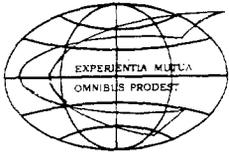


 INTOSAI

International Journal of Government Auditing

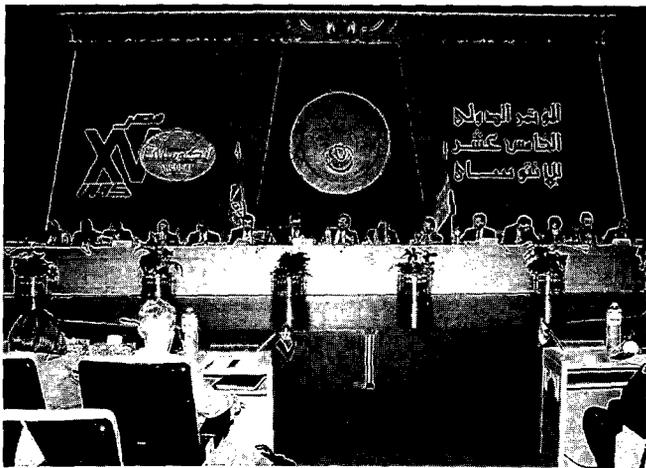
October 1995





Mutual Experience Benefits All

INTOSAI's motto, "Mutual Experience Benefits All" is one that truly describes INTOSAI's value to its members, and this is never more evident than at INTOSAI's triennial Congresses. The XV Congress in Cairo demonstrated this motto in action, with over 400 delegates participating in the discussions, work groups and committees that give INTOSAI its vitality. "One picture is worth a thousand words," and so this edition of the *Journal*, which is dedicated to the XV Congress, begins with a pictorial editorial that highlights some of the events in Cairo.



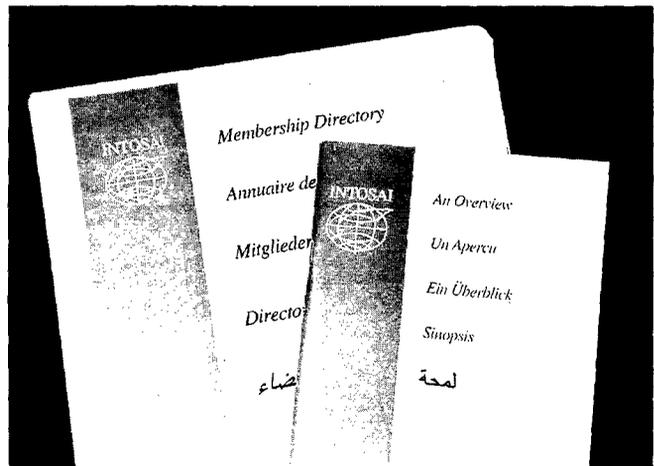
Governing Board meetings and plenary sessions were held at the Cairo International Congress Center, the venue for all meetings of the XV INCOSAI. Pictured here are officers and staff at the 40th meeting of the Governing Board, chaired by outgoing chairman, Charles Bowsher, USA



Tawfik I. Tawfik, Saudi Arabia, comments on technical issues under discussion at a plenary session. Mr. Tawfik was elected as second vice-chairman of the Governing Board at its 41st meeting immediately following the congress.



The opening plenary of the Privatization Audit Symposium was chaired by Mr. Abbas, Egypt, and featured remarks by Sir John Bourn, the United Kingdom (chair of INTOSAI's Privatization Committee).



Two landmark publications were distributed in Cairo, and illustrate the work of INTOSAI's communications study group: the *INTOSAI Membership Directory* and *INTOSAI, An Overview*.

International Journal of Government Auditing

October 1995—Vol. 22, No. 4

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

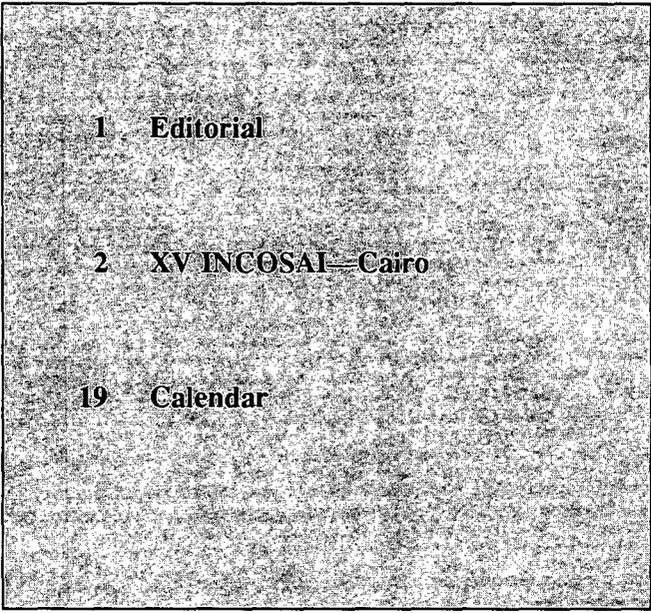
The editors invite submissions of articles, special reports, and news items, which should be sent to the editorial offices at U.S. General Accounting Office, Room 7806, 441 G Street, NW, Washington, D.C. 20548, U.S.A. (Phone: 202-512-4707. Facsimile: 202-512-4021. E-Mail: <75607.1051@compuserve.com>).

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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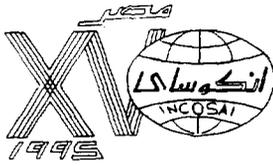
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Fifteenth INTOSAI Congress Held in Cairo



A record number of countries, delegates and observers attended the fifteenth International Congress of Supreme Audit Institutions (XV INCOSAI) held in Cairo from September 24 to October 2, 1995. INTOSAI's motto, *Mutual Experience Benefits All* was abundantly evident as 406 delegates representing 125 supreme audit institutions (SAIs) from virtually all parts of the world actively participated in over 80 technical discussion groups, committee meetings, workshops, and plenary sessions. The attendance of 27 observers from 16 international organizations such as the World Bank, the United Nations, the Institute of Internal Auditors and the European Union further illustrated the important role INTOSAI plays in the international financial management and accountability arena. The congress was supplemented by a three-day privatization symposium attended by 74 SAIs and 147 delegates.

The full participation of so many people, at the congress and also during the three years since the Washington congress, resulted in many significant achievements in Cairo. The new and complex issue of environmental auditing (Theme I) was addressed and led to recommendations that will help SAIs tackle this problem which, in the words of one delegate, "knows no borders." At the same time, INTOSAI's committees continue to have a central role in INTOSAI's ongoing work and congresses (Theme II), and their publications provide INTOSAI members with many useful tools such as bibliographies, guides, and methodologies. The *Cairo Statement* contains the conclusions and recommendations on both themes, and was unanimously adopted by the congress.

In addition, the work of the special study groups commissioned in 1993 to improve communication among members and to help guarantee continuity of INTOSAI's many programs resulted in the publication of an *INTOSAI Membership Directory*; a brochure, *INTOSAI, An Overview*, describing the organization's mission, structure and services; and handbooks on governing board meetings, congresses and committees. Finally, the idea of supplementing the congress with a symposium is accepted as a practical way of providing members with opportunities to exchange information while at the same time reducing the length of the formal congress.

The success of the concept of "life between congresses"—whereby members regularly participate in committees, study groups, training, regional meetings, and other programs—is

clear, and is the key to INTOSAI's continuing service to its members and the international auditing and financial management community.

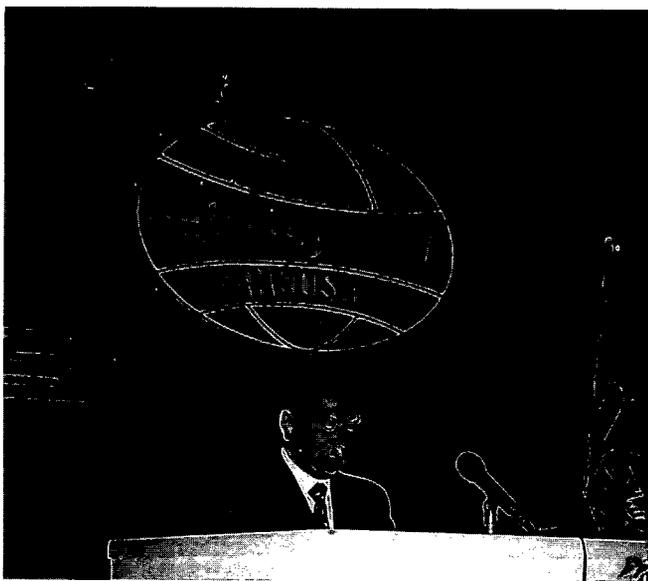
The spirit of the congress was captured in remarks made during the opening ceremony on September 24 by the outgoing and incoming INTOSAI chairmen. Mr. Bowsher, who served as chairman since hosting the 1992 congress in Washington, noted that "Our congresses provide us a special forum where we can share our ideas and experiences, and they result in many significant accomplishments." Mr. Bowsher cited the work of INTOSAI's committees, the training provided by the INTOSAI Development Initiative (IDI), the introduction of a symposium to the congress format, and revised Statutes as examples of INTOSAI's many advances in the last decade. He also referred to Egypt's long tradition of auditing, dating to pharaonic times when the pharaohs had "scribes in the fields with systems to monitor and measure inputs and outputs to ensure that appropriate taxes were being paid."



