

INTOSAI



# International Journal of Government Auditing

July 2002



# International Journal of Government Auditing

July 2002—Vol. 29, No. 3

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The *International Journal of Government Auditing* is published quarterly (January, April, July, October) in Arabic, English, French, German, and Spanish 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 7814, 441 G Street, NW, Washington, D.C. 20548, U.S.A. (Phone: 202-512-4707; Facsimile: 202-512-4021; E-mail: <chases@gao.gov>).

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

Articles in the *Journal* are indexed in the Accountants' Index published by the American Institute of Certified Public Accountants and included in Management Contents. Selected articles are included in abstracts published by Anbar Management Services, Wembley, England, and University Microfilms International, Ann Arbor, Michigan, U.S.A.

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# 21<sup>st</sup> Century Challenges and Opportunities

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By Mr. David M. Walker, Comptroller General of the United States of America



Mr. David M. Walker

INTOSAI members and their governments face a range of challenges in the 21<sup>st</sup> century that are shaping the future of our institutions and our countries. Increasing global interdependency, changing security threats, changing demographics, rapidly evolving science and technologies, the transition to a knowledge-based economy, and quality of life issues represent a few of the many borderless trends that we face. Against this backdrop, it is appropriate to ask, what is the proper role for government auditors, how should government do business, and who should do the government's business in the 21<sup>st</sup> century? While there is ample room for debate as we answer these critical questions, there is widespread recognition that the status quo is unacceptable for a variety of reasons, including rising public expectations for demonstrable results and enhanced responsiveness; significant long-range fiscal challenges due to known demographic trends and rising health care costs; and a range of government performance/accountability and high-risk challenges.

As we respond to these and other emerging challenges of this new century, independent public sector accountability organizations such as supreme audit institutions (SAIs) have a significant opportunity to play major roles.

## Oversight, Insight and Foresight

In my opinion, the role of an SAI should include a combination of oversight, insight, and foresight activities. By *oversight*, I mean activities designed to determine that government entities are doing what they are supposed to, spending funds for the intended purpose, and complying with applicable laws and regulations. In the case of my organization, the General Accounting Office (GAO), we perform a variety of work for the

appropriations and oversight committees in the U. S. Congress in areas that range from health care to weapons systems, international aid, and homeland security.

By *insight*, I mean activities designed to determine which programs and policies work and which ones don't. This also involves sharing best practices and benchmarking information, domestically and internationally. In addition, it means looking horizontally across the individual ministries and departments of government and vertically between the levels of government.

By *foresight*, I mean identifying key trends and emerging challenges before they reach crisis proportions. To use an example from my country, the composition of spending has changed dramatically since 1962 when 50 percent of the budget was for defense. In 2002, defense represented only 17 percent of the budget. Where did the money go? Social Security, health care, and interest on the federal debt. These costs are going only one way in the current environment — up! As a result, how can we make the numbers add up and reconcile unlimited wants with available resources? Without substantive reform, beginning in about 10 years, a rapid escalation of federal spending for entitlement programs will start to overwhelm the rest of the federal budget.

Consequently, the task of addressing these needs without increasing the impact on the long-range fiscal challenge has become more difficult. Simply put, what we may be able to afford today may not be sustainable tomorrow. A fundamental review of existing federal programs and policies is necessary to determine what the government should do and how it should do business in the future. We also need to examine who should do the work by designing and implementing sourcing strategies that are both effective and fair to all parties.

As part of our foresight role, GAO analysts are focusing more on results and outcomes rather than on processes and outputs. This includes looking at longer term fiscal challenges, including the long-term implications of today's decisions. GAO has done a great deal of this type of work, which potentially has a much higher return on investment than other audit work. For example, GAO has developed long-range (i.e., 50 year) budget simulations, identified long-range fiscal challenges, and noted the need to reform existing entitlement programs in order for the United States to avoid rapidly escalating deficits or tax burdens in the not-too-distant future.

