objectives and to reduce dependence on multinational corporations and direct foreign investment.

In the eighties, however, it emerged that nationalised enterprises were not performing as successfully as had been expected even though they were benefiting from competitive advantages such as governmental subsidies and protection.

Their problems were due to the multitude and contradictory nature of business objectives, a large bureaucracy, centralised decision-making, faulty management, an insufficient capital base, and extremely high personnel costs.

The governments undertook efforts to improve the organisation of nationalised enterprises but any success achieved was only short-lived. It was for these reasons that many countries opted for restructuring.

2. The objectives in restructuring

The desire for restructuring arose in many countries as a reaction to the dominance of the public sector in national life, its traditional hierarchical structure and large bureaucracy with its emerging weaknesses, and the necessity to cover large losses incurred by the nationalised industries.

The governments' policy was mostly to transfer the state's entrepreneurial activities into the private sector as far as possible and to confine the responsibility of the state to the definition of framework conditions and regulatory functions. It was specifically in the new laender of Germany, after unification, that efforts were undertaken to transform, within a very short time, an economic system based on nationalised industries and central planning into a market economy following the principles of private enterprise.

It was expected that restructuring would contribute to budget consolidation, increase efficiency in the remaining public sector by transfer of public services to the private sector, and increase economic efficiency, particularly through the fostering of competition and the breaking of monopolies.

There were hopes that a higher level of economic activity resulting from free competition and supported by concurrent reforms of market regulations and trade concessions would also lead to increased social welfare.

Restructuring was furthermore expected to lead to increased productivity owing to an optimum utilisation of resources and to reduced control of nationalised enterprises by governments, who, as a rule, tend to pursue political as well as economic objectives. In addition, bureaucratic obstacles to commercial activity and government subsidies and privileges were to be reduced by restructuring.

Divestiture of state-owned enterprises is expected to have a beneficial impact on the national budget. In the long run, however, contributions towards national budgets over and above the proceeds from sales can be expected only if the profitability of the enterprises improves and the government, instead of dealing out subsidies can collect revenues from taxes.

Other restructuring goals that were named by the representatives of the individual countries were the injection of management experience from the private sector,

opportunities for the opening up of new markets, acquisition of advanced technologies, and better chances in raising capital.

In a nutshell, one might say that restructuring should

- ... make the state do less;
- ... make the state do the job better;
- ... and correct perceived weaknesses.

3. Kinds and methods of restructuring

In restructuring their public sectors the different countries were applying different approaches. Basically, however, one can distinguish six methods:

a) Decentralisation

Transfer of powers previously exercised by the government to an existing or specially created public corporation in order to utilise know-how and minimise political pressure (in France e.g. authorities granting subsidies and permits, the insurance supervisory authority, national museums).

b) Corporatisation

Transfer of functions previously performed by the public sector to separate legal entities or legal persons which, as a rule, remain in public ownership.

c) Privatisation

Full or partial transfer (i.e. full or partial privatisation) of publicly held assets to private hands or legal entities.

d) Dissolution of a public-sector entity

Abandonment or transfer of activities previously performed by a separate legal person to another corporation.

e) Transfer of an activity to a separate legal entity

An activity and its legal structure are transferred by either the central government or a regional territorial authority to a public corporation (e.g. institutional separation in France of standardisation and operations in the postal and telecommunications sector) or functions are transferred to a subsidiary of a public-sector enterprise.

f) Reorganisation

Changes within an enterprise or area affecting management structures, contracting-out of functions, abandonment of activities, divestiture of shares, staff reductions, capital restructuring, etc.

The principal aim in restructuring has been to achieve budget relief by replacing as many public-sector functions as possible by private-sector activities while also improving the quality of such services in general. The methods used by the countries for this purpose have been mostly privatisation and corporatisation.

The forms of privatisation employed may be classified as follows:

- ...Sale of businesses of a kind already present in the private sector;
- ...Sale of businesses once in financial difficulty;
- ...Sale of monopolies;
- ...Sale of entities engaged in activities not hitherto attempted in the private sector.