Mr. Abbas, Egypt, incoming chair of INTOSAI, congratulates outgoing chair Mr. Bowsher, USA.

Mr. Abbas, host of the XV INCOSAI and new chairman of INTOSAI, welcomed delegates to Cairo and set the stage for the technical discussions by saying that "Our world is passing through a decisive stage that demands us to coordinate our

efforts and maximize cooperation between countries and international organizations to ensure that public funds are properly administered, and that public objectives are reached." Mr. Abbas went on to stress the importance of the congress' two major themes when he said, "The choice of environmental auditing as one of our themes is important because environmental pollution obstructs progress and reform; it terminates life and creates challenges that hinder efforts to maintain a viable environment. Therefore, it is necessary for countries to interact with a view to ending this threat." He also highlighted the importance of Theme II, improving governmental financial management, by noting the important roles the committees and their standards, guidelines and other products play internationally.



Mr. Abbas, President of Egypt's Central Auditing Organization and INTOSAI chair, welcomes delegates to the XV INCOSAI.



Leading personalities from INTOSAI and the government of Egypt share an informal moment before the opening ceremony.

Also speaking at the opening session were Dr. Kamal El-Ganzoury, Deputy Prime Minister and Minister of Planning, who inaugurated the congress on behalf of President Hosni Mubarak who was unable to attend, and Dr. Atef Ebeid, Minister of Administrative Development, Environmental Affairs and Business Development. Dr. Ebeid delivered a speech on the importance of environmental protection and the role of the SAI in helping ensure proper management of the environment; his speech served as a prelude to the Theme I discussions on this subject.

Two Major Themes Discussed, Result in Cairo Statement

As established at the congress in Manila in 1983 and used successfully in subsequent congresses in Sydney, Berlin and Washington, the XV INCOSAI was organized so that participants could discuss the two major themes and subthemes in small, concurrent discussion sessions. An innovation introduced in Cairo was that all concurrent sessions were available to delegates in all five of INTOSAI's official languages (Arabic, English, French, German, and Spanish). The results of the discussions were then summarized by subtheme officers and discussed further in plenary sessions devoted to each theme, and adopted as official recommendations in the *Cairo Statement*. This article summarizes the theme discussions; the full text of the *Statement* will be available from the congress host, the Central Auditing Organization of Egypt. The two themes and subthemes were:

Theme I: Environmental Auditing

Subtheme IA: Environmental Auditing-Its importance, definitions and results of the work of the environmental auditing committee

Subtheme IB: Roles and responsibilities of the SAI in environmental auditing

Subtheme IC: Methods and techniques of environmental auditing

Theme II: Improving Governmental Financial Management Through INTOSAI's Committees

Subtheme IIA: Accounting Standards

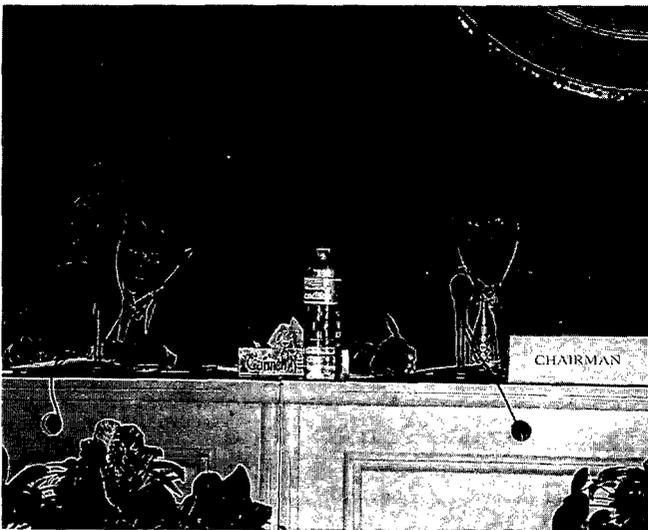
Subtheme IIB: Auditing Standards

Subtheme IIC: Internal Control Standards

Subtheme IID: Public Debt Auditing

Subtheme IIE: EDP Auditing

Subtheme IIF: Program Evaluation



Subtheme IA on environmental auditing was led by Mr. Engwirda, Netherlands (chair of INTOSAI's environmental auditing committee), and Mr. Ahsan, Pakistan (Theme I chair).

Theme I: Environmental Auditing

This theme flowed from recommendations made at the XIV INCOSAI to establish the environmental auditing committee, and from an awareness among SAIs that the environment is one of the most challenging issues facing governments. Many governments now have legislation in the form of green plans or statutory policies and programs regarding the environment, and SAIs are becoming increasingly involved in this area.

The committee, chaired by the Netherlands, had prepared basic documents containing a framework for a working definition of environmental auditing and the results of an INTOSAI-wide survey conducted in 1993. A unique feature of Theme I was that it included, for the first time in the history of INTO-SAI congresses, two expert keynote speakers. In addition to the remarks by Dr. Atef Ebeid at the first general plenary session, Dr. Mostafa Tolba, former Executive Director of the United Nations Environmental Program, spoke at the subtheme IA plenary. The chair of Theme I was Pakistan; subtheme IA officers were the Netherlands and Indonesia.

Subtheme IA

The subtheme was introduced by Dr. Tolba, who focused delegates' attention on three aspects of the environment: the interaction between development and the environment; the current state of the environment in a changing world; and, the importance of the environment and the role of environmental auditing. Dr. Tolba noted that only when countries begin to assess the work involved in rehabilitating degraded or damaged ecosystems do the true costs of rehabilitation become apparent. He said that economic and regulatory instruments should be used to properly manage the environment and natural resources, and that environmental auditing is a major instrument in this respect.

Dr. Tolba went on to say that an element of environmental auditing can be independent reporting on natural resource accounting, which includes the national accounting system and depreciation costs arising from the loss of natural resources. He concluded his remarks by emphasizing the important role SAIs can play in this area, and urged INTOSAI members to take up this responsibility and to share their experiences with each other.

In the discussion following Dr. Tolba's keynote speech, delegates agreed on the importance of environmental issues, both at the national and global levels, and took note of the substantial financial liabilities—for both the public and private sectors of society—which can be caused by unsound environmental management. It was generally felt that, within the scope of their mandate, SAIs have an important role in reporting on these financial liabilities, particularly if they are not recognized in the governmental accounting structure. Dr. Tolba's speech was a highlight of Theme I, and the idea of including expert keynote speakers in future congresses became a recommendation included in the *Cairo Statement*.

Definition of Environmental Auditing

Delegates strongly approved the approach taken by the committee to present a framework for a definition which provides useful guidelines for SAIs while taking into account their differing mandates concerning environmental auditing. The definitional framework adopted includes these major elements:

- environmental auditing is not significantly different from other auditing as practiced by SAIs;
- it encompasses financial, compliance and performance auditing (in this regard, it was noted that SAIs can address financial liabilities emanating from environmental mismanagement in their annual financial statement audits);
- the concept of sustainable development should not play an independent role in the definition of environmental auditing; many members prefer to use sustainable development as a criteria in their audits only when it is explicitly part of the objectives of the audited program.

Recommendations and Future Work of the Committee

Delegates expressed their appreciation for the committee's work in the three years since it was created, and demonstrated unanimous support for the committee to continue its ongoing work to provide SAIs with practical guidance in environmental auditing. SAIs are encouraged to play an effective role in their countries in stimulating their governments to incorporate environmental costs in planning and decisionmaking. And, given the interesting and informative way that Theme I was introduced by keynote speakers, INTOSAI is encouraged to use this approach in future congresses.

Subtheme IB: SAIs' Roles and Responsibilities

Discussions in this subtheme centered on four issues: authority of SAIs to conduct environmental audits; the role of

SAIs in auditing international accords, and the possibility of joint or concurrent audits; follow-up by SAIs after completing audits; and, the role of the SAI in calculating environmental costs and benefits. Theme officers were Pakistan, Canada (rapporteur and preparer of the principal paper on this subtheme), Colombia, Micronesia, the United Kingdom and Norway.



Subtheme discussion groups provided opportunities for delegates to exchange views and experiences. Pictured here are subtheme IC theme officers: Mr. Randall, South Africa; Mr. Kleuver, South Africa; Mr. Peach, USA; and the technical liaison officer from Egypt.

SAI Authority

SAIs generally felt that they have sufficient authority to carry out work on environmental issues. However, in some cases they can only do it through their financial audit mandate and in those cases there may be a need for mandates to be broadened. Some SAIs expressed concern about their lack of authority to audit private sector enterprises and felt that their mandate should be extended in that area; others felt that such a mandate was neither practical nor desirable. These SAIs felt that SAIs should try to influence their governments to take appropriate action to ensure that there were adequate checks and balances on private sector enterprises. SAI audits of work of internal auditors was suggested as a way for SAIs to become involved in environmental auditing.