In each of these three roles — oversight, insight and foresight — I believe that government auditors and SAIs in particular are well positioned to lead by example in helping to fight corruption, enhance the performance, improve the transparency, and assure the accountability of government for the benefit of our respective citizens. We must lead the charge in the fight to achieve these important objectives.

## **The Enron Example**

A recent example is the largely unexpected bankruptcy of one of the U.S.'s largest corporations, Enron. A few bad actors who do bad things can have catastrophic consequences for many innocent people. With regard to the Enron situation, a number of players clearly failed to properly discharge their respective responsibilities. These breaches of trust have sent a shock wave through the accountability profession and the investor community.

While GAO does not have any responsibilities for auditing private sector companies like Enron, we are taking a number of actions designed to help the Congress decide what to do in light of Enron's decline and fall. We have made a number of accounting, audit, regulatory, oversight, governance and pension related recommendations for the Congress and executive branch to consider. In particular, we have recommended that a number of steps be taken to enhance the oversight of public accounting firms that audit public companies. Our recommendations are designed to help minimize the chance of another Enron-like situation. While certain steps can serve to significantly reduce the related risk, the risk will never be zero.

In addition to making recommendations to others, we have taken a number of direct actions ourselves. One recent example was our issuance of new independence standards for auditors of federal government entities and entities that receive federal funds.

## **Identifying High Risk Programs**

GAO has also promoted accountability and transparency by publishing a "high-risk list" every two years that includes those government programs and functions that GAO feels are especially vulnerable to fraud, waste, abuse, or mismanagement. Since the list was introduced in 1990, we have expanded it to include those programs and functions that are at risk of not effectively achieving their missions or objectives. As you might suspect, many of these programs and functions involve significant amounts of money and multiple players, including external contractors. Two recent additions were the federal government's strategic human capital management and the U. S. Postal Service's transformation effort.

Publication of the high-risk list generates light on these areas. With light comes heat, and with heat comes action, and action is what we want.

## **Collaboration and Cooperation**

In today's world, no nation is an island. As September 11 showed us all, vast oceans that separate the United States and others from the rest of the world are of little consequence in today's high-tech and interconnected world with asymmetric security threats. As a result, no nation can or should go it alone! Every nation has interdependencies and shares certain common challenges with other nations—combating terrorism, money laundering, corruption and infectious diseases; protecting the environment; and promoting peace, prosperity and freedom around the world. All these challenges require the concerted effort and cooperation of many nations, and many also require the cooperation between the public, private and not-for-profit sectors.

As SAIs, we must work together to help address these shared challenges in order to better serve our clients, our countries, and our accountability profession. This cooperation can include conducting joint or parallel audits, when appropriate. To be credible in our work, SAIs must be professionals not politicians, and we must have a judicial temperament. In addition, we should seek to lead by example in what we do and how we do business in the 21<sup>st</sup> century. As auditors general, we must do our best to be rocks of integrity and model public servants. We must say what we mean, mean what we say, and tell it like it is even if some would prefer not to hear the facts and the truth. We must also have the courage of our convictions to do what is right even when it may not be popular or easy to do so. This is part of what the words "independence" and "integrity" are all about.

Finally, as SAIs we have an opportunity to lead the transformation of the accountability profession by expanding our audit scope and reporting to include additional work relating to internal controls, performance reporting and long-range fiscal projections.