Businesses that had been in financial trouble were either turned round prior to being sold off or - less frequently - sold into the private sector in the hope that they could be operated profitably once turn-round had been achieved.

Privatisation of businesses was carried out by the following means:

- ...Assets or stocks were offered for sale by inviting bids in order to reach as many potential buyers as possible;
- ...Stocks were offered for sale in the securities exchange market;
- ...Stocks were offered for sale to employees, management and members of the general assembly.

The question of how additional funds could be raised for government projects through special executive agencies and special funding agencies and the budget financed through leasing agreements was addressed in principle. Such approaches have led to mounting "grey debts", i.e. obligations of the state that are not shown in the national budget.

Many countries, among them Egypt, have laid down highly detailed and stringent policies for the implementation of privatisation in order to rule out mismanagement and, most importantly, corruption.

4. The role of the SAIs in the restructuring process

As a matter of principle, SAI control is exercised wherever public sector restructuring affects the national budget and financial management. Beside the economic and political goals that may be associated with the restructuring of public enterprises the SAIs' main focus has to be on the impact on public property.

The most significant task of SAIs in this context is probably the control of privatisation. Such control should in fact be confined to the process and its results and not interfere in any political debate about privatisation. In some countries (e.g. Germany) the SAIs themselves may suggest privatisation measures.

As a rule, privatisation audits relate only to completed transactions. In cases where majority interests are divested audits can be performed only of the divesting organisation as the operation itself, once sold, is no longer subject to auditing by the SAI. Some countries, however, retain auditing rights even after the partial sale of a business under the legal provision that all firms receiving subsidies, grants or other government assistance shall be subject to SAI auditing.

In many cases it is the sales process that is audited, with the following areas being subject to examination by the SAIs:

- ... preparation of the enterprise for the sale
- ... method of sale
- ... activities of underwriters
- ... use of sales incentives
- ... determination of share price or selling price when selling to privates
- ... cost of sale.

One of the most difficult control tasks is certainly a review of the selling price. The valuation of enterprises poses enormous problems in all of the participating countries. SAIs in less developed countries are frequently not able to audit the areas mentioned above, particularly when the business to be divested has not been keeping proper accounting records. Nor has, in many countries, the engagement of private firms for the valuation of enterprises proved a practicable option.

In such cases it is for the SAIs to provide assistance through the provision of expert opinions, preparation of financial statements, estimating of operating results, and similar support.

Apart from the areas named above the SAIs should also take a critical look at the reasons for privatisation, financial arrangements beside the purchasing price, and agreements relating to the workforce.

If the privatised organisation is expected to continue its public functions in the future, the SAI will have to examine any legal and other arrangements made to ensure that the government retains the required measure of control over the public tasks of the privatised body and that it will also remain under SAI control.

Audits performed by the Netherlands SAI address the type of (public) functions performed by the public corporations under review and examine whether the motives and goals underlying the restructuring process were appropriate.

Outside the central administration this SAI audits

- ...enterprises in which the state has a majority holding;
- ...private-law corporations that received direct or indirect grants, loans or guarantees from the state;
- ...firms performing public-sector functions and being funded by public monies.

In some countries SAIs have the right of auditing the utilisation of proceeds from privatisation.

Finally, the important function must be highlighted that SAIs perform in providing to a country's decision-makers comprehensive information on restructuring measures. This ensures that the problems and solutions associated with such transactions attain maximum transparency.

5. Problems and difficulties in restructuring

The difficulties and problems associated with major restructuring processes have a direct impact on the national budget and a country's financial position as well as the role of the SAI in the performance of its auditing function.

a) General problems and difficulties:

All countries are faced with the task of having to create a legal and economic framework enabling successful accomplishment of the restructuring goals set out above. This includes careful consideration of the benefits and disadvantages of privatisation in every single case and of its implications for the economy at large.

In addition, existing conflicts must be resolved between the private businessman's objective of profit maximisation and the goals being pursued, at a higher level, by the government under its economic, social, distribution, and employment policies.