International Accords

While most SAIs agreed that there should be some role for SAIs in auditing international accords, few have had any experience doing so. Most felt that the responsible ministries should be responsible for monitoring and verifying a country's compliance, and that SAIs should then audit the performance of that work. It was also pointed out that many international accords do not include audit clauses or specific criteria for auditing. SAIs saw international accords as presenting opportunities to conduct joint or concurrent audits with other SAIs, especially those geographically close to them.

Follow-up and Sanctions

Most SAIs who commented indicated that they follow-up on their audit reports, at least to some extent. There was little support for SAIs to have sanction authority other than to the extent that an SAI's report influences the actions of government.

Calculation of Environmental Cost/Benefit Data

SAIs felt that environmental cost and benefit data should be available, but said that this is not normally their responsibility. The compilation of such data is the responsibility of government agencies, and SAIs should encourage their governments to collect and report this information. The SAIs' role is then to audit this information when appropriate.

Recommendations

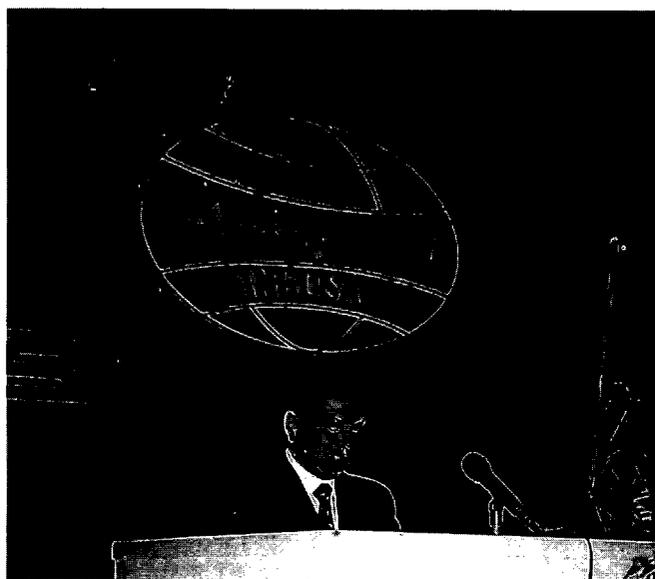
The following recommendations were approved with the note that SAIs may be limited in what they actually do by factors such as practicality, priorities and lack of resources and experience.

- INTOSAI should encourage SAIs to make as full use as possible of their current mandates and, where necessary and practical, try to broaden them legislatively to include the full scope of environmental auditing.
- SAIs are encouraged, even when they have only a financial auditing mandate, to identify environmental costs and liabilities, including environmental damages, and report them to government ministers, parliaments, and the public.
- INTOSAI should encourage SAIs to cooperate where possible in auditing their countries' compliance with international accords, and in conducting joint or concurrent audits.
- INTOSAI should encourage SAIs to conduct follow-up audits.
- SAIs should encourage their governments to collect and report environmental cost and benefit information and, where appropriate, to audit this information.

Subtheme IC: Methods and Techniques of Environmental Auditing

The overall objective of the subtheme was to examine issues related to the methods and techniques used in environmental auditing, and discussion focused on two broad issues: (1) the development of standards and technical criteria for assessing performance; and, (2) the development or procurement by SAIs of relevant skills to conduct environmental audits. Discussion did not focus on particular methods or techniques. Subtheme officers were Argentina, New Zealand (rapporteur and preparer of the principal paper for this subtheme), the Philippines, Morocco, the United States, and South Africa.

efforts and maximize cooperation between countries and international organizations to ensure that public funds are properly administered, and that public objectives are reached." Mr. Abbas went on to stress the importance of the congress' two major themes when he said, "The choice of environmental auditing as one of our themes is important because environmental pollution obstructs progress and reform; it terminates life and creates challenges that hinder efforts to maintain a viable environment. Therefore, it is necessary for countries to interact with a view to ending this threat." He also highlighted the importance of Theme II, improving governmental financial management, by noting the important roles the committees and their standards, guidelines and other products play internationally.



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Subtheme IIE: EDP Auditing

Subtheme IIF: Program Evaluation

14); the Environmental Committee's output was presented above in the discussion of Theme I.

The practice of rotating committee chairmanship continued in Cairo, with the chair of the Auditing Standards moving from Australia to Sweden. Australia had chaired the committee since 1989, having assumed it from Saudi Arabia who had chaired it from 1984 to 1989.

All SAIs have opportunities to participate in the committees' work by joining committees as members, commenting on committees' products during the exposure draft process, or participating in the Theme II sessions at congresses. This active involvement allows the committees' work to proceed efficiently and to reflect the interests and needs of all SAIs. The achievements of the committees are illustrated in the summary of the Theme II discussion sessions below.



The congress provided opportunities for INTOSAI members to exchange views with representatives from other international organizations such as the Institute of Internal Auditors (IIA). Pictured here, from left to right, are Mr. Taylor, Chairman of the Board of the IIA; Mr. Bishop, IIA President; and Mr. Mzondo, Zimbabwe.

Subtheme IIA: Accounting Standards

Discussions on the work of the Accounting Standards Committee, chaired by Canada, centered on three topics: (1) the overall framework developed by the committee; (2) actions taken in response to the Washington Accords; and (3) the committee's workplan for 1995-98. Subtheme officers were Canada (committee chair), Italy, Malta, Tunisia, France and Ghana.

Regarding the framework, delegates expressed appreciation to the committee for its work and endorsed the framework as a useful tool to help SAIs assess the fairness of and encourage improvements in the various financial reports prepared and published by their governments. It was noted that the framework is general in nature to permit SAIs to develop more specific standards or guidelines tailored for use within their own jurisdictions, and that more detailed information is contained in publications of other professional bodies.

The committee reported that the main recommendations taken at the 1992 congress had been accomplished, including the establishment of an associates network of interested and informed individuals worldwide to comment on the committee's work. And, while the committee's work to date has focused on higher level principles, its workplan for the three years leading up to the 1998 congress in Uruguay will result in more detailed guidance on how to implement these principles. In that connection, the committee will prepare guidance in four areas of financial reporting: compliance, performance, individual government departments, and the overall financial situation of the government as a whole. These new products will help SAIs review and comment on financial reports and, where certain reports are not currently prepared by governments, help SAIs encourage their governments to do so. Delegates approved the workplan, and suggested that the products should also include illustrative model reports or reporting formats. The following recommendations, among others, were approved by the congress:

- The committee should ensure that the manner in which it classifies the types of government financial reports and the accounting bases used to prepare them does not inadvertently leave the impression that the Committee is attempting to prescribe particular reporting models or formats that must be followed in all member countries.
- In carrying out its proposed new projects, the committee should continue to ensure that it provides "principles" or "considerations" as opposed to narrow and precise rules that SAIs may not be able to accommodate and use within their jurisdictions.
- Although the responsibilities of SAIs to encourage change in financial reporting by governments varies across the INTOSAI community, the proposed new projects should, at a minimum, help all SAIs take a fresh look at reporting practices and conventions within their jurisdictions.
- The committee should continue to liaise with and ensure consistency with the Public Debt Committee and its products.
- The committee should take a broad, all-inclusive view of the reporting entity for the government as a whole, and should recognize the importance of preparing prospective information in budgets on the same basis as retrospective information in the accounts.
- Governments in many INTOSAI countries are moving to more accrual-based accounting, which would enhance the reporting of the overall financial condition. The committee should ensure that its future projects include appropriate guidance on the additional judgments that will be required under accrual accounting in areas such as allocating asset costs to periods in which the assets are used or consumed.

For more information, contact the committee chair: Mr. Denis Desautels, Auditor General of Canada, 240 Sparks Street, Ottawa, Ontario, Canada K1A0G6.

Subtheme IIB: Auditing Standards

Discussions during this subtheme centered on enhancements to one of INTOSAI's landmark publications, the *INTOSAI Auditing Standards*, issued in 1992. In keeping with the concept of INTOSAI products as "living documents," revisions to the *Standards* were finalized and approved by the congress. This also reflects members' views that the *Standards* should be reviewed periodically to keep current with a changing audit environment. Delegates also suggested that the committee establish contacts with other INTOSAI committees and professional bodies such as the Institute of Internal Auditors to strengthen its work while minimizing duplication of effort.

The committee was commended for publishing a bibliography of over 100 articles dealing with auditing standards, and delegates urged SAIs to use the bibliography to increase bilateral exchange of information. Another specific recommendation was that the information included in the bibliography be placed on the Internet using the World Wide Web. This format would also be appropriate for other INTOSAI committees, and the General Secretariat is currently exploring the technical feasibility of such a delivery mechanism.