We know the challenges that lie ahead, and we must confront them head on. We will learn from the past and from each other while preparing for the future. We will also seek to share knowledge and experience with our fellow SAIs around the world since "mutual experience benefits all." By doing so, we can do a better job for our countries and citizens. ■

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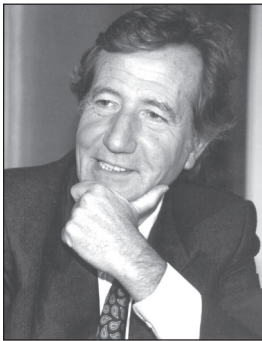
# News in Brief

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## Argentina

### New SAI President Appointed

Dr. Leandro O. Despouy was appointed President of the Auditoría General de la Nación (Argentina's national audit office) on March 19, 2002. His appointment was in accordance with the rules and regulations of Argentina's Constitution, the Law of Financial Administration, and the Control Systems of the Public Sector as approved and established by the Senate and House Deputies of Argentina's Congress.



Dr. Leandro O. Despouy

Dr. Despouy's professional background is in legal, economic, and social sciences. During his career, he has specialized in both international relations and international humanitarian law, with a particular emphasis on human rights. He is an expert in the area of international cooperation and negotiation. Dr. Despouy has served in numerous positions in the international service and academia and has the diplomatic rank of ambassador.

Most recently, Dr. Despouy was head of the Argentine delegation at the 56th Period of Sessions of the Human

Rights Committee of the United Nations (UN) in 2000. That same year, he was also a member of the Argentine delegation at the 56th General Assembly of the Organization of American States. During the 1980s and 1990s, he worked in various capacities at the UN. He was a member of the Subcommittee on the Prevention of Discrimination and Protection of Minorities, in which capacity he was a special reporter on the UN report "Extreme Poverty and Human Rights" (1996). He has also been president of the Argentine delegation to the International Red Cross and a consultant to the organization. In 1993 and 1994, he was an assistant to the special representative of the secretaries general of the UN and the Organization of American States on a joint mission to Haiti that resulted in the return of President Jean Bertrand Aristide to the country. He has been a consultant on cooperation in human rights and institutional strengthening for the UN Center of Human Right, the UN High Commission on Refugees, and the UN Development Program.

From 1985 through 2000, Dr. Despouy taught courses at the Inter-American Institute of Human Rights in Costa Rica; universities in Lima, Peru, and Caracas, Venezuela; and many other academic institutions in Europe, the United States, and Latin America. In the 1970s, he was a professor at the University of Buenos Aires.

For more information, contact: Auditoría General de la Nación, Hipólito Yrigoyen 1236, 2. piso Cap. FED. C.P. 11080, Buenos Aires, Argentina; Tel: 54 (11) 41 24 37-21; Fax: 54 (11) 41 24 37-31; e-mail: [webmaster@agn.gov.ar](mailto:webmaster@agn.gov.ar); Internet: [www.agn.gov.ar](http://www.agn.gov.ar).

## Canada

### New CCAF Board of Governors

Sheila Fraser, Margaret Bloodworth, Pierre Brunet, Andromache Karakatsanis, and Wayne Strelieff were recently elected to the Canadian Comprehensive Auditing Foundation (CCAF) Board of Governors. The experience these public sector leaders and professionals bring to the board will greatly benefit and enhance its ability to successfully carry out its mission.

In addition to their duties with the board, the governors hold other offices in government or in the private sector. Ms. Fraser is Auditor General of Canada, Ms. Bloodworth is Deputy Minister of the Department of National Defense, Mr. Brunet is Vice-Chair of the Canadian Institute of Chartered Accountants and Vice Chairman of the National Bank of Canada, Ms. Karakatsanis is Secretary of the Cabinet and Clerk of the Executive Council of the Province of Ontario, and Mr. Strelieff is Auditor General of British Columbia. For more information about the governors, consult CCAF's Web site at [http://www.ccaf-fcvi.com/html/english/new\\_governors\\_may02\\_entry.html](http://www.ccaf-fcvi.com/html/english/new_governors_may02_entry.html).

## Chile

### Comptroller General's Office Celebrates 75<sup>th</sup> Anniversary

On March 26, 2002, the Comptroller General's Office of Chile celebrated its 75<sup>th</sup> anniversary with more than 1000 Chilean and international guests in attendance. Among the special invitees in attendance were His Excellency the President of the Republic, the President



of the Senate, and the President of the Supreme Court. State ministers, heads of public services, directors of enterprises, and employees from the Comptroller's office also attended.