Special importance must of course be attached to the valuation (and determination of the price) of assets intended for privatisation. Opinions vary on whether such valuation should be based on book value, profitability, net worth, any expected future value, etc. In addition, the government must take into account that such assets had, as a rule, originally been allocated for the performance of a public service and financed out of tax monies. Therefore it has an interest in determining the value of any assets that are still existing. In some countries, the task of valuation is rendered even more difficult by a shortage of management, accounting, and investment expertise.

Another difficulty lies in the proper timing of the privatisation of an enterprise. Special attention must be directed at the financial situation of the operation to be privatised, the general economic climate and, if there are plans to issue shares, the market climate. Prerequisites for going public are primarily measures ensuring adequate profitability and a sound financial structure. In addition, the ability of the capital market to absorb new stocks must be taken into account.

Divestiture of businesses or shares thereof may often be a problem in countries that are small and/or have a weak capital market because of a lack of potential local buyers with sufficient funds at their disposal and due to the fact that "selling out" to foreign investors is considered undesirable by many governments. On the other hand, there are indications in the countries of central and eastern Europe that as the European Union expands and plays an increasingly important role there is a definite interest in establishing international business relations, within the framework of which foreign capital is participating more and more in the country's domestic economy.

A massive problem in many countries frequently going hand in hand with restructuring are redundancies. Demands are made almost everywhere for supporting measures to mitigate social hardship brought about by privatisation. There are fears that a complete transition of ownership into private hands might endanger the achievement of socio-economic goals, among them specifically economic growth paired with social justice.

Restructuring aimed at increased efficiency may lead to higher prices for goods and services and thus to a high-cost economy. The example of India shows that private business does not necessarily generate high profits as there are indications of mounting economic problems in various branches of the private-sector economy.

b) Difficulties and problems of SAIs

In auditing privatisation programmes, the SAIs normally distinguish between three phases: a review of measures taken by governments preparatory to privatisation; the transaction and implementation of privatisation itself; and its effects on national finances with a special focus on whether the programme has accomplished the underlying objective. Views may diverge regarding the timing of a sale, the methods applied and the manner in which privatisation measures were implemented, the action required with regard to performance, profitability, and growth potential of businesses, valuation, and similar aspects.

Concrete problems in the auditing of privatisation projects were experienced by France's SAI, specifically in its planning of auditing activities, since an obligation to subject financial statements to SAI audits does not exist in all cases (in the absence of such an obligation some rules must be found); additional problems emerged where the scope of the audit was concerned (rendering of accounts and financial management) and the procedure to be applied after privatisation. There is also a danger that buyers may contest the conditions under which ownership was transferred if they are confronted with audit findings containing criticism of the valuation of the enterprise.

Problems and difficulties are encountered by SAIs also in auditing forms of restructuring other than privatisation:

In the case of corporatisation, the SAI examines the conditions governing the selection of the contracting party and reviews the economic and financial equilibrium of the contract. Difficulties may arise on account of the diversity of the legal entities involved, the selection of the contracting party, economic and financial parameters, assessment of the entirety of commitments disclosed and undisclosed, functions of the divested entity as well as access to information on the contracting party.

In the case of decentralisation, audits will relate to the administrative and financial conditions of the transfer and any coincidence of responsibilities in decision-making and financing. Difficulties may arise in controlling the transfer of competencies from the SAI to another organisation (for instance to regional auditing offices in the case of France).

When public-sector entities are dissolved the SAI has to audit the process of closing down, the conditions governing the transfer of activities and the well-foundedness of the operation. Difficulties may arise in respect of the question of who should be contacted (the former managers or the liquidator?), in cases where accounting policies were changed, and in connection with considerations regarding the appropriateness of the dissolution.

Where a function is transferred to a separate legal entity audits focus on the incorporation into the target entity, its appropriateness, the balance of relations and compliance with competitive rules as well as the degree of autonomy granted, changes in management, the viability of the new institutional set-up, financial relations with the parent company, control of the subsidiary's management and the subsidiary's contribution to the results of the parent company and to consolidated group results.