A major recommendation was that the committee's next project should be the development of an INTOSAI Code of Ethics. Seen as a complement to the Auditing Standards, many delegates noted that such a code does not exist in either their SAIs or countries and they would thus welcome such a document. It was noted that ARABOSAI had prepared a Code of Ethics for the region, and the committee will draw on that document as well as documents from other SAIs and international bodies in drafting the INTOSAI Code of Ethics for presentation at the 1998 congress in Uruguay. Committee chairmanship changed from Australia, which chaired the committee since 1989, to Sweden. Subtheme officers were Australia (outgoing committee chair), Brazil, Saudi Arabia, Belgium, Japan and the Philippines.



Mr. Barrett, Australia, reports on the work of the INTOSAI Auditing Standards Committee.

Following are recommendations approved by the congress.

- The current *INTOSAI Auditing Standards* provide an appropriately broad framework within which members can develop their own standards taking into account their own circumstances. Nevertheless, the *Standards* should be reviewed to ensure their relevance and usefulness prior to XVI INCOSAI. To this end, the views of members should be sought and the Auditing Standards Committee should take note of any relevant decisions arising out of the XV INCOSAI.
- The committee should develop formal or informal links with other relevant international standard setting organizations; and should consider the role regional groups can play in revising the auditing standards and any other committee activity.
- SAIs with relevant material but which have not yet contributed to the *Auditing Standards Bibliography* are urged to do so as soon as possible; and the Committee should consult with the General Secretariat on the possible introduction of the *Bibliography* onto the Internet using the World Wide Web as access.
- Bilateral contacts and exchanges between members with similar legal and constitutional arrangements to discuss auditing standards issues are encouraged.
- An INTOSAI Code of Ethics should be drafted by the committee for consideration by members at the XVI INCOSAI.

For more information, contact the new committee chair: Ms. Inga-Britt Ahlenius, Auditor General of Sweden, National Audit Office, P.O. Box 45070, S-104 30 Stockholm, Sweden.

Subtheme IIC: Internal Control Standards

The Internal Control Standards committee also built on its landmark publication, *Guidelines for Internal Control Standards*, by issuing in Cairo a bibliography of information and other documents on internal control. The bibliography contains listings of books and articles submitted by 43 SAIs in response to a questionnaire sent out by the committee. Seen as a living document, the bibliography will be updated with SAIs encouraged to submit additional listings containing specific information about applications of internal control standards to areas such as expenditure, revenue, fixed assets, stocks and inventories. Looking to the future, delegates recommended that the committee focus its efforts over the next three years on developing another publication, *Guidance on Assessing the Effectiveness of Internal Control Systems*, to help SAIs fulfill this important function in government. A draft will be presented to the Governing Board at its June 1996 meeting, and will be the basis for further discussion at a proposed conference to take place in 1997.

In the course of the subtheme discussion, several delegates noted that some confusion still exists between the terms internal control and internal audit, and requested clarification. It was noted that the distinction between the two terms is clarified in the *Guidelines for Internal Control Standards* (pages 11, 12 and 31—English version); internal control is defined as "...the plans of an organization, including management's attitude, methods, procedures, and measures that provide reasonable assurance that the objectives are being met." The *Lima Declaration* also includes definitions in this regard by stating that "Internal audit services are established within individual agencies and institutions..." as part of a comprehensive internal control structure. (Article I, section 3.1).

Subtheme officers were Hungary (committee chair), Spain, Tanzania, Chile, Lithuania and Libya. For more information, contact the committee chair: Dr. Istvan Hagelmayer, State Audit Office, Apaczai Csere Janos U. 10, H-1052 Budapest V, Hungary.

Subtheme IID: Public Debt Auditing

As with other subthemes, discussion here focused on the recently published work of the committee as well as its workplan for the next three years. Delegates were pleased at the results of the committee's first major document, *Definition and Disclosure of Public Debt*, which is seen as helping SAIs encourage the proper management and reporting of public debt. Again, in line with the living document concept, future guidance in this important area of government activity will be integrated into the general document as it is developed by the committee.



A coffee break during the subtheme on EDP auditing afforded subtheme chair Mr. Somiah, India (on right), the opportunity to meet informally with the Auditor General of South Africa, Mr. Kleuver.

Examples of additional guidance were presented and approved by the congress. A preliminary draft, *Performance Audit of Public Debt*, describes four stages or products: summary of existing practices, framework for planning and conducting public debt audits, scoping and execution, and reporting. The draft presented in Cairo represents the first stage of the overall product. Another planned product deals with the complex subject of contingent liabilities, and a survey is being prepared by the committee to query SAIs on their experiences. Subtheme officers were Mexico (committee chair), Argentina, Portugal, Yemen, Jordan and Gabon.

Specific recommendations for the public debt audit subtheme were:

- The committee should continue its study of contingent liabilities to develop guidelines to help SAIs understand its nature and adequately deal with the audit of its various components.
- The committee should analyze the measurement aspects of the internal and external public debt and the exposure of its actual weight, in terms of the cost of its services and the risk review of the recent developments of the financial and monetary markets and the feasibility of considering ceilings on its amount and service.
- The committee should continue with the remaining deliverable sections of the project on the performance audit of public debt; and continue updating its guidance on *Definition and Disclosure of Public Debt*.
- Study compliance and financial audit of public debt in view of the various accounting practices in use.

For more information, contact the committee chair: Mr. Javier Castillo, Contador Mayor de Hacienda, Av. Coyoacan No. 1501, Cal del Valle, Delegacion Benito Juarez, Mexico 03100 D.F., Mexico.

Subtheme IIE: EDP Auditing

Two topics were discussed during this subtheme: (1) the general nature and use of the committee's products, and (2) the committee's workplan for the next three years. Subtheme officers were India (committee chair), Russia, Barbados, Zimbabwe, Kuwait and Sweden.

Delegates were unanimous in endorsing the committee's prodigious output, and noted that the products are sufficiently broad to be useful to all SAIs. The committee recognized the varying levels of information technology (IT) used in the various SAIs, and designed its products accordingly. It was noted that the products provide an excellent basis for individual SAIs to develop more specific guidance or standards tailored for their own circumstances.

It was agreed that the committee's workplan through 1998 would involve projects under three general headings: (1) information exchange, (2) skill development, and (3) knowledge development and transfer. As part of information exchange, the *EDP Directory* will be updated in 1998, and the *IT Journal* (into *IT*) would be published twice a year. In addition, a seminar on performance auditing of the use of EDP will be organized in 1998.

As part of knowledge and skill development, training courses for financial and performance audits will be developed for skill levels 1 and 2 as defined in the Audit Curriculum by 1997 and 1998, respectively, and the committee will also field test the courses in one of INTOSAI's regions. The committee will also develop a reference list of materials on IT performance auditing by October 1996, and a guide on auditing IT systems under development by the XVI INCOSAI.

For knowledge development and transfer, the committee proposes to circulate a research paper on electronic data interchange and the paperless audit, and other research papers are being considered. In approving the committee's work, the congress adopted the following recommendations:

- The committee's products should be thought of as "living documents" that will be revised from time to time in future years in response to changes in technology and changes in the needs of SAIs.
- SAIs should support the work of the Committee and use its products.
- The committee's work plan for the next three years is appropriate.
- While the Committee's products provide guidance and useful information to SAIs, it was noted that SAIs should exercise their discretion in tailoring the products for use within their countries.
- The committee could coordinate with the Auditing Standards Committee for development of specific standards for EDP Auditing, if needed.
- The regional working groups of INTOSAI should be requested to organize seminars and workshops in information technology.
- To assist SAIs in coping with the massive inflow of IT-related information in the future, the Committee should give careful consideration to structuring its outputs.

For more information, contact committee chair: Mr. C. G. Somiah, Comptroller and Auditor General of India, 10 Bahadur Shah Zafar Marg, New Delhi 110002, India.

Subtheme IIF: Program Evaluation

The work of the program evaluation committee, chaired by France, generated considerable discussion among many delegates who are just beginning to work in this relatively new area. Discussion centered on the paper prepared by France which defined program evaluation as a systematic research approach

to establish, assess and report on the direct and indirect effects of a program, policy or public authority action in the context of the stated or implicit objectives and the means used to achieve those objectives. Relevant principles include transparency, independence, pluralism and a scientific rigor. It was noted that the committee's work focuses on practical, rather than academic, aspects of program evaluation for use by SAIs. The committee's paper discussed how program evaluation differs from other types of auditing such as compliance and performance auditing, and also explored specific ways SAIs can introduce and conduct program evaluations in their offices.



Like many other SAIs, the delegation from Kenya, headed by Auditor General Njoroge (front right), participated in both the congress and the symposium.

Delegates also discussed ways in which SAIs' experiences in program evaluation could be shared, and it was suggested that the committee could compile a compendium of SAIs with experience in establishing program evaluation functions in their offices. Such a compendium could also include information about methodologies, reporting, and follow-up. In approving the committee's work to date as well as its workplan for 1995-98, the congress agreed on the following recommendations:

- To adopt the elements of the definition of evaluation proposed in the committee report, and to adopt the criteria of evaluation according to the definitions established by the committee.
- To pursue the research for defining the different categories of evaluations according to their focus or their objectives, and describe the techniques and methods to be used in each case.
- To give a more accurate definition of the types of evaluations particularly suitable to SAIs, i.e., audits with an evaluative scope and evaluations of the information systems in use in the services themselves. The working group will have to analyze the concepts, methods, advantages and limits of these evaluations.

