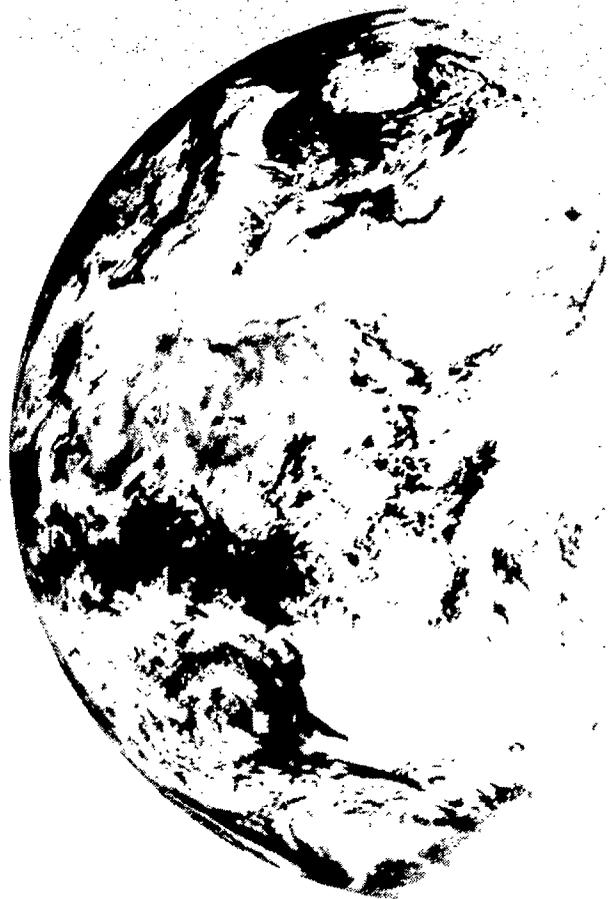


International Journal of Government Auditing



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

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My Best Wishes for the Future

By Dr. Tassilo Broesigke, Secretary General of INTOSAI (1980-1992)



Dr. Tassilo Broesigke

On June 30th my period in office as president of the Austrian Court of Audit will be over. As this will also mean the end of my activities as Secretary General of INTOSAI, I should now like to take my leave of you. I have been Secretary General of this organization for twelve years and have in that time witnessed a long and interesting development, which even a very strict auditor could only regard as favorable.

We have seen a continuous growth in congress participation, and important basic documentation in the form of standards have been created for adoption at the next congress. Together with the United Nations, training seminars have been held, and regional organizations which are gaining increasing importance have been established. The *INTOSAI Journal* is published regularly in the five INTOSAI languages and the editorial staff have successfully overcome all technical and linguistic difficulties. New INTOSAI statutes will be adopted at the Congress in Washington this October.

In sum, we may say that our organization, whose prime objective is the exchange of experience, has learned to serve

this purpose more and more effectively and thus made a significant contribution to understanding among nations and to helping the less favored among them.

Of course, one cannot claim that everything is in perfect order, and we must continually strive for improvement. The challenges confronting us are great. Public auditing is not only of special importance in the developing countries but also in the countries of Eastern Europe, which need to build up a modern system of auditing now that they have managed to free themselves from communist rule. Improving public auditing and control is a never-ending task, and overcoming language barriers and standardizing technical terms are important parts of this work.

It goes without saying that I cannot lay claim to all that has been achieved in the twelve years of my association with INTOSAI. However, it gives me great gratification to be able to say that I have taken part in it all.

I am fully aware that our success has been due to the excellent way in which all parties have cooperated. And because this cooperation has been so important, I should like to take this opportunity to thank all the auditing authorities who have contributed to our common cause, and above all those of their staff members who, through their untiring work and dedication, have helped make this success possible.

But my most special thanks go to the members of the Governing Board and the Chairmen of INTOSAI in these past twelve years. They have had a difficult job and have done it excellently.

One of the main ingredients of INTOSAI's success is the fact that it has never let the internal problems of individual countries or conflicts between its member states interfere with its work, but has always concentrated on the task at hand, namely, that of advancing the cause of public auditing. This is a principle which should not be forgotten in years to come.

Lastly, let me give INTOSAI my best wishes for the future and wish it great success in maintaining and strengthening its role in the community of nations. ■

News in Brief

Bangladesh

New Auditor General

The new Comptroller and Auditor General of Bangladesh is Mr. Khondkar Moazzamuddin Hossain, who assumed the position on March 7, 1992. Mr. Hossain holds advanced academic degrees in the areas of Islamic History and Culture from Dhaka University.



Mr. Khondkar Moazzamuddin Hossain

Mr. Hossain brings over 30 years of public service to the audit office, serving most recently as Secretary of the Ministry of Women's Affairs. Previous senior positions include Additional Secretary of the Ministries of Health and Family Welfare, Post and Telecommunication, and Finance. Mr. Hossain's work at the Ministry of Finance included responsibility for relations with the World Bank, the International Monetary Fund, and the Central Bank. From 1970-71 he served as Deputy Comptroller and Auditor General.

Barbados

New Auditor General

Mr. E. David Griffith was appointed Auditor General of Barbados on April 1, 1992, by the Governor General of Barbados in accordance with the Constitution. Prior to his appointment, Mr. Griffith served as Accountant General for over 17 years, during which time he was responsible for managing and supervising all of the government's cash transactions and accounting operations. Before that, he held the post of Chief Accountant in the Ministry of Finance and Planning, where he performed management auditing services for the Ministry. Mr. Griffith's public service careers includes 36 years of service.



Mr. E. David Griffith

Mr. Griffith is a fellow of the Chartered Association of Certified Accountants and is also a member of the Institute of Chartered Accountants of Barbados. He succeeds Mr. Lincoln Thomas who retired as Auditor General earlier this year.

Mexico

State Auditors Meet

The Mexican National Association of State Auditors celebrated its sixth biannual congress from May 20-22, 1992, in Monterrey. The 31 delegations represented Mexico's 31 states, and met to discuss such topics as auditing state and municipal accounts, comprehensive auditing, and auditing investment projects financed with federal state and local funds.

The inaugural ceremony of the congress was highlighted by the President of Mexico, Mr. Salinas de Gortari, who was accompanied by the Governor of the State of Nuevo Leon, Mr. Socrates Rizzo and the Auditor General of Mexico, Mr. Javier Castillo Ayala. Presentations by these distinguished guests focused on efforts being made at all levels of government to strengthen the supreme auditing function as a basic component to the wide ranging administrative reforms being implemented under the current government.

The congress also served as a celebration for the establishment of the state audit office of the state of Nuevo Leon, the only Mexican state that previously did not have such an institution.