Difficulties are encountered most frequently where accounting policies were changed, in the absence of precedents, where certain management practices are deeply ingrained, and in the assessment of the development of the competitive environment.

In cases of reorganisation, the audit examines major equity transactions, the provision and use of reserves, whether a true and fair view was given of the financial position, and intra-corporate organisation.

Difficulties may arise out of the complexity of the subject matter, the confidentiality of operations, the identification of risks versus a subjective representation of operations, and the assessment of the development of the competitive environment.

6. Case studies were presented by the following 4 countries

6.1 India

The procedures and modalities of the partial privatisation programme launched by the government of India in 1991 was subjected to auditing by the SAI of India. The audit report was presented to Parliament in April 1993. Some of the major findings were as follows:

- a) The privatisation exercise had not been preceded by any adequate preliminary study and no efforts were made to attract potential investors.
- b) The shares of public enterprises that were to be sold had been grouped in bundles for which no reserve price had been stipulated in the tender, as a consequence of which the proceeds realised were lower than expected.
- c) Sales of shares below the expected reserve price resulted in a shortfall of estimated proceeds of between 21 and 86 percent.
- d) Due to a lack of competition the majority of bundles attracted only a single bidder and only a small number of bundles had three or more bids.
- e) The terms and conditions of sale did not include any claw back provision governing profits that might be realised by the financial institutions on any subsequent reselling transactions.
- f) Some companies had, for certain reasons, been included in the privatisation programme against the advice of the Ministries/companies involved. This resulted in gross under-realisation of proceeds.
- g) The privatisation programme served only to contain the budget deficit rather than the main objective of raising funds for the public sector and encouraging wider public participation.

Apart from the above audit findings the following issues were also of relevance in the audit:

- a) In India, privatisation policies and programmes are in essence based on executive decisions. Creation of a legal framework was not considered necessary.
- b) Despite the availability of several modalities of privatisation, India employed the sale-by-auction method for a limited number of public enterprises. The audit report did not comment on the restructuring method chosen by the

government; examinations were confined to the deficiencies in the actual operation of the procedure adopted and its financial impact on the budget.

- c) Another issue is the scope of audit in examining the underlying objectives of privatisation; for instance, whether the objective of privatisation should be mobilisation of resources for the Exchequer to reduce the fiscal deficit or redemption of public debt as e.g. in Germany or, just recently, in Argentina. Here again the SAI of India did not go into this problem in detail since the policy of privatisation and its stated objectives had been given the requisite executive sanction. The scope of the audit was limited to examining the arrangements made by the government in the sale of shares and to ascertaining whether the objectives of the programme had been achieved and the Exchequer had benefited from the operation.
- d) The main focus of India's SAI in auditing this privatisation programme was more on the outcome of the sale rather than the examination of various selling options or the policy underlying such options.
- e) One of the problems encountered in auditing this privatisation programme was a lack of proper co-ordination between the three departments concerned. As a result, the SAI had problems in securing correct and complete information from these agencies.
- f) A specific examination of the cost effectiveness of the government's privatisation programme was not possible as none of the agencies involved was in possession of adequate data.
- g) Another aspect in the auditing of such privatisation programmes is the SAI's own assessment of the fair value of the shares of the enterprises involved. The nodal agency in India had engaged consultants and reserve prices were fixed on the basis of certain approved criteria and on recommendations made by the consultants.
- h) The anxiety of the government to complete the sale by a certain date to enable adjustment of the fiscal deficit had the effect of making the sale of shares appear like a "distress sale" or "clearance sale".
- i) Another point that was criticised was lack of competition. Nor had there been any attempt at negotiating with potential buyers when bids were running too far below the reserve prices.

Following the SAI's audit report the government had some adjustments carried out in the restructuring process and the recommendations made by the SAI were largely implemented.