- To elaborate a methodological framework that would facilitate evaluation work, including an overview of evaluation concepts, objectives and standards. This document should examine what changes are suitable in the organization and working methods of SAIs in order to allow them to implement evaluations (use of external experts, incorporation of research disciplines, methodological steering committee, and reporting).
- To determine the preliminary conditions for implementing evaluations by SAIs, in order to identify the major obstacles to their development; and, to recommend, if appropriate, that the legal mandates of SAIs should be adapted to allow them to implement evaluations.
- To pursue the gathering of information that was initiated by the working group according to the present system of information available in INTOSAI in order to complete the data on evaluation practices and methods in the different SAIs and to make proposals to the next congress.
- To establish, if needed, a relationship with the other INTOSAI committees relevant to evaluation.

For more information, contact committee chair: Mr. Pierre Joxe, Premier President de la Cour des Comptes, 13 rue Cambon, F-75001 Paris, France.

IDI's Five-year Plan Adopted By Congress

INTOSAI's training arm, the INTOSAI Development Initiative (IDI), reported to the congress on its 1994 activities and on its long-term program plan for 1996-2000 (see this *Journal*, July 1995, p. 14). The past year was a typically busy one for IDI, with eight seminars and workshops conducted on topics such as auditing foreign aid, computers in the audit process, and financial audit management and supervision. Over 100 countries and 166 SAI staff participated in these programs offered regionally. In addition, IDI updated the *International Directory of Information for Audit Training*, and added new sections on audit methodologies and audit software.



The congress provided time for IDI to meet with regional working groups to further elaborate IDI's 5-year plan. Pictured here are representatives from SPASAI and IDI.

Funding continues to be a major effort, and IDI reported great success in this crucial area. Contributions in support of the five-year plan from the World Bank, the Canadian International Development Agency and the Danish International Development Agency were announced in Cairo. Also noted were funds for IDI's current programs already contributed by AFROSAI, the Asian Development Bank, the InterAmerican Development Bank, the Commonwealth Secretariat, and the governments of Canada, Denmark, the Netherlands and Norway. This funding was augmented by in-kind contributions by more than fifteen SAIs who helped design, develop and translate training manuals, as well as host and present workshops.

The widespread support from SAIs and international donors will allow IDI to move forward with its five-year plan to assist regional working groups and member SAIs in their efforts to enhance training regionally and locally. The plan has been endorsed by the regional working groups and well-received by donors during many meetings with IDI leadership, leading Mr. Desautels to say, "The outcome of these meetings was very productive. They enabled us to improve the designs and proposed implementation strategies of the regional program plans as well as better understand and meet the current development policy objectives of donor agencies, which are oriented toward the type of institutional strengthening and capacity building that characterizes IDI's long-term program."

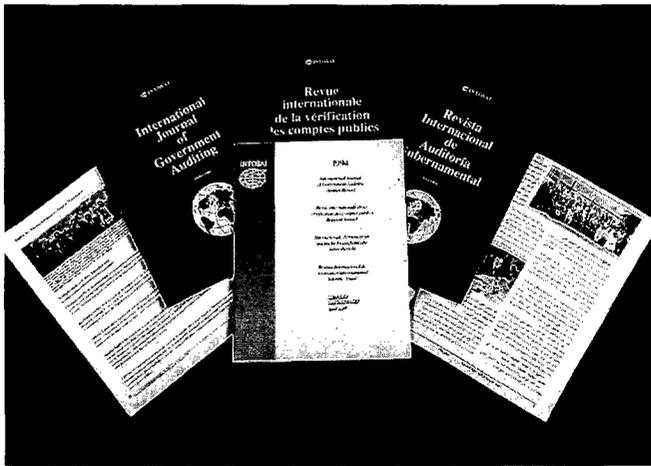
The plan was adopted by acclamation at XV INCOSAI in a formal resolution and called for IDI to "...start implementing the plan, report on its progress at annual meetings of the Governing Board, and continue to be attached to the Office of the Auditor General of Canada until the end of the year 2000." For more information, contact: IDI Secretariat, 240 Sparks Street, Ottawa, Ontario, Canada K1A 0G6.

International Journal of Government Auditing

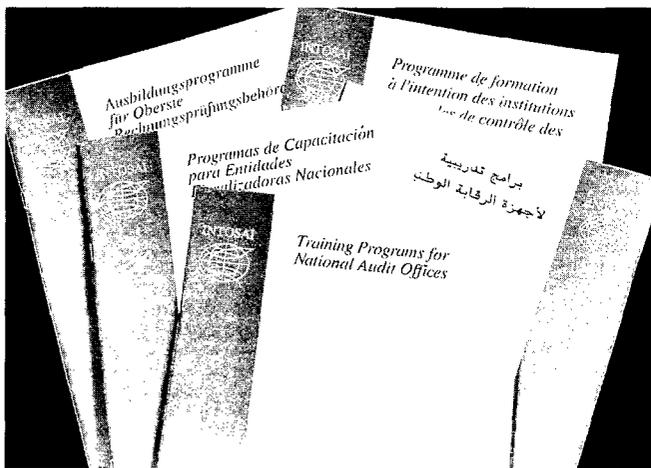
The 1994 *Annual Report of the International Journal of Government Auditing* was presented to the congress, and contained the audited financial statements and information about *Journal* contents, production and technology. The audited financial statements demonstrate the soundness of the *Journal's* business plan which carefully matches revenues with expenditures. In addition, the introduction of new technologies has contributed to a healthy financial situation, as has the continued in-kind translation and other services provided by the SAIs of Austria, Canada, Tunisia, the United States, and Venezuela.

The sustained financial viability of the *Journal* has allowed it to support INTOSAI's broader communication and information exchange goals by publishing three special publications (in all five official INTOSAI languages) which were distributed in Cairo. Two publications were done jointly with the SAI of Germany and the General Secretariat in Austria as part of the Communications Study Group's work to improve communications among member SAIs. One is the *INTOSAI Membership Directory* containing names and addresses of all INTOSAI members as well as information about how to

contact INTOSAI's regional working groups, committees, and other programs. The second publication, *INTOSAI An Overview*, provides general information about the organization's history and mission, structure, programs and services to members.



The 1994 Annual Report of the *International Journal of Government Auditing* features the cover design adopted by INTOSAI for its publications. Also shown here are copies of the 1994 issues in Arabic, English, French, German and Spanish.



Special *Journal* publications included *Training Programs for National Audit Offices* in each of INTOSAI's five official languages.

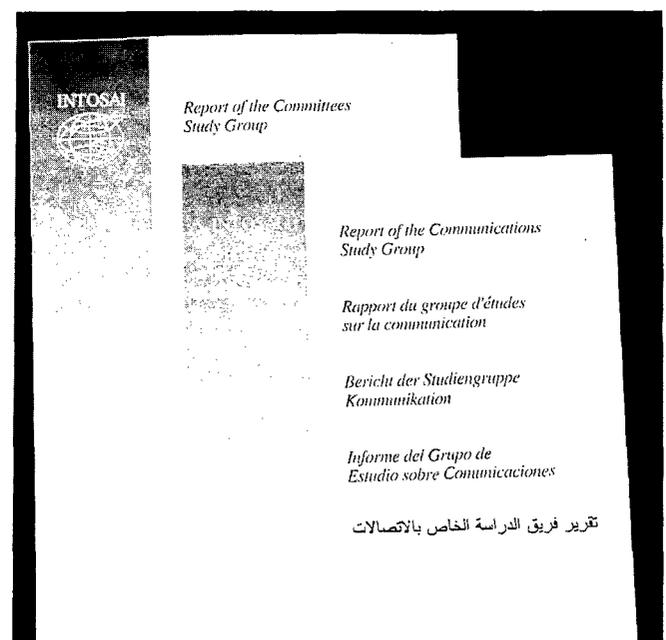
The third publication, *Training Programs for National Audit Offices*, is a reprint of the 12-part series *Training Forum* which appeared in the *Journal* from 1984 to 87; it provides practical guidance on all aspects of establishing and managing a training function in an SAI. The report also notes that, in further support of INTOSAI's communications goals, the *Journal* now includes in each issue a calendar of events, listing international and regional activities of interest to members. In addition, the *Journal* has gone on-line and can be reached on the Internet at this e-mail address: 75607.1051@compuserve.com.

The report concluded by noting that the *Journal* continues to fulfill its mission as a forum for exchanging and sharing information among SAIs by publishing news items, audit profiles, technical articles and other features of practical use to readers. Over 179 news items from 88 countries and international organizations appeared in the *Journal* between 1992-94; in the same period, 11 SAIs were featured in *Audit Profile*. In addition, technical articles and editorials on subjects such as public debt, privatization, public accountability, audit independence and EDP systems provided valuable insights and perspectives to SAIs facing these issues.