International guests included Dr. Franz Fiedler, the Secretary General of INTOSAI; Dr. Genaro Matute, the Comptroller General of Peru and President of OLACEFS; and Mr. David Walker, the Comptroller General of the United States. This was the first meeting of these highest ranking international audit authorities in Chile.

During his speech, the Honorable Ricardo Lagos, President of Chile, highlighted the historical role of the Comptroller General's Office, its participation in the fight against corruption, and its projected role in the 21<sup>st</sup> century. Comptroller General Arturo Aylwyn referred to the importance of modernization in the country and the importance of the institutional doctrine document. Dr. Fiedler made reference to the evolution of the General Comptrollers Office and the importance of its contribution to democracy and to the institutions of the country. Dr. Matute discussed the evolution of OLACEFS and the importance of modernizing all Latin American SAIs based on technology, their employees, and the cultural changes needed in order to have more flexible organizational structures. Mr. Walker described the evolution of the U.S. General Accounting Office (GAO) and the type of audit function needed in these modern times.

In summary, all the speakers emphasized the critical role that a sound accountability and audit function plays in the development of a country.

For more information, please contact: Contraloría General de la República, Teatinos 56-589. piso, Correo 21, Casilla 117, Santiago de Chile; fax: 57 (1) 341 67 35; e-mail: [aylwin@contraloria.cl](mailto:aylwin@contraloria.cl); [www.contraloria.cl](http://www.contraloria.cl).

## Estonia

### Annual Report

State Audit Office of Estonia released their latest annual report in innovative format. In addition to the usual organizational information the report contains officers' essays. These provide an overview of problems, topics and possible solutions that are important in Estonia from the auditors' point of view. It also contains officials' views to the developments of the State Audit Office.

Auditor General Juhan Parts notes in the address to the readers: "Besides the traditional coverage of our results, expenditures and financial situation, we have given the floor to our employees, so that their opinions might reveal our vision of the past year of the state and the State Audit Office." Our intent has been to show what we expect of the auditees and ourselves and of which it could be said "This is the way to do things!"

The annual report is available on the State Audit Office's web page [www.riigikontroll.ee](http://www.riigikontroll.ee). The State Audit Office recently started to translate documents into English and to publish them on the web page along with all the summaries of its audit reports and press releases.

## Germany

### New SAI Head

In April 2002, Dr. Dieter Engels was appointed President of the Federal Court of Auditors, and Mr. Norbert Hauser was appointed Vice President. Dr. Engels succeeds Mrs. Hedda von Wedel, who was appointed a Member of the European Court of Auditors in January 2002.

Prior to his appointment, Dr. Engels was Vice President of the Federal Court of Auditors, a position he had held since 1996. Before that, he served as both a Senior Civil Servant and later

as a Senior Executive Director at the Office of the German Federal Parliament. He was also Chief Secretary to the parliamentary Appropriations Committee. Later Dr. Engels was Director of the Administrative Office of a German party's parliamentary group. Dr. Engels is also a professor at the Higher Technical College of Administrative Science in Speyer. Dr. Engels has a doctorate in law from the University of Bonn, where he was also a research associate at the Institute for Penal Law.



Dr. Dieter Engels

Prior to his appointment, Mr. Hauser was a member of the German Federal Parliament, where he had served on the parliamentary Public Accounts Committee since 1998.

For more information, contact: Bundesrechnungshof, Postfach 12 06 03; Tel: 49 (1888) 721-0; Fax: 49 (1888) 721-2610; E-mail: [Poststelle@brh.bund.de](mailto:Poststelle@brh.bund.de); Internet: [www.bundesrechnungshof.de](http://www.bundesrechnungshof.de).