Norway

Annual Report to Parliament

The Office of the Auditor General (OAG) of Norway has examined the 1990 public accounts, which encompass the Government's and the Ministries combined administration of

public funds, including their supervision of subordinate institutions' monetary dispositions. In the majority of the Ministries' areas of responsibility, the OAG has uncovered actions taken which were inconsistent with applicable laws, and so large in amount that they warrant presentation to Stortinget for action.

Some of the issues were repeats from previous years, where administrative practices have not improved sufficiently. This applied especially to the armed forces where acquisitions have not followed the Defense regulation for procurements. The regulation assumes free and open competition to the greatest extent possible. A survey of practices 2-3 years ago showed that competitive-bids procedures were not adhered to. Documentation supporting the choice of purchase procedure and vendor selection was also unsatisfactory. The OAG reviewed procurement procedures again

to determine whether the procurement regulation has been followed. The results of the investigation are clear; the situation is poor when it comes to adherence to the regulations and the supervision of the the Ministry of Defense.

A couple of years ago Norway's State Railways started a special freight project for transport to and from northern Norway. The OAG raised the question of profitability at that time, and its viewpoint has been confirmed now that the project has become a big money-loser. On the basis of experience in the project, the board of directors in the enterprise proclaimed that greater demands must be made with respect to management's vigilance in starting up projects of this sort and an obligation to report large deviations as soon as possible. The board also stated that management must emphasize planning, internal control and review of projects.

Germany and China

Joint Seminar with China

On March 7, 1992, twenty senior representatives of the supreme audit institution of China arrived in Germany to attend a 4-week seminar on the fundamentals of the German government auditing system. The purpose of the seminar, which was organized and funded under a German-Chinese joint project, is to support the training capabilities at the Nanjin Training Center. The focus of the lectures, workshops and discussion groups was on issues related to financial audit of government agencies. In addition, participants had the opportunity to visit a number of federal states and cities in Germany, as well as the Federal Court of Audit. Another German-Chinese seminar is scheduled to take place in Nanjing in the fall of 1992.



Participants in the German-Chinese audit seminar held at the Post-graduate School of Administrative Science in Speyer, Germany. ■

Privatization in Venezuela

By Dr. Jose Ramon Medina, Comptroller General of Venezuela

The ongoing privatization of government enterprises in several Latin American countries is part of a process of change based on the implementation of neoliberal economic policies. It involves replanning the State's role in economic activity and the transfer of public assets to the private sector. This of course, involves major financial transactions.

Privatization is the legal and administrative process of implementing an economic policy of total or partial transfer of the ownership of companies that by their nature or because of their low profitability are inappropriate for the State to retain. It also includes conceding specific economic activities to the private sector without transferring ownership.

Planning during the 1970s involved governments assuming a leadership role in economic and social development. This was viewed as a process of global structural change to legitimize the intervention of the state.

In accordance with this structuralist approach, emphasis was placed on accelerating development by expanding exports, import substitution as an impetus to industrialization, modernization of agriculture, international financial cooperation, and economic integration aimed at achieving a Latin American Common Market (ECLA).

This development model, supported primarily by ECLA, the Alliance for Progress, and the Inter-American Development Bank (IADB) encouraged governments in many Latin American countries to assume the role of entrepreneur as a full, majority, or minority shareholder and in association with private capital. In many cases, these governments were encouraged to engage in activities contrary to sound economic policy since they became involved with companies in financial difficulty.

Background

The interference of the government in Venezuela's economy started in the 1920s, when banks, airlines, telephone, and shipping companies among others, were created or acquired. Because of this, the decentralized sector of the Venezuelan government comprises almost 500 entities.

In Venezuela, the nationalization of basic industries, such as petroleum, natural gas, iron production, and the railways, is particularly salient. In the case of the electricity sector and basic heavy industry, in fact, the state assumed responsibility for creating and operating the corresponding companies.

With the exception of the oil holding industry, the Caracas metro, and a number of basic industries in the Guyana region, government enterprises have been characterized by inefficiency and low productivity, resulting in subsidies, tax exemptions, capital contributions, and incentives. This has required the State to consider redefining its role in the economy and delimit the participation of the public and private sectors.

In 1948, the Presidential Commission for State Reform (COPRE) was created and redefined the role of the Venezuelan state in a new economic strategy that included the policy of "Rationalization of the Role of the State in the Production of Goods and Services." One of its courses of action includes privatization.

Bases of Privatization

COPRE has promoted privatization, but its implementation was assigned to the Venezuelan Investment Fund. A commission was created to formulate state policy so that public assets and government enterprises could be transferred to the private sector, with the participation of the private and social sectors.

The privatization plan considered the following problems: deficiencies in management, permanent subsidies, uncontrolled debt, inefficiency, overstaffing, and administrative shortcomings.

The plan's objectives are to make the economy efficient and dynamic and the activities of the state more effective and selective. To this end, the State's role needs to be redefined, efficiency and productivity increased, the quality of goods and services improved, financial pressures lessened, and capital made widely available through private investment.

Considerations regarding the privatization of companies involve political viability, value of the business, economic feasibility, and legal status. Guidelines for privatization include a flexible and transparent process, in keeping with an objective that entails participation and is economically advantageous to the nation. This process includes consulting firms and an approach that is international in scope and uses public bids.

Methods of privatization include (a) transfer of ownership: total or partial sale of assets or shares and the conversion of debt into investment and (b) no transfer of ownership: contracting management, granting concessions and licenses, eliminat-

ing monopolies, liquidating companies, and reducing shareholder participation.

Internal Audit of Privatization

The Organic Law on Privatization is currently before the Congress and calls for internal and external audit systems for privatization.

The internal audit system of privatization would require the establishment of clear and precise objectives, a system of registration and control of operations, parameters and criteria to determine sales prices, rates of exchange, forms of payment, delivery deadlines, and rules and procedures to standardize processes.

This system should include the review of financial statements, assessments, and expert advice, with a view to determining the fair sales price, the supervision of bids and concessions, follow-up on procedures, and journalization and documentation of the appropriate operations.

External Audit of Privatization

The participation of the supreme audit institution (SAI) would have to be oriented towards proof after the process, and would consist of verifying that transactions were appropriately studied beforehand, considering the legal regulations applicable. It would also require that, in all operations, the interest of Venezuela with respect to prices and guarantees was safeguarded, that the bids conformed to established guidelines, and that the respective files contained supporting documentation for the entire privatization process so that the SAI can form an opinion about it.

Conclusions

As a result of Venezuela's experience, I have come to the following conclusions.