For more information, contact the *Journal* at: IJGA, Room 7806, 441 G Street NW, Washington, D.C. 20548 USA.

Communications Study Group Presents Strategy and Publications

"Communication is one of the most important prerequisites for efficient and effective cooperation between all INTOSAI members. The opportunity of exchanging project results quickly is of great benefit for international cooperation between the SAIs of all countries, as this does not only give a new impetus to the work of other SAIs, but also helps prevent duplication of work." With these words, Dr. Hedda Czasche, chair of INTOSAI's communications study group, emphasized the essential role of communication in an international organization such as INTOSAI as she reported to the congress on the results of the study group's work.



The reports of INTOSAI's study groups on communications and committees were presented and adopted in Cairo.

In addition to the *INTOSAI Membership Directory* and Overview booklet published in cooperation with the *Journal*, the communications study group's report outlines a communications strategy for INTOSAI. It recognizes the important roles of the *Journal*, the INTOSAI Circulars, the publications of the regional working groups, and congress proceedings, and also recommends the use of new technologies such as the Internet to further enhance communications between INTOSAI members. As an example of this, the INTOSAI General Secretariat has already begun a pilot program using Internet (see this *Journal*, July 1995, p. 12). Another result of the study group's work is the adoption of a standard graphic design for INTOSAI products (see photos on previous page); this *Journal* will begin using the design for its cover beginning with the January 1996 issue. For more information about the communications study group's work, contact: Dr. Hedda Czasche, President, Federal Court of Audit, D-60284, Frankfurt, Germany.

Regional Working Groups

INTOSAI congresses provide many opportunities for SAIs to exchange information, and a valuable part of that exchange involves INTOSAI's seven regional working groups which reported at the second general plenary session. Their reports are especially useful because much of INTOSAI's work occurs at the regional level in Africa (AFROSAI), the Arab region (ARABOSAI), Asia (ASOSAI), the Caribbean (CAROSAI), Europe (EUROSAI), Latin American (OLACEFS) and the South Pacific (SPASAI). The regional reports highlighted the many accomplishments of the groups in the areas of training, research, publications and bilateral exchanges. In addition, summaries of the regional congresses were presented, as well as plans for the next three years.

Additional Congress Business Completed

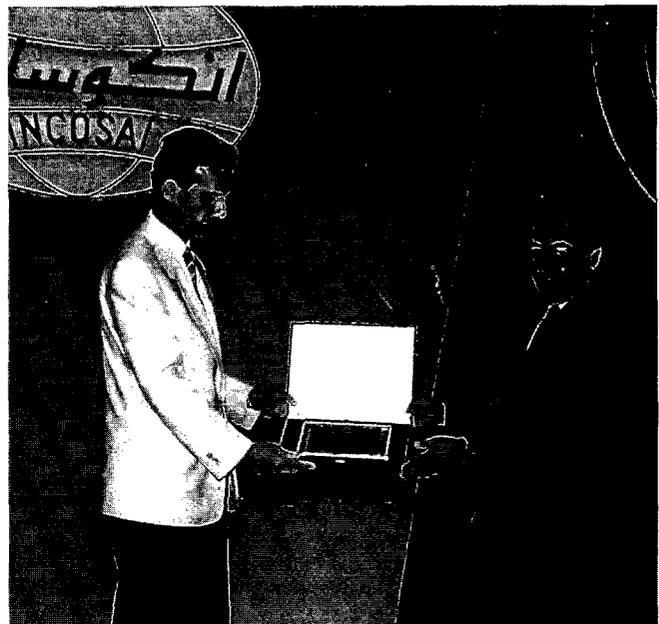
The triennial congress is the opportunity for the entire INTOSAI membership to decide on issues related to the ongoing business of the organization, including the election of new Governing Board members and auditors, and the presentation of the INTOSAI budget. In Cairo, delegates elected five SAIs to serve on the Governing Board: Cameroon, India, Morocco, Norway, and Portugal. Uruguay, as host of the 1998 congress, was also elected to the Board, as was Canada because it manages IDI. Delegates expressed appreciation to those SAIs leaving the Board: Kenya, the Philippines, Finland, Indonesia, and Romania.

Also elected in Cairo were the two SAIs who will serve as INTOSAI's auditors for the next three years, Finland and Norway; they will be responsible for auditing INTOSAI's accounts annually. Korea and Luxembourg had served as the auditors since 1992, and were thanked by the congress for their work. The congress also approved INTOSAI's three-year budget presented by the General Secretariat, as well as the annual report outlining the activities of the Secretariat. One new country was admitted to INTOSAI, Sao Tome and Prin-

cipe, bringing the organization's membership total to 174. For more information, contact: INTOSAI General Secretariat, Dampfschiffstrasse 2, A-1033 Vienna, Austria.

Awards Recognize Excellence in Achievement and Services

For the fifth time in its forty-two year history, INTOSAI presented two awards in Cairo, one for the best article published in this *Journal* for the years 1992-1995, and the other to recognize special accomplishments by an SAI in that period.



Mr. Castillo, Mexico, accepts the Kandutsch Award from Secretary General Fiedler at the closing plenary session.



Accepting the Staats Award on behalf of winner Egbert Kaltenbach (who was unable to attend the Cairo congress) is Dr. Nawrath, Germany (left); presenting the award is Mr. Aliferis, USA.

The awards are known by the names of the two men they honor, the Elmer Staats Award for the *Journal* article and the Jorg Kandutsch Award for the SAI.

Receiving the Kandutsch Award was the SAI of Mexico for its many accomplishments in support of the OLACEFS regional working group, leadership of INTOSAI's public debt committee, and contributions to financial management. The Staats Award was presented to Egbert Kalthenbach of Germany's Federal Court of Audit for his article, "The Audit of Secret Expenditures" which was published in the July 1993 issue of this *Journal*.

Looking to the Future

Plans are already underway for INTOSAI's next triennial congress which will be hosted by Uruguay in 1998. The official invitation was made by Dr. Rinaldo Smeraldi, President of Uruguay's Tribunal de Cuentas, and unanimously accepted by INTOSAI members at the closing plenary. The XVI INCOSAI is scheduled to take place in November 1998 in Montevideo, which will also be the venue for the 1997 Governing Board meeting. For more information, contact: Tribunal de Cuentas de la Republica, Juan Carlos Gomez 1324, Montevideo, Uruguay.

The three years leading to XVI INCOSAI promise to be busy ones for INTOSAI. The Governing Board will meet in Vienna June 24-26, 1996 to conduct the ongoing business of INTOSAI, and the organization's eight committees have a full schedule of activities to finalize as they prepare for Montevideo. INTOSAI's calendar will also include many training courses by IDI and the seven regional working groups, which will also sponsor regional congresses during that period.

For more information about the Cairo congress, contact the XV INCOSAI General Secretariat, Central Auditing Organization, El-Aruba Street, P.O. Box 11789, Madinet Nassr City, Cairo, Arab Republic of Egypt.

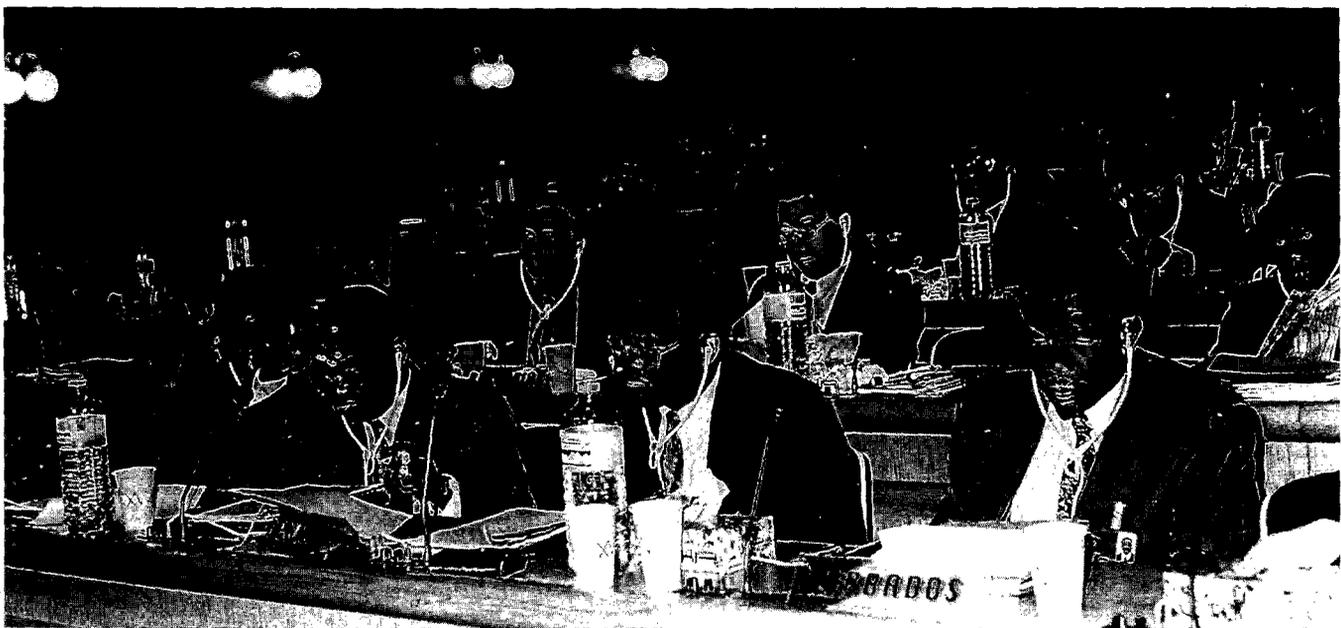
Symposium: The Audit of Privatization

Following the XV INCOSAI, many delegates remained in Cairo to participate in the symposium on the audit of privatization. Organized by INTOSAI's Privatization Committee and Egypt's Central Auditing Organization (CAO), the symposium provided another opportunity for SAIs to exchange information, explore issues, and discuss experiences.