6.2 Egypt

Businesses to be privatised

Between 1992/93 and 1996/97 public holdings in at least 25 companies are to be offered for sale each year. These will include

- a) Shares owned by holding companies in the capital of joint ventures.
- b) Shares in capital and subsidiaries owned by holding companies.
- c) Shares in the capital of subsidiaries wholly owned by holding companies.
- d) Assets which subsidiary companies decide to sell (shops, product lines, hotels, and others).

Additionally, land owned by the state will be offered for sale under a land reform scheme. Private administration of some public hospitals or parts thereof will be attempted. Petrol stations owned by firms affiliated to the Petrol Public Corporation will be sold or leased to private agents.

Also, the government will study how the private sector can participate and invest in public utilities through construction of electric power and potable water stations, roads, and telecommunications centres on the basis of experience gained in other countries in the planning and implementation of such participation.

Methods of privatisation

The following methods of privatisation are employed:

- a) Assets or shares are offered for sale by inviting bids in order to motivate as many potential buyers as possible.
- b) Shares are offered for sale in the stock exchange market.
- c) Employees, the boards of directors and general assembly members are invited to buy shares that are offered for sale.
- d) Leasing and management contracts are offered for available capacities.
- e) Contracts with third parties are encouraged who produce or trade in their own name and assume either technical or marketing supervision or both.

State agencies responsible for privatisation:

Implementation of privatisation is largely the responsibility of the following three state agencies:

- a) The Ministry of the Public Business Sector, whose Minister supervises a technical staff assisting him in the formulation of policies, ratification of annual selling programmes, execution of programmes, and appraisal of their results.
- b) Holding companies executing the agreed programme under the supervision of the Minister of the Public Business Sector. They can call in experts as the need arises.
- c) Subsidiary companies whose management has the right to sell and lease parts of their assets or product lines. The management also has the right to propose to the holding company to sell part of its stock to its employees, or to propose to its board of directors or its general assembly to sell shares in joint ventures in which the subsidiary company has a stake.

6.3 Germany

In selecting its audit approaches the SAI was aiming at both short-term and broad coverage of all of the Trust Agency's operations. To achieve such audit coverage, the SAI chose a number of basic audit issues which

- a) were of material financial importance;
- b) were relevant for the Trust Agency's corporate policy;
- c) provided evidence on the procedures used by the Agency in its core operations (e.g., privatisation, contract management, rehabilitation, and liquidation) and/or
- d) were of outstanding interest to Parliament.

From the above, a multitude of audit themes emerged which were relating to areas of the Agency's work as diverse as, e.g.,

- a) procedures used in the privatisation of businesses,
- b) treatment of contaminated sites;
- c) contract management;
- d) controlling of shareholdings;
- e) assessment of the turnaround potential of enterprises;
- f) personnel expenses;
- g) legal and technical supervision by the Federal Ministry of Finance.

In order to obtain a general overview of the Trust Agency's different fields of activity the first audits were performed as audit surveys, which were supplemented later by selective audits.

The general audit objective was to examine the controls used by the Trust Agency's management and to also look at single cases (e.g. procedures used by Trust Agency in a number of privatisation cases or in turning round individual businesses) to obtain general findings on

- a) the targets used by the Trust Agency's management in controlling and co-ordinating its activities;
- b) how targets were implemented and pursued in practice;
- c) whether there were any fundamental control weaknesses and
- d) how and by what means the Trust Agency's procedures and decisions might be improved.

In the course of its audits the SAI found that

- a) documentation of the basis for decisions and the Trust Agency's internal decision-making processes was frequently inadequate;
- b) high time pressure in the privatisation process may cause problems in the proper preparation of decisions;
- c) important subjects of privatisation negotiations were not adequately regulated by contract (jobs, investments, contaminated sites);
- d) the information base available to contract management did not provide sufficient guarantees that the Trust Agency would exercise in full the rights and obligations arising from privatisations;
- e) the responsibilities associated with the controlling of shareholdings and the rehabilitation of holding companies were not specified in sufficiently concrete terms.

The SAI recommended that the weaknesses identified in the Trust Agency's operations should be corrected by appropriate measures.

6.4 Austria

Privatisation of *Verbundgesellschaft* - an energy utility company.