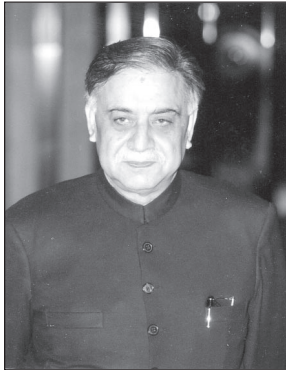
## India

### New Comptroller and Auditor General

Mr. Vijayendra N. Kaul was appointed Comptroller and Auditor General of India on March 15, 2002. His responsibilities in the international arena include serving on the United Nations (UN) Panel of External Auditors and the Governing Board of the International Organization of Supreme Audit Institutions (INTOSAI). He is also Chairman

of the INTOSAI Standing Committee on EDP Audit and the Secretary General of the Asian Organization of Supreme Audit Institutions (ASOSAI).

Prior to his new appointment, Mr. Kaul served in a number of positions in the state government of Madhya Pradesh (MP), India's federal government, and the UN. Within the state government, he has served as Secretary of the Department of Commerce & Industry and as Principal Secretary in the Home Department. His last assignment under the state government was as Principal Secretary in the Department of Finance. He also held various positions in parastatal organizations under the state government, including Chairman of the MP State Industries Development Corporation.



Mr. Vijayendra N. Kaul

Mr. Kaul's senior positions within the government of India included two terms as Joint Secretary in the Ministry of Commerce. He also served on the Board of Governors of APEF and on the Board of Central Public Sector Companies. In addition, as Secretary of the Government of India, Mr. Kaul has served in the Ministries of Coal, Chemicals and Fertilizers and Petroleum and Natural Gas.

Mr. Kaul's main area of expertise is international trade and finance. As an international civil servant, Mr. Kaul was seconded to the UN in 1991 and served for seven years as Advisor of Trade Policy for the Asia-Pacific Region in Bangkok. He also served as External

Auditor of International Agencies, covering agencies such as the World Tourism Organization in Madrid, the International Centre for Genetic Engineering and Biotechnology in Trieste, and the Organization for Prohibition of Chemical Weapons in The Hague. Among the specialized agencies in the UN system, he is responsible for the external audit of the International Maritime Organization in London. He has also been appointed the External Auditor to the Food and Agriculture Organization in Rome.

Mr. Kaul is also a fellow of the Economic Development Institute, World Bank, and the ODC, University of Manchester, United Kingdom. Mr. Kaul has a masters degree in history, which he earned from St. Stephens' College, Delhi. He entered the Indian Administrative Service in 1965.

For more information, contact: Office of the Comptroller and Auditor General, 10 Bahadur Shah Zafar Marg, New Delhi 110002, India; Tel: 91 (11) 323-5797; Fax: 91 (11) 323-5446; e-mail: [rir@cag.delhi.nic.in](mailto:rir@cag.delhi.nic.in); Internet: [www.cagindia.org](http://www.cagindia.org).

## Pakistan

### Training Programs Sponsored

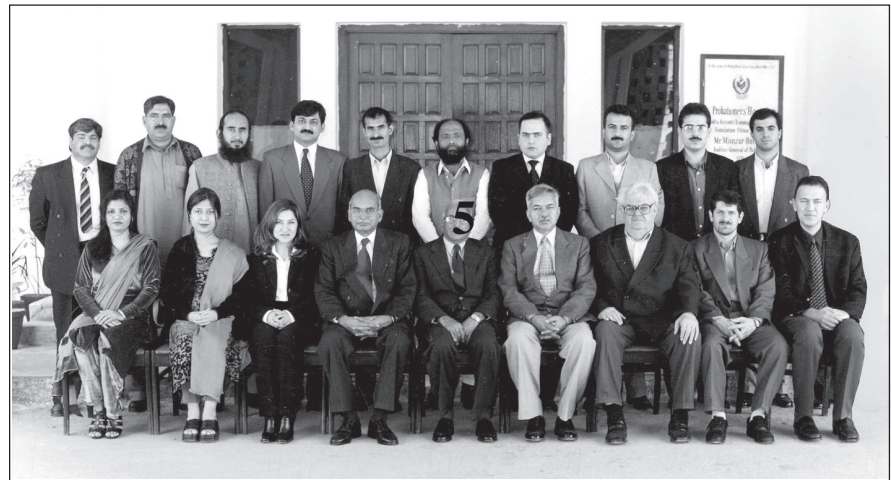
During March and April 2002, the Office of the Auditor General of Paki-