- Privatization is a process being implemented in many countries to reorganize economies, make capital widely available, and permit governments to concentrate on their traditional responsibilities.
- Both the executive and legislative branches of government should monitor and followup on privatization processes with a view to guaranteeing their legality, transparency, and economic advantage for the state.
- Privatization policy should be regulated by a law that establishes the bases and technical requirements of the respective processes.
- An internal audit organ should review transactions before they become official and have broad powers to oversee matters essential to the process.
- SAIs should be legally empowered to conduct audits and engage in other related activities that it deems necessary to safeguard national interests and to inspect the activities of internal audit organs.
- Privatization should be considered by international organizations with a view to establishing and disseminating basic principles regarding its control that would provide orientation and guidelines in unifying the international doctrine of fiscal supervision. ■

Audit and Evaluation in the European Communities

By Hartmut O. Ries, Economist and Senior Auditor, Federal Court of Audit, Federal Republic of Germany

Editor's Note: This article is the abridged version of a speech on program research activities of the European Communities Mr. Ries gave to the annual meeting of the Association for Program Research in the Executive Branch on November 14 and 15, 1991, in Bonn.

In its audit work, the Court of Auditors of the European Communities (EC) increasingly relies on evaluative criteria. The reorganization of the European Structural Funds and the amendment of the European Communities' budget code call for prospective and retrospective evaluations and cost-effectiveness studies. This is reflected in recent audit guidance issued by the Court of Auditors. In addition, the European Parliament has actively championed the tool of evaluation. This article will discuss

- the Court's role and audit environment;
- prerequisites to program evaluation;
- the Court's audit scope;
- open audit activities;
- an evaluation of the European coal and steel policy; and,
- future prospects for program evaluations by the Court.

Financial Control in the European Communities

Both external and internal audit are supplemented by political budget control exercised by the European Parliament.

External Audit

The Court of Auditors, with headquarters in Luxembourg, is one of the newest EC institutions. Pursuant to article 206a of the treaty establishing the European Economic Community, the Court determines whether all EC revenue has been received and all expenditures incurred in a lawful and regular manner, and whether the financial management has been sound.

In the last few years, the Court has begun to put more emphasis on issues such as effectiveness analysis and control and policy and program evaluation. By analyzing the impact of EC programs conducted under the Agricultural Guidance,

Regional Development, and social EC Funds, including programs under the treaty establishing the European Coal and Steel Community (ECSC), the Court made clear the importance of political guidance in determining the demands and needs to be met by any EC program.

Internal Audit

The internal audit of budget implementation is carried out by the EC Commission. The Commission applies audit criteria similar to those applied by the Court.

The Court's Evaluation Environment

Reorganization of the Structural Funds

In the last few years, the Court of Auditors has come under growing pressure to make more use of policy and program evaluation. One reason for this is the fact that the European Council, the European Parliament, and the Commission began to question the merits of various EC policies.

In response to these reflections, the Structural Funds were reorganized. On June 24, 1988, the Council adopted a regulation that included the following requirement: "It is necessary to establish effective methods of monitoring, assessing and carrying out checks in respect of Community structural operations, based on objective criteria. . . In order to gauge their effectiveness, Community structural operation shall be subject of an ex ante and ex post assessment designed to highlight their impact with respect to the objectives. . . and to analyze their effects on specific structural problems."

The EC Financial Regulation

The amended Financial Regulation, adopted by the Council and the Commission, provides explicitly for cost-effectiveness analyses to ensure that the funds used accomplish program objectives.

Prerequisites for Program Evaluation

Although the above-mentioned provision is a step in the right direction, there is still no guarantee that EC administrators will actually change traditional practices and do program evaluations. This will be the case only if the European Parliament, the public, and the scientific community become alert and insist on this.

To date, the legislative and regulatory framework for program evaluation has been created at the level of the EC's Commission. But this framework needs to be supplemented by a regulatory framework in the EC member states. This does not mean simply installing adequate accounting systems. The new decentralized decision-making units to be established under the proposed reform of the Structural Funds must develop the capability to precisely define what objectives they wish to achieve with a special program. Further, member states must have a clear idea of how to provide services or allocate funds to the private sector and must correctly assess staffing needs. Moreover, a remedy must be found for the practice of distributing grants indiscriminately among all EC member states. Nonfulfillment of these prerequisites not only hampers evaluation efforts at the national level but makes evaluations at the European level nearly impossible.

Government departments and agencies often rely on external evaluators to provide objective and valid data. But most evaluators have little experience in evaluating public administration. As a result, they tend to use sophisticated validating techniques. Further, when trying to determine whether targets have been met, they often fail to pay due regard to the complex process in which institutions come to a consensus and formulate policy. Thus, the findings emerging from such studies frequently lack validity, and recommendations cannot be implemented.

Audit Scope of the Court

Audit Criteria

The Court long ago adopted a modern audit methodology, which can be found in its audit guidelines. Under this methodology, the traditional audit criterion of operational efficiency was supplemented by that of effectiveness, including audits of target achievement and cause-and-effect considerations "at each implementation stage of a policy, measure, program or project." This approach not only is a response to actions taken by the European Council and the Commission but also reflects the requirements of the European Parliament. This approach may also be a result of the fact that a relatively high percentage of staff at the Court are still rather young and open-minded, having a variety of educational and professional backgrounds. Their expectations for promotion entail an interest in more-demanding audit exercises.

Open Audit Activities

As a matter of fact, the European Council, the Commission, and the Court of Auditors have put in place the regulatory framework for carrying out program evaluations. But to make best use of this tool, the Court and the Commission still need to consider some basic principles. Since evaluation efforts are costly and time-consuming, potential fields of Commission action should be identified before embarking on any significant evaluation.

Program evaluations are hardly possible in the context of contrasting objectives and requirements, such as decentralizing Structural Fund responsibilities but distributing funds equitably among all member states.

Evaluative research has a specific political character. As a rule, policymakers expect the Commission's administration to be loyal, as any executive agency should be, even in the face of program objectives that would not stand a substantive test. This is the main obstacle to developing evaluation capabilities at the European level.

The European Parliament is struggling for more political influence and therefore finds evaluation results most helpful. So this is a good time to put in place program evaluation for both the EC administration and the Court of Auditors. In a later stage of its campaign for more political power, the European Parliament might no longer be eager to use evaluative findings. Past experiences show that the European Parliament is the appropriate addressee of evaluation reports, if these focus not on top-level overall objectives or isolated cases of minor importance but on packages of measures or programs and their implications.

EC administrators are used to thinking in terms of narrow, well-defined topic areas rather than large programs. Therefore, EC institutions should focus attention not on general policy design, program implementation, and effectiveness but on narrow and well-defined topic areas.

Further, to do effectiveness studies, establish effectiveness controls, and perform program evaluation, some creativity is required. Creativity, however, is not much in demand in a bureaucracy because it involves questioning the merits of routine procedures.

Evaluating the European Coal and Steel Policy

Examinations by the Court of Auditors

This section takes the European coal and steel policy as an example and summarizes how the Court has paved the way for program evaluation.