In November 1988, the Republic of Austria sold off its 49% holding in *Verbundgesellschaft*, a national power-generating company, by way of public flotation on the stock exchange in a joint operation between two ministries, the board of directors of *Verbundgesellschaft*, and a banking syndicate entrusted with staging the flotation. The banks' activities were based on a corporate valuation performed by two independent chartered accountants.

This partial privatisation was the most profitable divestment for the federal government so far. More than 73,000 domestic and 20,000 international shareholders have made *Verbundgesellschaft* Austria's largest public company.

The SAI criticised the approach that was chosen in several points:

- a) Valuation was too low, because overly results-oriented. The poor performance in the year of valuation, due to one-time external influences, had a negative impact on valuation. The company's healthy financial position, its high net asset value and the excellent forecasts for its future economic development were not taken into account.
- b) On account of under-valuation and the owner's intention to complete privatisation in a fast and exemplary process, too much caution was used in fixing the share price. This resulted in over-subscription and an early closure of the subscription period.
- c) It would have been more appropriate to sell first a smaller volume at a higher price in order to probe response to the flotation. Using a similar approach, a provincial power-generating company was able to attain a markedly higher share price.
- d) The banking syndicate was appointed and then participated in determining the share price and laying down the terms of the flotation. It would have been preferable to use the public tender approach to select the banks offering the best terms for staging of the flotation.
- e) In contrast to what had been expected from partial privatisation, private ownership has not wielded any noticeable influence on the company's management.

7. Perspectives for the future

As it is the responsibility of every government to ensure maximum efficiency of its national economy, which implies the need for far-reaching restructuring, effective control of such processes is of the highest importance. Experience has shown that expert control provides a basis for relatively reliable estimates of the effects of economic measures on future performance as well as improved procedures in subsequent restructuring projects.

Examining financial arrangements and establishing and making transparent the effects of privatisation measures will continue to be one of the principal tasks of the SAIs.

In the public sector, control by professionally trained auditors is of particular importance since in many countries the criteria in filling management positions of restructured operations are not solely professional expertise and personal aptitude but very often political considerations.

Auditor training and adequate remuneration of qualified auditors will therefore continue to be of major importance in the future, also to minimise losses of trained audit experts to sectors offering better compensation.

In the coming years auditing of restructuring measures and of privatisation programmes in particular will be posing even greater challenges for the SAIs. It is to be expected that more and more countries in Asia, Latin America and Eastern Europe and the new republics of the former Soviet Union will be implementing an increasing number of privatisation programmes of various types in order to raise funds.

The SAIs must be prepared to audit such cases from different perspectives. Auditing of the core areas of privatisation programmes will concentrate not only on the methods and procedures applied but will also require a well-founded assessment of whether share prices were established appropriately. This requires even better access to reliable information about the financial position of organisations and a high measure of expertise on the part of the auditors. Further development of control mechanisms will also provide opportunities for an improved management of restructuring processes.

It should also be mentioned in this context that establishment of effective internal controls in the enterprises concerned would be highly desirable.

It must be pointed out furthermore that in some countries the outcome of privatisation measures will depend largely on whether and to what extent it will be possible to contain corruption successfully. One possible approach will certainly be improved accounting procedures within the enterprises and, as a result, greater transparency of financial transactions. Also, adequate pay for civil servants will make them less vulnerable to corruption.

Much time will have to pass yet before an assessment can be undertaken of the long-term economic and social effects of restructuring processes and, specifically, privatisation. An abundance of tasks will therefore arise for SAIs in this context for yet some time to come.

III. Results and recommendations

The participants emphasised that the presentations and subsequent debate had afforded them most valuable ideas for the auditing of restructuring measures in their own countries, which they expected would translate into more effective audit approaches.

Even though the methods of restructuring and the control approaches employed in the auditing of such measures are highly diverse common concerns were identified regarding the valuation of enterprises, the comprehensive analysis of economic performance and the solution of social problems (e.g. shedding of employees, increased rate of unemployment) resulting from restructuring processes. Supporting measures to cushion hardships brought about by restructuring were therefore considered necessary by all participants.