The symposium sessions were held in the conference facilities at the CAO, with documents prepared in the five INTOSAI languages and interpretation available during the meetings. It began with a report, similar to the committee reports at the congress, based on the responses to the committee's survey of SAIs' experiences in privatization. However, the subsequent symposium activities were organized somewhat differently from the congress discussions. At the symposium, introductory papers were presented on specific topics, and these presentations were followed by panel discussions in which selected SAIs spoke about their particular experiences. Plenary discussions then allowed all SAIs to raise questions, share their ideas, or pose further areas for consideration by the committee.

The documents which were distributed as the basis for discussions and the SAIs which prepared them included:

- The Report on Privatization Audit Survey (United Kingdom),



Sessions of the privatization symposium were held at the Central Auditing Organization's auditorium.



The privatization symposium attracted participants from all parts of the world. Pictured above at one of the plenary sessions: Mr. Koteci, Albania; and Mr. Argaw, Ethiopia.

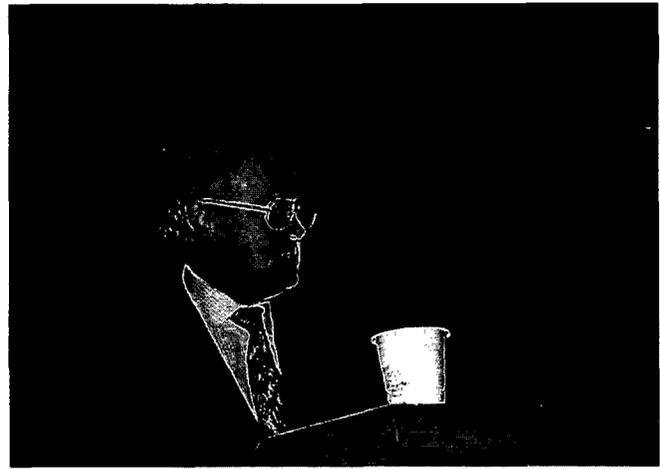
- Skills Required in the Audit of Privatization (New Zealand),
- Audit of Regulatory Action (Germany),
- The Privatization Process: Restructuring State-Owned Enterprises before the Sale (Israel), and
- Managing the Sale Process (India).

Other papers describing the specific national experiences of the SAIs in Argentina, Brazil, Egypt, and Romania were also made available to the delegates. Panelists included representatives from the SAIs of Argentina, Brazil, Chile, the Czech Republic, Egypt, Israel, Lithuania, Poland, and the United Kingdom.

In opening the symposium, Mr. Fakhry Abbas noted that, "No one can deny the effective role played by Supreme Audit Institutions in contemporary societies. SAIs follow-up the words and actions of executive authorities and put forward the results of this follow-up in the form of reports before legislative authorities. The observations and recommendations included in these reports are depended upon in all fields." He went on to say that expanding individual ownership through privatization is one of the key issues of the decade and that "the current international economic changes are a formidable challenge to our audit institutions and the privatization adopted by most countries in the world is the cornerstone for these developments." He expressed the hope that the privatization symposium would provide opportunities for all SAIs to learn more about privatization and enable INTOSAI to reach some conclusions about best practices.

Survey Results

Sir John Bourn, Chair of the Privatization Committee, echoed these sentiments as he introduced the presentation of the results of the committee's survey on privatization. He expressed his hope that presentations and discussions during the



Mr. Macdonald, New Zealand, presented a major paper at the symposium.

symposium would reflect the breadth of experiences among INTOSAI's membership and thus assist all members in moving forward in the area of privatization.

The survey on privatization was circulated to 165 INTO-SAI member countries in August 1994. To provide a foundation for the subsequent discussions, the first presentation of the symposium summarized the responses received from 117 SAIs.

The responses showed that, for many countries, developing the market economy and improving business efficiency are among the key objectives for privatization. While many were small privatizations, especially in Eastern and Central Europe, some were very big sales—58 had, in fact, raised over (US)\$1 billion each. Many methods of sale had been used, often in combination, and there were many different approaches for arriving at valuations and fixing prices. Two-thirds of the SAIs responding had reported on the existence of regulatory provisions in their countries, some relating to companies which have long been in the private sector, as well as some companies going through privatization. Regulation and its audit also emerged as a clearly important subject for most member states.

The questionnaire responses led to interesting discussions in several areas. In talking about the objectives of privatization, it was pointed out that countries might not have much choice in the matter when they are urged to privatize by external agencies, and although an important objective of privatization was to develop a free market economy, there was some discussion about whether or not international markets are always free. Several SAIs drew attention to the interaction between pricing and valuation issues and noted that valuing depends on many factors. The strength of management was brought up as an important issue and smaller nations highlighted the difficulty of disciplining ineffective managers in small countries

where people work together closely. Some SAIs described the difficulties in valuing companies where there was no market economy. Others cited experiences illustrating the problems arising if the market was depressed by too many privatization offerings which led to comments that this might be a reason for proceeding slowly with privatizations.

Restructuring State-Owned Enterprises Before the Sale

Israel's paper examined how restructuring could contribute to the objectives of privatization and posed the question: "why not privatize the restructuring process itself?" and then discussed the pros and cons of such an approach. The argument was developed that, "in most cases the real question is not whether to restructure but what part of assets, liabilities and obligations, or operations of the enterprise should be the subject of restructuring." A cost/benefit analysis was suggested as a tool to help decide which reforms to include in the restructuring to ensure that the government gets the best possible price. Although, as the paper was discussed, comments indicated that sometimes governments might not have enough money to pay for pre-sale restructuring and that a too ambitious approach to pre-sale restructuring might involve serious delays to the sale.

There was considerable discussion of the consequences of over-staffing in state-owned enterprises. It was noted that, in theory, it is possible for governments to reduce the number of employees before the sale to make the business more attractive to private buyers. Some countries had pursued this successfully; however, this could involve other issues and costs in terms of severance pay allowances or providing retraining opportunities.



The coffee breaks at the congress and symposium were good opportunities for delegates to continue discussions in less formal settings. Pictured here are three CAROSAI members: Mr. King, British Virgin Islands; Mr. Esdaile, Cayman Islands; and Mr. Griffith, Barbados.

Financial restructuring was examined in light of problems which could arise if state-owned enterprises owed large debts, especially to other state organizations. Based on their experiences, SAIs proposed solutions which included converting some of the debt into equity or writing off the debt entirely. However, they also noted that in pursuing these options, tax consequences may need to be considered.

Throughout the discussions attention was given to the need for governments to weigh all issues very carefully and for SAIs to be alert to potential problems and to have an in-depth knowledge of the companies to be privatized. When the question was posed about whether or not the SAIs were smarter than the governments, the answer was "no" but it was pointed out that the SAIs had the advantage of being independent. Their credibility stemmed from this independence and how skillfully they exercised their mandate—so preserving these factors is crucial for SAIs.

Managing the Sale Process

The Indian paper identified the sale process as the "heart of privatization" and noted that "like all transactions of public money and assets, the management of the sale process of state assets has also to conform to the accepted canons of public accountability." Based on the various experiences of INTO-SAI members in auditing privatization projects, the paper set out four key elements of the sale process (identifying, planning, implementing, and evaluating the sale) and discussions explored each of these elements.

Some SAIs saw advantage for the auditor if sale criteria and procedures were set out in legislation. There was considerable discussion, however, about the extent to which SAIs should be involved in giving advice to their governments before the sale, for example on aspects of valuation or even carrying out the valuation. Several SAIs expressed concerns about the risks of SAIs becoming involved in the politics and policies of the sale; others discussed problems they had encountered when asked to evaluate tenders from bidders. Another concern was related to achieving good value in the sale and how potential purchasers might react to having the SAI involved in the negotiation process. Issues related to preserving the independence of the SAI were also raised. It was noted that, at the second EUROSAI congress in 1993, delegates agreed that the SAIs should become involved in the privatization process as soon as constitutionally possible, consistent with maintaining their independence, and that such involvement can extend to offering advice at the planning stage, while ensuring that SAIs do not thereby limit their ability to comment later on the outcome of the privatization.