In 1985 and 1986, an audit team of the Court devised a multi-year strategy on how to evaluate the European coal and steel policy. At first, the Court rejected the concept of doing such an evaluation as too political. The team then divided its original work program into small portions and submitted the revised program for Court approval. The Court approved the revised program portion by portion. In this respect, the audit team took advantage of the traditional thinking, which focused on narrow topic areas.

Given the tightly stretched audit staff and time available, the basic approach was to examine a number of indicators from which, if taken together, general conclusions could be drawn on the effectiveness of ECSC measures.

At first, data collection and information management by the Commission's steel department were analyzed, together with some organizational procedures, to serve as indicators of the processing capacity of the Steel Directorate. The auditors found that the collection of basic data for measures to overcome the steel crisis lacked coordination and that no requirements analysis had been done to determine what data the Commission really required. The computer-aided socioeconomic European steel model was set up and updated by external experts, but it was too technical to be of much use for the Commission's daily work.

The auditors doubted whether the structural and the procedural organization of the directorate was effective. Also, they questioned the effectiveness of the quota system for the steel industry and the program promoting the use of EC coal.

Then the auditors looked into the collection of data, information management, and organizational procedures at the Commission's coal department. In addition, they evaluated the housing program for steelworkers. As a result the auditors recommended a revision of the whole program.

In examining the price-monitoring system of the steel industries in the EC member states, the auditors found that the system had had no effect on prices.

A review of the economic justification for intervention payments in the coal and steel industry revealed that the Commission did not know whether the EC funds had achieved any benefit. Since the objectives of the payments were also unknown, it was impossible to say if the interventions were of any use in achieving the targets set for restructuring the economic aspects of the Commission's and the member states' coal and steel policy.

The Parliamentary Discharge Procedure

At the beginning of 1991, the European Parliament referred to the above findings of the Court of Auditors and, when it qualified its discharge granted to the ECSC, stated in the resolution on the report of the Court of Auditors:

"The European Parliament

- urges the Commission...to submit an assessment of the socio-economic impact of the ECSC's funding activities. . . for which Parliament has been calling for several years.
- takes the view that a comprehensive analysis of the success of restructuring measures funded by the Community and the member states must document the improvements in competitiveness resulting from increased productivity, in this connection, the economic and social implications for the regions concerned must be pointed out.
- again points up the need for the deliberations on the ECSC's future to take account of the conclusions reached in the analysis to be conducted of the effectiveness of assistance measures."

Implications

Thus, the European Parliament definitely advocated evaluation efforts. It set up a working party to discuss the results achieved by the ECSC treaty and possibilities for terminating the treaty prematurely. The Commission presented a report that partly supported the required effectiveness analysis and favored a premature termination of the treaty. The audit team gave additional impetus to this idea by submitting a further evaluation report.

Future Prospects

In general, program evaluations generate the apprehension and the opposition of those people and institutions that have to conduct them ex officio. The apprehension and opposition must be understood and taken for granted as part of the complex political and administrative system.

The newness of the European administration, however, leaves room for correcting shortcomings in its practices and procedures. Evaluations are a valuable tool for this purpose.

The European Court of Auditors, it is hoped, will face this formidable challenge and carry out its role as a guardian of public funds. ■

Developing a Strategic EDP Audit Plan Through International Cooperation

By Francisco J. Del Pozo, Member of the International Board of Auditors for NATO

Introduction

The International Board of Auditors for the North Atlantic Treaty Organization (NATO) is the external auditor of the organizations and the operations of NATO. NATO is increasingly computerizing its financial and administrative functions.

To meet the challenges of auditing in an automated environment in an orderly manner, the Board decided to develop a strategic electronic data processing (EDP) audit plan. Several factors had to be considered in doing this:

- The Board has a multinational audit staff with varying degrees of knowledge about EDP. This staff is made up of highly qualified auditors at the management level, but not all have EDP experience. Generally, the auditors stay in the Board for a maximum of 6 years.
- The Board had done EDP audit work in the past. The Board had not done these audits within the framework of a general plan, however; nor were all the audit staff involved in them.
- The large audit universe and small number of auditors made it impractical to establish a group exclusively devoted to EDP audits.
- Due to various constraints, the amount of initial training was limited to no more than 3 days.

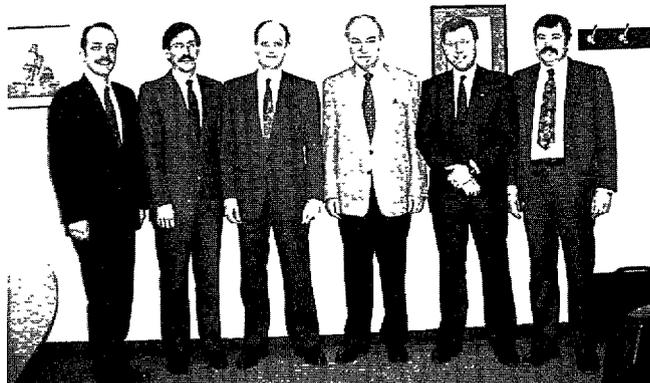
Plan Objectives

The overall objective was to formulate an approach and a course of action for conducting EDP audits over the 1992-96 period. To do this, the following specific objectives were agreed upon:

- establish common minimum standards for EDP audit work;
- ensure that all audit staff acquire a basic level of EDP financial audit skills;
- create a consistent approach for dealing with similar topics in different agencies to improve the audit and to allow for evaluations of EDP issues NATO-wide;
- develop an EDP audit approach that would evolve and improve during implementation;
- facilitate the incorporation of new auditors by providing them with an established framework for EDP audits;

- create a common body of knowledge to profit from professional interchange within the Board; and,
- establish a mechanism for monitoring implementation of the plan.

The plan would be supplemented with specific audit guidelines for the different types of work to be done.



The international composition of the team working on the NATO Board of Auditors information technology project is reflected in the membership of the team. Pictured here, from left to right, are: Gordon Lusby, NATO; Michael Blair, United States General Accounting Office; Francisco Del Pozo, NATO; Arie Van Der Tempel, Netherlands Court of Audit; Chris Carr, United Kingdom National Audit Office; and, Ralph Running, NATO.

Approaches to Plan Development: Collaboration With SAIs

The first decision to be made was whether to hire a consultant to develop the plan or to do it with in-house expertise.

The second option was preferred as it would have taken too long for any consultant to get acquainted with the Board's audit environment. However, the Board believed that the contributions of outside experts were necessary.

At this stage, the Board decided to ask the supreme audit institutions (SAIs) of the United Kingdom (National Audit

Office), the Netherlands (Algemene Rekenkamer), and the United States (General Accounting Office) to collaborate in the project. The basis for this decision was that the Board and the SAIs had the same mission, that is, the audit of public funds. The three SAIs agreed to participate, and their involvement has been key to the project's successful implementation.