The topic of privatisation and the role of the public sector were of major interest not only to the participants from the reform countries of eastern and central Europe but for all delegates. The 11th UN/INTOSAI Seminar was received by the participants with much enthusiasm, due in particular to the high professional quality of the papers presented, the smooth organisation of the event, and ample opportunities for an exchange of experience and ideas.

The participants recommended that the exchange of information in this area should be promoted and expanded further and that the results of the seminar as well as the final seminar report should be made available and disseminated to all INTOSAI members.

The participants considered the 11th UN/INTOSAI Seminar most helpful for their work and agreed that there was a need for further seminars in the field of government auditing in order to meet even more effectively the increased information requirements associated with the continuing development of auditing tasks.

Attachments

I. LIST OF PAPERS

I. Country papers by Supreme Auditing Institutions

Author	Country	Titel
Saeed Al Marzooq	Bahrain	The Role of SAIs in the Restructuring of the Public Sector
Olaf Lüüs	Estland	Public Sector Restructuring in Estonia
Mrs. Zipporah Martey	Ghana	Background of Public Sector Restructuring
Bambang Triadji	Indonesia	The Role of Supreme Audit Board of Republic of Indonesia in the Process of restructuring the Public Sector
L.S. Shithigona	Lesotho	Lesotho's paper on the Experiences of their SAI (Auditor General) in the field of Public Sector Restructuring
M. Taujoo	Mauritius	Role of SAI in the Restructuration Process of the Public Sector
Ing. Arturo Harding L.	Nicaragua	La Función de la Contraloria en la Administración de los Recursos del Sector Publico
J. Chen Barris	Panama	Estructura y funciones de la Contraloria General de la República
Victor Enrique Caso Lay	Peru	El Rol de la Contraloria General de la Republica en el Proceso de Reestructuración del Sector Público
Mathiaus D. Polius	Saint Lucia	The Role of SAI in Restructuring the Public Sector
R.J. Dlamini	Swaziland	Office of the Auditor General of the Kingdom of Swaziland
Chavalit Saleepol	Thailand	Country paper of Thailand
L. Metia	Tuvalu	The Role of SAI in Restructuring the Public Sector
Eduardo Peñaloza	Venezuela	La función de las Entidades Fiscalizadoras Superiores en la reestructuración del Sector Público
M.J. Simumba	Zambia	The Role of SAI in Public Sector Restructuring

2. *Presentations by Supreme Auditing Institutions*

Author	Country	Titel
Mag. Dr. Dietrich Eymuth	Austria	Modelle und Ansätze der Umstrukturierung des öffentlichen Sektors Teil 1
OR Mag. Wolfgang Raschendorfer	Austria	Modelle und Ansätze der Umstrukturierung des öffentlichen Sektors Teil 2
Oswaldo Iturriaga Ruiz	Chile	Finanzkontrolle beim Verkauf öffentlicher Unternehmen
Abbas Hassib	Egypt	Restrukturierung der Privatisierung des öffentlichen Sektors (Fallstudie)
Jean-Benoit Frèches	France	Schwierigkeiten und Probleme der ORKB bei der Kontrolle des Umstrukturierungsprozesses
Dr. Joachim Schmidt	Germany	Die Rolle der Obersten Rechnungskontrollbehörden und die Ansätze der Finanzkontrolle beim Umstrukturierungsprozeß
K. Muthukumar	India	Umstrukturierung und Finanzkontrolle von Staatsbetrieben - Erfahrungen in Indien
Pieter L. Stroink	Netherlands	Die Umweltaspekte des Umstrukturierungsprozesses
J.G. Colman	United Kingdom	Hintergründe für die Umstrukturierung des öffentlichen Sektors

3. *Papers by other organisations*

Author	Organisation	Titel
Daniel P. Blais	United Nations	The role of SAIs in the Restructuring of the Public Sector
George Russell	World Bank	Basic Issues of Accountability in the Restructuring of Public Enterprises

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