stan hosted three training programs for officers from the supreme audit institutions (SAI) of Pakistan and other countries.

From March 4 through 16, the department held a training program in performance auditing in Lahore for members of ECOSAI (the Economic Cooperation Organization of Supreme Audit Institutions). The program was sponsored by the Islamic Development Bank, and 16 officers from the SAIs of Azerbaijan, Iran, Turkey, the Turkish Republic of Northern Cyprus, and Pakistan participated. During the program, training materials and methodology on performance auditing and value-for-money audits developed by ASOSAI were extensively used. Participants shared relevant performance audit practices and experiences in their SAIs.

From April 5 through 8, 2002, the department of the Auditor General of Pakistan held the 7<sup>th</sup> Sino-Pak Joint Seminar on Performance Audit in Pakistan in Lahore. Twenty-five officers from the SAIs of China and Pakistan participated in the program. During the seminar, six papers on performance auditing were read.

In April 2002, the department held a 2-week training program in Lahore, with 12 officers from the SAIs of China,



Training participants join Auditor General of Pakistan (front row, center) for a formal photo.

Oman, and Pakistan in attendance. This program provided training on the concepts, tools, techniques, and methodology needed to audit the privatization process.

During each training session, a social program gave the participants the opportunity to visit various cultural and historical places in Pakistan and learn more about the nation's cultural life. The participants enjoyed both the training and the social programs and left with fond memories of their time together.

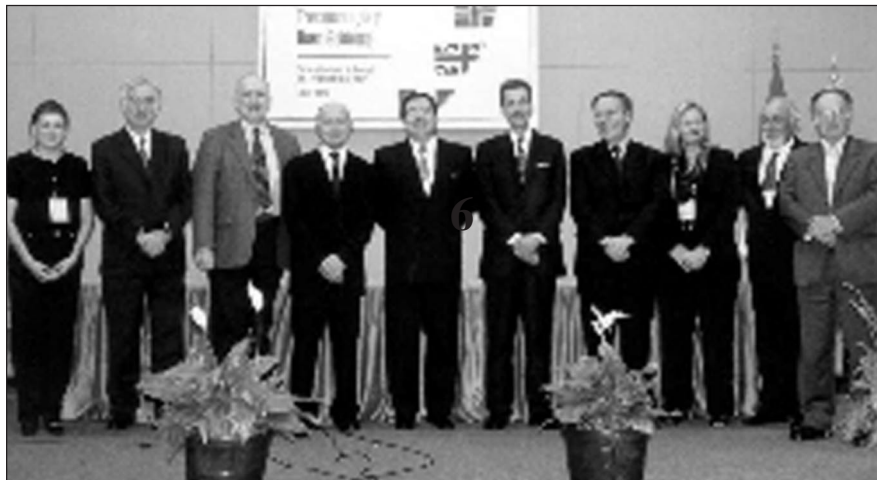
For additional information, contact Mr. Zahid Saeed, Director General (IR&HR), Office of the Auditor General of Pakistan, Audit House, Constitution Avenue, Islamabad 44000, Pakistan; Tel: 92 (51) 922 40 80; Fax: 92 (51) 922 5243; e-mail: [saipak@isbcomsats.net.pk](mailto:saipak@isbcomsats.net.pk).