Development Process

The Board held preliminary discussions with these SAIs to agree on the scope of the priorities of the projects and establish a schedule of activities. The SAIs gave the Board general documentation on the topic. The Board used this documentation to draft an EDP plan. In developing the plan and the guidelines, the Board and the SAIs followed audit standards developed by INTOSAI and standards adopted by the Board. This draft was sent to the SAIs for consideration.

The SAIs' representatives and the Board met twice in Brussels, in February and March 1992, to discuss the plan and guidelines. Each 1-week meeting constituted intensive working periods. By the end of the second meeting, the SAIs and Board representatives had completed a final draft plan and guidelines for the Board's consideration. The resulting documents were formally approved by the Board on April 27, 1992.

Benefits of This Approach

The Board deems this approach successful and has identified the following benefits:

- The in-house management of the project ensured that the plan was tailored to the Board's needs and, even more important, that it was feasible.
- The SAIs' participation ensured the technical quality of the product and ensured that no important issues were overlooked.



Project team spent many hours reviewing and drafting documents to prepare the EDP strategic plan. The team is pictured here during a work session in Brussels chaired by Francisco Del Pozo.

- The SAIs and the Board profited from the professional interchange of knowledge and experience.

Types of Audit Work Identified in the Plan and Types of Guidelines

The plan identified three types of EDP audit work.

Type 1—Initial Review of EDP Systems

The objectives are, in the first phase, to become familiar with the EDP systems of the agency being identified and, in the second phase, to perform the minimum EDP audit work required to certify the financial statements. Guidelines have been developed to implement type 1 work. The aim of these guidelines, "Agency EDP Systems Familiarization Guidelines," is to help the auditors understand how agencies use EDP to support their activities and how EDP functions are managed.

For the second phase, three sets of agency financial systems audit guidelines were developed:

- "Guidelines for Developing a Description of the Agency's Financial Accounting System;"
- "Guidelines for the Evaluation of General Controls in the EDP Environment for the Processing of Financial Transactions; and,
- "Guidelines for the Evaluation of EDP Application Controls for the Processing of Financial Transactions."

These guidelines identify the minimum work to be done by the auditors. They are designed to be used by professional auditors, even if they do not have previous EDP experience.

The guidelines and the plan do not contain highly technical terminology.

The Board believes that the use of these guidelines will upgrade auditors' EDP proficiency and generate self-confidence.

Type 2—the Use of EDP to Improve the Audit

The objective is to make the auditors aware of the advantages that EDP can offer for a more efficient and effective audit. Guidance has been issued to help the auditors identify possible ways to use EDP to improve their work.

Type 3—Performance Audits of EDP Systems

The objectives are to evaluate EDP systems development and the effectiveness and the efficiency of EDP operations. Guidelines for doing this type of work will be developed at the next stage of the project, which will begin in late 1992.

The plan describes the schedule for implementation over the 1992-96 period with details of the expected annual results. Resources required to implement the plan are allocated within the framework of the Board's general strategic and long-range plan.

Conclusions

Several conclusions can be drawn from the project.

1. Development of the EDP plan was a good example of the benefits of international cooperation and sharing auditing experiences.
2. The plan, which is practical and easily adaptable, explains how to systematically meet the challenges of EDP auditing.
3. The practicality of the guidelines, and the simple but accurate terms in which they have been drafted, will greatly help the Board to perform credible and consistent EDP audits.
4. The plan will integrate, in an orderly and prioritized way, the EDP work into the Board's normal audit work.
5. The plan will allow for development of a body of common knowledge. This is even more important given NATO's staff rotation policy.
6. The systematical application of the same tests and checks to different agencies will allow the Board to create a database of EDP systems and to draw conclusions on a NATO-wide basis. ■

EUROSAI Seminar on the Audit of Privatization

By Jim Marshall, Director, National Audit Office, United Kingdom

One subject to be discussed at the second EUROSAI Congress, to be held in Stockholm, Sweden in June 1993, will be the changing functions of the state and the role of audit, with special attention to privatization. To prepare for a well-informed and constructive discussion at the Congress, the supreme audit institutions (SAI) of the Czech and Slovak Federal Republic and the United Kingdom were asked to organize a seminar for EUROSAI members to examine current issues relating to the audit of privatization in Europe and to report on the seminar's outcome to the Congress.

The seminar was held in Prague on April 9-10, 1992. Some 30 SAIs, including guest organizations, were represented. In welcoming delegates and guests, Dr. Kvetoslava Korinkova, Minister of the Czech and Slovak Federal Republic's Ministry of Control, said that this impressive response showed the importance of privatization and its audit. The seminar was a most useful opportunity for the exchange of information about fundamental changes taking place in the European economies. Dr. Korinkova was particularly pleased that the seminar was being held in the Federal Republic, a country that 2 years previously had started along new paths. Sir John Bourn, Comptroller and Auditor General, United Kingdom, joined Dr. Giuseppe Carbone, President of the Italian Court of Auditors and President of EUROSAI, in thanking Dr. Korinkova for her warm welcome.

Questionnaire Results Guide Discussion

In preparation for the seminar, EUROSAI members were asked to complete a detailed questionnaire designed to identify key facts about the extent to which privatization was taking place in each member country and the consequences for the state and the SAI concerned. Twenty-two questionnaires were completed and returned.

Delegates approached their work in three ways. First, they examined the key facts about the current privatization scene as derived from the replies to the questionnaires. Second, they analyzed those facts to distinguish the various aspects of the privatization process and to see the different models and approaches used by various countries. Finally, they looked at audit processes, analyzing different approaches, key issues, and elements of good and poor practices in the conduct of privatization as

revealed in audits conducted by participating countries. Also, speakers from various European SAIs and also other institutions, including central privatization agencies and the private sector, made presentations. The speakers drew attention to a wide range of challenges faced by governments in carrying out privatization and by auditors in examining the results.



Welcoming delegates to the EUROSAI Seminar on the Audit of Privatization in Prague is the head of the supreme audit institution of the Czech and Slovak Union, Dr. Kvetoslava Korinkova, host of the seminar. Also appearing with Dr. Korinkova were representatives of the United Kingdom, co-sponsors of the event, and Italy as the President of EUROSAI.

Conditions and Approaches Vary

The seminar identified a number of differences between eastern, central, and western Europe, in particular the difference between privatizing into an existing market, as is being done in western Europe, and privatizing as a market is being created, as is being done in central and eastern Europe. The seminar also noted differences within these geographical areas. Examples included (1)

the different ways in which share vouchers were being introduced in Poland compared with the ways in the Czech and Slovak Federal Republic and (2) the slow motion approach to privatization adopted in the Netherlands and Norway compared with the faster pace of some sales in France and the United Kingdom. In terms of numbers, the overwhelming majority of cases of privatization took place in central and eastern Europe. These have involved mostly small retail businesses, and the sales have been seen as a key element in the transformation to a market economy. In terms of value, the situation is substantially reversed; the bulk of privatization, which is worth over \$1 million in U.S. dollars, took place in western Europe's established market economies.