During the debate on this issue, New Zealand raised an interesting issue by pointing out that their SAI had taken out professional indemnity insurance because of the risks involved in giving advice in large transactions.

Skills Required in the Audit of Privatization

Beginning with an analysis of what is involved in the audit of privatization, New Zealand's paper outlined those skills needed by SAIs to audit these complex processes. The skills were divided into two areas: general audit skills (communication, research, and project management) and particular audit skills (understanding the government plan and the political environment; knowledge of commerce and the industry, contractual/legal requirements, corporate finance, economics, and legislation; and skills in policy analysis). The paper stimulated a valuable exchange of views among SAIs about the nature of the tasks and what SAIs could reasonably be expected to do.

In the discussions, attention was redirected toward the difficulties which can arise when the broad objectives of privatization are addressed and when SAIs have access rights to privatized companies. As in previous sessions, the appropriate role of the SAI in the privatization process was an issue and the subject for lively debate. However, as deliberations moved on to issues of staff skills, a wide variety of approaches were presented, and delegates noted that none of these were necessarily mutually exclusive and all could be effective regardless of the specific role being assumed by the SAI.

While there was general agreement with the paper's conclusion that "the cost of failure to recognize the risks of not having adequate expertise available in a timely fashion may be very high," some SAIs expressed concern that obtaining all the audit skills required might be very expensive because work in this area required that the auditor be a "Jack of all trades." Many SAIs indicated that they recruited external experts, others drew on advice of consultants. The Czech Republic, Poland and the United Kingdom reported positive experiences with external advisors. In the UK's experience, well-managed external advice proved to be cheaper than trying to do all the work in-house because the audit could be completed more quickly and more effectively. Other SAIs noted that caution was needed in identifying the consultant or expert to ensure that independence and objectivity were maintained. A point was made that having in-house staff work with the external consultant could be a method for developing the staff skills for use on future assignments. In addition to recruiting and hiring experienced staff, other alternatives included seconding staff to firms to obtain expertise and continuing exchanges among SAIs to build a pool of qualified staff.

Audit of Regulation

The paper presented by Germany was based on the principle that, "in contrast to the privatization of manufacturing businesses, government's role in the privatization of a public utility or a business providing public services does not end with its transfer to private ownership. Under its duty to guarantee the availability of vital supplies and services to the general public, the government continues to have a say, and so do government auditors." Noting that this has not yet emerged as

a major issue for the majority of SAIs, the paper pointed out that it will become increasingly more important as privatization goes deeper into economies and as private sector companies become more involved in the work of supplying services for the government. Quite often regulatory agencies have been established to monitor and direct the privatized sectors and the regulators are the subject of audit by the SAIs. The paper proposed that the audit of regulation could include the: analysis of the legislative framework; analysis of regulatory structure; analysis of the objectives of regulation; review of regulatory measures; review of monitoring compliance with regulation requirements, and the review of the impact of regulation.

In the discussions, attention was given to the need for SAIs to examine financial and performance issues. There was a general consensus that when SAIs audit a regulatory agency, it is not enough to audit the financial accounts; it is also important to see that the regulator's purpose was being achieved. In the UK, performance audit of regulation has become increasingly significant; for example, regulatory bodies have been set up to monitor privatized companies with monopolistic powers and the SAI is carrying out a number of performance audits on them.

Some SAIs have a mandate to audit the accounts of regulated private sector companies, but other SAIs have no such powers or access rights and rely on the cooperation of the private sector companies. SAIs reported problems because cooperation was not always forthcoming. Through discussions, two approaches were explored to address this problem: at the time the SAI started a performance audit of the regulator, the SAI could ask the regulator to call for certain information from the privatized company; and/or legislation could be passed requiring a regulator to provide the information.

Experiences in Privatization

Using a different format, one of the symposium sessions was a panel presentation examining general experiences in privatization. Representatives from the SAIs in Brazil, Egypt, and the United Kingdom summarized their experiences and offered insights and observations about the audit of privatization that grew from these experiences. It was noted that, "contrary to the various countries that have encouraged privatization as a political process, the privatization of state enterprises in Brazil aims, in principle, at promoting the modernization of the economy and resuming economic growth as a means to meet the needs of the Brazilian people." The SAI in Brazil plays an important role in the implementation of the privatization process, and the role of the SAI was defined by parliamentary decrees and reinforced by regulations. In discussing the structured and "spontaneous" privatization efforts that have evolved in Egypt since the 1970's, mention was made of the problems the SAI had in obtaining information needed to complete audit work. The SAI has been working to resolve this problem by building better and more cooperative relationships

with the ministers involved in the process. The UK presentation highlighted the impact of privatization (the percentage of the economy controlled by state-owned enterprises has dropped from 13% to 3%), but pointed out that it may be more realistic to discuss this in terms of an evolving process rather than a structured program. Likewise, the role of the SAI and the audit of privatization has been, and continues to be, evolving. Currently in the UK attention is being directed toward questions related to pricing issues and costs of transactions.

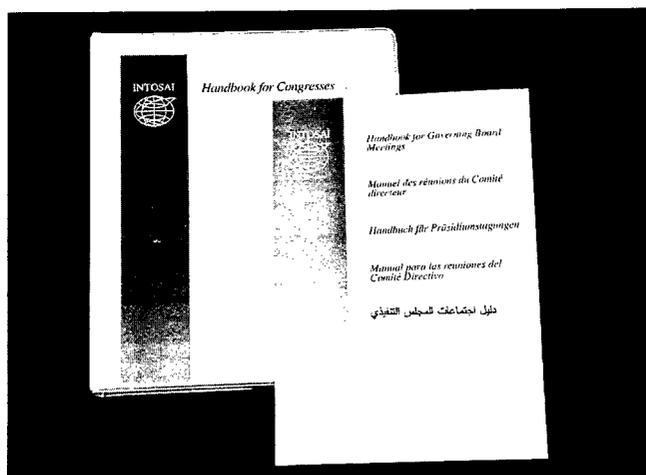
Conclusions and Recommendations for Future Work

At the closing session, Sir John noted that a number of important points had emerged through the discussions in the symposium:

- The differences in societies' laws, cultures, and size determine the form and set the limits and opportunities for the audit of privatization.
- Privatization takes many forms and this plays a role in determining the role of the SAI.
- New developments in contracting out and commercialization of government activities establish a wide range between total state ownership and total privatization which poses interesting problems for the auditor.
- The mandates of some SAIs may pose limitations, and SAIs may need to look for creative and imaginative ways to press forward when they encounter these limitations.
- Developing expertise in completing audits of privatization and in selecting good advisors is becoming increasingly important.
- Preserving the independence and credibility of the SAI must remain a priority.

Sir John suggested that there were three questions which SAIs could ask in auditing privatizations: (1) Was the privatization done within the law? (2) Were the assets properly valued? (3) Was there more than one bid? If the answer to any one of these questions was "no," then it was very possible that the SAI would have to report on the sale. If the answer to two of the questions was "no," then it was very probable that the SAI would have to report. And, if the response to all three questions was "no," the SAI would *certainly* have to report.

As the committee's chair, Sir John went on to recognize the committee's work. He recognized the CAO for their excellent support in organizing the symposium and providing an op-



To help guarantee the quality and continuity of programs such as congresses and governing board meetings, two handbooks were presented in Cairo.

portunity for the SAIs to gather together to examine the issue of the audit of privatization. He thanked the SAIs of Poland and France for organizing a EUROSAI symposium on privatization which included committee members, and the SAI of Turkey for hosting a committee meeting. He also recognized the 23 members of the committee who contributed to preparing the topics for discussion at the symposium, and he thanked all of the participants for their contributions to the lively exchange of experiences.

Based on the discussions, he outlined future work for the committee. Over the next two to three years, it will focus on three areas:

- developing an information base, for example a bibliography of reports by SAIs on the audit of privatization which would be made available to INTOSAI members;
- setting out a description of good practices in the audit of privatization; and
- examining further the work involved in the audit of regulators.

The committee will also consider sending a short questionnaire to all SAIs inviting them to describe their audit mandate in the area of privatization so the information could be shared, and exploring the possibility of further cooperation between SAI experts so that available expertise could be spread as widely as possible. ■

1995/96 Calendar of INTOSAI Events

1995

October

Privatization Symposium
Cairo, Egypt
October 4-6

November

OLACEFS General Assembly
Lima, Peru
November 26-December 1

December

1996

January

February

EUROSAI Governing Board Meeting
Stockholm, Sweden
February 12-19

March

April

May

EUROSAI Congress
Prague, Czech Republic
May 20-24

June

INTOSAI Governing Board Meeting
Vienna, Austria
June 24-26

July

ASOSAI Governing Board Meeting
Bali, Indonesia
July 9-11

August

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.

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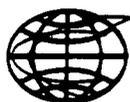
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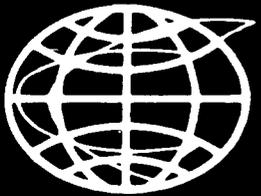
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