## Peru

### International Forum on Transparency and Good Government

The Peruvian national audit office, and the Contraloría General de la República, hosted in Lima on March 21 and 22, 2002, a successful international forum entitled "Trends in Government Auditing: Transparency and Good Government." Auditors general from the OLACEFS region as well as invited guests from North America and Europe attended the forum.

In his opening address, Dr. Genaro Matute Mejía, the Comptroller General of Peru, emphasized the importance of establishing a concept of good governance that ensures an efficient government administration that complies with established norms and regulations. Dr. Matute also discussed the meaning of transparency, associating it with the implementation of the information tools that enable public servants and government officials to provide an effective accounting of the ways in which funds



Distinguished delegates to the Lima Forum join host Dr. Matute (fifth from left) for a formal photo during a break from the sessions.

and appropriated resources have been used. Finally, Dr. Matute presented the tool that will be used to ensure the efficiency of the Peruvian SAI: the new text of the authorizing legislation of the Contraloría.

Other comptrollers general and invited guests presented papers at the forum, including the following. "The SAI's Independence in Public Auditing and Its Relationship with Executive and Legislative Bodies" (Dr. Franz Fiedler, Secretary General of INTOSAI and President of the Court of Accounts of Austria). "The Legal Democratic State and the SAIs" (Lic. Luis Fernando Vargas B., the Comptroller General of Costa Rica). "Experiences in Performance Auditing and Audits of State-Controlled Enterprises" (Mr. Bjarne Mork-Eidem, Auditor General of Norway). "The Role of Supreme Audit Institutions in the Modernization of Government" (Mr. Michael J. Whitehouse, Director, National Audit Office, United Kingdom).

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## Sweden

### Lima Declaration Put to the Test in Lima, Sweden

Most government auditors all over the world are probably well acquainted with the Lima Declaration. However, it is also probable that the vast majority of them do not consider the declaration to be of immediate interest or as providing direct guidance in their everyday audit work.

In Sweden, amendments are being made to the constitution and to legislation that governs the SAI, with the aim of strengthening the position of the audit. This work is being closely followed by staff at the Swedish National Audit Office, the RRV. The Financial Audit Department recently organized a 2-day conference for all members of its staff to discuss the significance of the Lima Declaration's guidelines for the everyday work of the department and the measures the department can take to live up to its requirements—particularly in view of future audit responsibilities under the new legislation.

Appropriately enough, the meeting was held in Lima, a small village in central Sweden.



The group work led to many important observations and conclusions. Among them, that familiarity with the fundamental principles of the Lima Declaration is important and that these principles are meaningful in the everyday work of individual auditors.

The review of the declaration thus extended our knowledge. It can also encourage the audit organization to intensify the focus and methods of its work at a more down-to-earth level. Our sister organizations might well find it valuable to do something similar.

For more information, contact: Gert Jönsson, Assistant Auditor General, RRV, P.O. Box 45070, S-104 30 Stockholm, Sweden; fax: 46 (8) 690-4122; e-mail: gert.jonsson@rrv.se.

## Thailand

### Independent Agency

The Office of the Auditor General of Thailand became an independent agency under the Organic Act on State Audit B.E. 2542, effective on November 19, 1999. By royal proclamation and with the advice of the Senate, Dr. Panya Tantiyavarong, Ph.D. was appointed Chairman of the Audit Commissioners.

Mrs. Jaruvan Maintaka was appointed as Auditor General of the Office of the Auditor General of Thailand (OAG) by royal proclamation with the advice of the Senate effective January 1, 2002, as complied with the Constitution of the Kingdom of Thailand on B.E. 2540 (1997) under section 312 of the Organic Act on State audit B.E. 2542 (1999) under section 31.

The OAG was reorganized and the internal administration expanded the central audit office to ten offices in order to serve the expansion of audit work. The details of organization chart can be found on the OAG website at [www.oag.go.th](http://www.oag.go.th).