The seminar noted the difficulties faced by governments in all European countries in privatization. Examples included (1) how to value a business when its existing accounting policies often needed radical revision to accord with private sector norms and when the markets and the economy itself were changing rapidly and (2) how to secure full and open competition for the business in order to get a fair price.

"The privatization process was bringing EUROSAI countries closer together because it posed problems and opportunities shared by all the countries concerned."

The seminar went on to examine the challenges confronted by SAIs in auditing privatization. These included the newness, the complexity, the speed, and the volume of the changes occurring. Reference was made to the lack of stated government objectives or, even where stated, their competing nature. An example of this was the case when the government was concerned about completing the sale according to a demanding timetable but at the same time wanted to maximize sale proceeds and to secure the viability of the business. There was also discussion of the difficulties SAIs faced in examining and commenting upon the way businesses had been valued when the SAIs lacked access to relevant expert knowledge and experience.

Conclusions and Recommendations

Summing up the discussions, the hosts noted that the privatization process was bringing EUROSAI countries closer together because it posed problems and opportunities shared by all the countries concerned. Whatever privatization models are adopted, it is important to get the pace of the programs right. Thus, if countries are aiming for rapid privatization, as in central and eastern Europe, it is essential to do so expeditiously because delay impedes the transformation to a market economy. Finally, it was noted that many costs sometimes associated with privatization were really the costs of wider structural change and environmental improvement, and to attribute such costs to privatization unfairly weighted the scales against it.

Points likely to be recommended to the second Congress for discussion are as follows:

- the importance of the SAIs' role in drawing attention to past experience in order to benefit the conduct of future sales;
- SAIs need, regardless of whether they are involved before or after the sales, to provide an independent view, focusing on performance in relation to objectives;
- further exchanges of experiences between SAIs, which can make an important contribution to identification of lessons that can be applied to future privatization; and
- the fact that the second Congress is an opportunity for practical cooperation, which can assist SAIs both in auditing the privatization process itself and in further developing common attitudes to auditing standards and methods.
- Delegates expressed their special appreciation to the Federal Ministry of Control, which had done an excellent job in preparing for this major event. The warm welcome provided an ideal atmosphere in which to conduct the seminar and to build constructive relationships with colleagues from other SAIs.

All participants left the seminar feeling that they had benefitted by a challenging and demanding two days and that progress had been made toward identifying common approaches in this difficult area.

For additional information on the EUROSAI Conference, contact the author at: National Audit Office, 157-197 Buckingham Palace Road, Victoria, London SW1W 9SP, England. ■

International Consortium on Government Financial Management

6th Annual International Conference on New Developments in Governmental Financial Management

Representatives from many Latin and Central American and Caribbean countries along with participants from European and Asian nations met together in Miami, Florida, from April 6-8, 1992, to discuss "Integrating Governmental Financial Management—Nationally and Globally." The conference was jointly sponsored by the International Consortium on Governmental Financial Management; Latin American and Caribbean Organization of Supreme Audit Institutions; Florida International University, School of Accounting; Inter-American Accounting Association; Inter-American and Iberian Public Budgeting Association; American Society of Public Administration, and the U.S. Agency for International Development.

Presentations on a wide variety of topics included discussion about: the worldwide need for integrated financial management systems; strategies to improve accountability; auditing assistance projects; dealing with corruption and fraud; budgetary techniques; the role of auditors and audit standards; training for auditors and other financial management specialists; and statistical applications in the evaluation of government programs. Informal discussion groups also provided opportunities for participants to share their ideas, observations, and experiences.



Antonio Sanchez de Lozada, Comptroller General of the Republic of Bolivia (on the left) received the first "Oscar Vargas Preto Award for Accountability and Integrity in International Governmental Financial Management." Presented during the Miami meeting by Mortimer A. Dittenhofer, President of ICGFM, the reward recognizes him for his energetic, forceful, and dedicated efforts as the Comptroller General from 1982-1992. His work resulted in the Law that provides for integrated financial management and control and accountability over Bolivia's public resources; this is serving as a model for other countries throughout the world. The award honors the late General Oscar Vargas Preto, former Comptroller General of the Republic of Peru.



Participants in the April conference of the International Consortium on Governmental Financial Management included from left to right: Mr. Guillermo Potoy Angulo, Comptroller General, Nicaragua; Mr. Muhammad Naseer Ahsan, Auditor General of Pakistan; Mr. Neamtu Horia-ion, Chief of Supervisory Department, Romania; Ms. Maria del Rosario Sanchez de Sereni representing the Court of Accounts, Argentina; Mr. Luo Jin Xin, Deputy Auditor General of the Peoples Republic of China; Mr. Antonio Sanchez de Lozada, Comptroller General, Bolivia, and Mr. Teofilo N. Martel Cruz, Comptroller General, Honduras. ■

Audit Profile: The Audit Department, Kingdom of Tonga

By Pohiva Tu'i'onetoa, Auditor General of Tonga

Tonga embraces some 200 islands which run north and south in two almost parallel chains scattered over 360,000 kilometers of the Pacific Ocean. Only 45 of the islands are inhabited, the largest being Tongatapu, which is the seat of the capital and the residence of almost two-thirds of the population.

The Government

Tonga is a hereditary, constitutional monarchy which has been independent within the Commonwealth since June 4, 1970. The Constitution dates back to 1875. The executive branch is headed by the monarch and his Privy Council, which includes a Cabinet headed by a Prime Minister. There is also a legislature which meets at least once a year. When the legislature is not in session, the Privy Council is empowered to enact legislation which must be approved by Assembly at its next meeting. The judicial system is composed of a Court of Appeal, Supreme Court, Magistrate Courts, and a Land Court.

Audit Department History and Structure

The Audit Department has, in recent history, undergone a series of changes. Prior to 1938 the Auditor General had been a member of both the Privy Council and the legislature and had played a major part in matters of financial policy. In 1938, the position of Government Auditor was created to replace the post of Auditor General. At that time many of the functions of the Government Auditor, such as ensuring financial regularity within the government departments and providing an independent check on the public accounts, were delegated to subordinates. Late in 1984, the Public Audit Act was passed re-establishing the office of the Auditor General. The terms of appointment, powers and duties are now clearly defined by statute and the Auditor General is required to be a chartered or certified accountant.

A unique feature of the office of the Auditor General is that the SAI really serves as Chief Internal Auditor for government and not a servant of the legislature. The Auditor General is appointed by the Government (executive), and the Auditor General can, with the recommendation of the Prime Minister, be removed by the Cabinet. The Auditor General reports directly to the Prime Minister, and the Prime Minister lays the report before the Privy Council and Legislative Assembly.

This apparent lack of autonomy has not in practice affected the performance of audit duties and has not, in the past, involved any influence on the auditor's objectivity.

The Work of the Office

The Auditor General is required to report annually on the public accounts and to express an opinion as to whether they present fairly information in accordance with recognized government accounting policies. To accomplish this mission, the SAI is authorized to make examinations and inquires necessary to complete this report.

In the report to the Prime Minister, the Auditor General expresses an opinion as to whether or not:

- accounts have been properly maintained or public money has been fully accounted for;
- records have been maintained or the rules and procedures applied have been sufficient in accordance with applicable statutes;
- money has been expended only on purposes for which it was appropriated, and that such expenditure has been made with concern for economy or efficiency, and
- satisfactory procedures have been established to monitor and report the proper expenditure on development projects.

The Auditor General may also make a special report to the Prime Minister on any matter of pressing importance or urgency that should not be deferred until the presentation of the annual report.

Except as limited by any specific legislation, the Auditor General is entitled to free access to information that relates to the fulfillment of the objectives of the SAI.

At this time, the Audit Department uses the recently issued INTOSAI Standards as its main guiding principles.

Staff and Training

The Audit Department currently consists of 35 people divided into two branches, the Audit Operations and Administrative Services.

The Audit Operations is the heart of the SAI and employs 85% of the staff. The Administrative Services Branch supports the work of the Audit Operations.

A problem faced by the SAI, and the country as a whole, is the lack of accounting training in the country. The main regional training centers are in Fiji, New Zealand, and Australia. However, this year a diploma course in Accounting Studies has been established by the government, and the Auditor General is on the Advisory Committee.

A related problem is the need to continuously train the staff. This is a result of the government policy allowing free transfer of the clerical staff among various departments and the practice of promoting, especially up to middle management levels, based only on seniority with the clerical staff. To deal with this problem, a course has been designed and divided into two parts—an Accounting Package and an Audit Package. A person sits for an accounting test; if the individual passes, he or she can move on to the Audit Package. If the staff member fails, then he or she has to go through the Accounting Package before starting the Audit Package.

SPASAI

Since 1988, the Auditor General has served as the Secretary General for the South Pacific Association of Supreme Audit Institutions (SPASAI), INTOSAI's regional working group. This group has replaced the earlier group known as the "Heads of Audit Offices of the South Pacific."

Future Directions

Looking to the future, the audit office's key targets for the next five years are to:

- maintain high standards of financial audit work,
- develop the resources to carry out value for money investigations
- secure efficiency savings throughout our work. ■

Reports in Print

Increasingly governments are recognizing the importance of efficient and effective public audit. In emerging and changing political environments, new public audit laws are being introduced and existing laws are being reviewed and amended. To provide a checklist and a framework for such reviews and proposals, The Chartered Institute of Public Finance and Accountancy (CIPFA) has published a book by H. David Myland, retired Comptroller and Auditor General of the United Kingdom, entitled *Public Audit Law*. The publication covers many topics including: audit scope; accountability framework; nature of audit activity; scope of reporting; code of practice; independence; link between audit body and legislature; financing of audit activity; staffing, and access to information.

Copies of the book are available in English from **The Chartered Institute of Public Finance and Accountancy, 3 Robert Street, London WC2N 6BH, United Kingdom**. The cost for the first copy of the book is 25 pounds sterling; additional copies are 12.50 pounds each.

In his ex officio capacity as Federal Commissioner for Efficiency in Public Administration, the President of Germany's Federal Court of Audit has recently issued a comprehensive study outlining *Typical Shortcoming in the Assessment of Staffing Needs at Federal Agencies*. The book is the result of a cross-sectional evaluation of reports and finding generated by the Federal Court of Audit in the course of examinations conducted over the last 15 years. The audit guide defines and discusses in detail various staffing requirements, points out frequent deficiencies, and presents recommendations for improvement.

The publication states that federal departments and agencies often did not apply appropriate procedures for assessing staffing needs. In addition, the units entrusted with conducting surveys and assessing staffing needs frequently lacked the necessary skills and organization to conduct their work. Methodology and procedures which were used were not reliable, and basic statistical sampling requirements were not met, thus yielding unrepresentative results. Time allowance was overstated without any reasonable justification; annual staff work time was poorly forecast, and work measurement standards were often not fully verified. Although, in many instances, staffing needs were promptly adjusted to increasing workloads, no staff trimming took place when the activity leveled off.

In a period when public resources are often tightly stretched, adequate staffing procedures are paramount if the executive branch is to perform its statutory functions in a proper in efficient manner. This book may be a valuable resource tool for those engaged in public sector auditing or personnel management.

Copies of the book are available in German, at no cost, from the **Bundesrechnungshof, Referat Pr/int, Postfach 100433, D-6000 Frankfurt am Main, Federal Republic of Germany**.

In conducting its work the United States General Accounting Office (GAO) employs many diverse methodologies, and periodically issues policy guidance to its staff in methodology transfer papers and technical guidelines. *Using Statistical Sampling, (GAO/PEMD-10.1.6)* is the latest methodology transfer paper issued by GAO's Program Evaluation and Methodology Division; it supersedes and replaces the previous paper on statistical sampling issued in 1986.

Recognizing that sampling can be an important element in designing and planning audit and evaluation assignments, the purpose of the paper is to help managers and evaluators learn more about statistical sampling and the role it plays in the design and execution of a job. The paper provides enough background on sampling concepts and methods to enable staff to (1) identify jobs that can benefit from statistical sampling, (2) know when to seek assistance from a statistical sampling specialist, and (3) work with the specialist to design and execute a sampling plan. Chapters address basic concepts, sample design and selection and estimation procedures, basic estimation procedures, advanced estimation procedures, sampling in the audit environment, random selection procedures, and data collection and analysis considerations related to sampling.

Copies of the transfer paper, in English, may be obtained at no cost by writing to the **United States General Accounting Office, 441 G Street, N.W., Room 7806, Washington, D.C. 20548, U.S.A.**

Noting that the "process of gathering and evaluating evidence is fundamental to an audit," the Canadian Institute of Chartered Accountants has published the results of a research study designed to consider the interpretation and

application of audit evidence standards in value-for-money audits. *Value for Money Evidence*, by D.M. Barnes, C.A., presents the results of the study group's work. Topics examined in the research study and discussed in the book include an introduction of definitions and standards and the basic concepts of evidence. This is followed by a presentation of the conceptual framework for value-for-money audit evidence which includes a logic model and examples of applications of this model. The issues of sufficient appropriate audit evidence, types and sources of evidence, and evaluating evidence are also addressed. The chapter on evidence under different value-for-money audit mandates examines federal and provincial legislative audits, examinations of Crown Corporations, municipal and non-legislated audits, internal audits, and mandates outside Canada.

The book concludes by challenging practitioners to examine and test the concepts presented in the study and suggesting that consideration be given to establishing specific guidelines or standards for the use of audit evidence in value-for-money work.

The text is well organized and clearly written so that the basic ideas being presented are easy to follow. Numerous examples are used throughout the book to demonstrate the application of the issues and concepts being presented, and a variety of charts further enhance the presentation.

Available in English or French, the book can be ordered from **The Canadian Institute of Chartered Accountants, 150 Bloor Street West, Toronto, Canada M5S 2Y2**, at a cost of Canadian \$35.00. ■

Inside INTOSAI

UN/INTOSAI Interregional Workshop on EDP Auditing

The United Nations Interregional Workshop on EDP auditing in Developing Countries was held in Vienna, Austria, from May 27 to June 4, 1992. This was the 10th in a series of interregional meetings organized jointly by the United Nations Department of Economic and Social Development (DESD) and the International Organization of Supreme Audit Institutions (INTOSAI).

Traditionally DESD has undertaken various activities intended to help developing countries strengthen their public financial management systems. As part of these activities, DESD, in cooperation with INTOSAI, has been organizing interregional meetings on government auditing usually every 2 years. Over the last two decades, nine such meetings have been held to discuss various subjects of common interest, such as audit of public enterprises, audit of public works, performance audit, comprehensive audit, principles of audit, internal management control systems, audit of major development programs, applications of government audit standards, as well as accounting and auditing of foreign aid programs. Computer-assisted auditing was the theme of the most recent meeting.

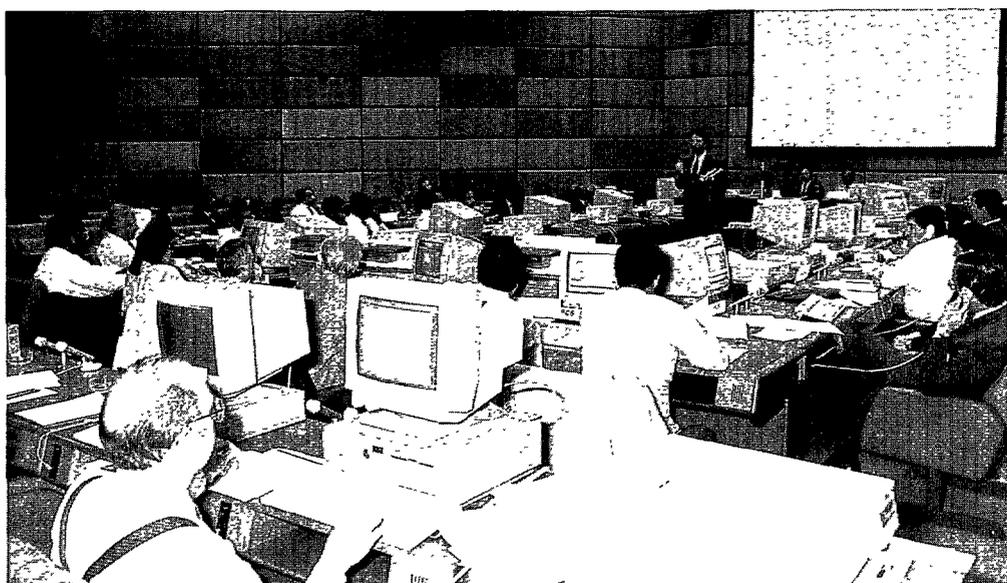
Practical Applications Emphasized

The workshop included discussions of computer concepts, the use of the computer in the audit process, and implementation of computer auditing in a supreme audit institution (SAI), as well as case studies. Participants had access to a local area network on which they learned computer-assisted audit techniques and methods. Analytical papers, country experiences, and case studies were prepared by the UN, INTOSAI, SAIs, and agencies from several countries.

The case studies covered development of strategy, characteristics of well-structured accounting systems, organizational issues, products available, hardware systems, requisition process, training requirements, and sources of funding and technical assistance.

A total of 30 participants from 25 developing countries and 5 developed countries attended the workshop. Representatives from the African Development Bank, the FAO, UNESCO, UNDP, and UNIDO, also attended.

The objective of hands-on training with selected software packages was to increase the awareness of what microcomputers can do for the auditor. Participants used the software to create a payroll audit program and an audit



The emphasis on a practical, hands-on approach to learning computer skills is clear in this picture of the seminar room at the Vienna International Center, venue for the UN/INTOSAI seminar on computer technology and auditing. Each participant had the benefit of using a personal computer during the 8-day seminar.

file. They were able to create several steps and link them to reference done in WordPerfect and Quattro-Pro spreadsheet like Lotus 1-2-3 on the computer.

Interactive Data Extraction and Analysis was used to import and explore a bank file; index and link other data, such as customer name and address; and total fields.

In addition, participants learned several techniques for assessing the reliability of computer-based data. The participants used Quattro-Pro, a spreadsheet program, to perform both attribute and relational tests.

Attribute tests performed included checks (1) for the presence or the absence of data, (2) to determine whether data were alphabetic or numeric, (3) to determine whether data were positive or negative, and (4) whether the data were within defined ranges.

Conditional tests looked at relations between two or more data elements, such as an employee's years of service and the number of hours of leave learned.

Computer techniques used to perform these tests included:

- single- and multiple-column sorts,
- recomputation of formulas,
- look-up tables to verify multiple-field computations, and
- logic tests.

Conclusions and Recommendations

EDP Technology in the recent years has made rapid strides and its use in Governmental operations has grown to a considerable extent. SAIs have always shown an acute awareness to this issue. However the time has now come for the decisive action on their part, since otherwise their effectiveness may be seriously eroded. At the same time the new technology offers a unique opportunity to SAIs to enhance their audit capability and improve their internal operations. It is in this context that the relevance of EDP Technology to SAIs has to be perceived.

Participants' comments were most positive for all facets of this UN/INTOSAI Meeting. The participants were most enthusiastic about the new hands-on approach component introduced in the workshop. The participants were especially pleased with the quality and the relevancy of the presentations and the different methods used by the presenters. For the hands-on part, the material and tutorship provided by the three EDP-technology auditing experts were found most satisfactory by all attendees.

Participants recommended follow-up activities in the nature of hands-on computer training. It was also suggested that similar workshops be held on a regional or national basis. Another recommendation was that some means of communicating the most recent developments in EDP hardware and software technology applicable to SAIs should be developed or promoted. ■