## Ukraine

### Accounting Chamber Celebrates Fifth Anniversary

The Accounting Chamber of Ukraine, a state body designed to oversee proper and effective use of state budget expenditures, recently celebrated its fifth anniversary. Over the past five years, the Accounting Chamber has managed to establish itself as a competent, independent, and effective supervisor of state expenditures. More importantly, the chamber has taken steps towards increasing public awareness that budget money belongs to the taxpayers, not the government. Since it was established, the chamber has witnessed an increased interest in its activity from all branches of government, general increased public awareness of its work, and an expansion of its authority.

The chamber's main activity is to analyze and maintain oversight of the budget process. Its role is outlined in article 98 of the Ukrainian Constitution, Ukraine's Budget Code, and the law "On the Accounting Chamber of Ukraine." Together, these normative acts ensure that the chamber performs its functions independently, efficiently, and transparently.

In its first year of operation, the chamber confirmed itself as a rightful participant in the budget process of Ukraine, guarding the interests of both the government and taxpayers. From 1997 through 2001, the chamber produced about 2,000 audit reports, analytical reports, and expert undertakings. It audited about 2,500 entities, including central bodies of the executive and judicial branches of government; lower branches of government; and departments, enterprises, and organizations of various forms of ownership. The audits revealed unjustified and ineffective use of state budget revenues valued at billions of *Hryvnia*, violations that, unfortunately, proved normal practice within the government.

The establishment of effective state financial control is a multidimensional process. In a practical sense, it requires the support of many departments, each of which has its own authorities and responsibilities. However, the departments must cooperate in order to establish a complete system of state financial control in the nation.

The importance of the Accounting Chamber's role was acknowledged in a December 25, 2001, presidential decree "on strengthening financial discipline and confinement of violations in the budget sphere." The role and importance of the chamber has also been recognized internationally. It is a member of INTOSAI and EUROSAI and actively cooperates with both. At present, the Accounting Chamber of Ukraine also chairs the Council of Heads of Supreme Audit Institutions of the Commonwealth of Independent States.

Improving the effectiveness of its activities in the near future is the main priority for the chamber's future development. The chamber's tasks of central importance for the next year include:

- introducing amendments to article 98 of the Constitution of Ukraine and adopting new laws "On the Accounting Chamber of Ukraine" and "About State Financial Control;"
- establishing regional branches of the chamber throughout Ukraine;
- preparing and employing highly qualified specialists;
- further improving revision, analytical, and expert activities; and
- beginning to form a complete system of state financial control and developing constructive and cooperative relationships with national and foreign agencies involved in state financial control processes.

For more information, contact: Accounting Chamber of Ukraine, Rakhunkova Palata, 7 M. Kotzyubynskogo Str., 01601 Kiev-30, Ukraine; Tel: 380 (44) 224 95 65; Fax: 380 (44) 224 05 63; [rp@core.ac-rada.gov.ua](mailto:rp@core.ac-rada.gov.ua); Internet: [www.ac-rada.gov.ua](http://www.ac-rada.gov.ua).

## United States of America International Auditor Fellowship Program

The participants of the 2002 International Auditor Fellowship Program began their 16-week program at the U.S. General Accounting Office (GAO) on May 13. The fellows, mid- to senior-level managers from GAO's counterpart offices around the world, are spending the summer at GAO engaged in an intensive course of study in the approaches, techniques, and methods of performance auditing in government. In addition to classroom training, the fellows will observe GAO employees at work in headquarters and in the field. They will also be trained in the skills needed to enable them to train their fellow auditors when they return home after the program ends.

This year's international fellows are from Bangladesh, Barbados, Brazil, Burkina Faso, Costa Rica, Cyprus, Ethiopia, Georgia, Hungary, India, Kenya, Oman, Yemen, Zambia.

## Zambia

### Auditor-General Presents Paper to Parliament

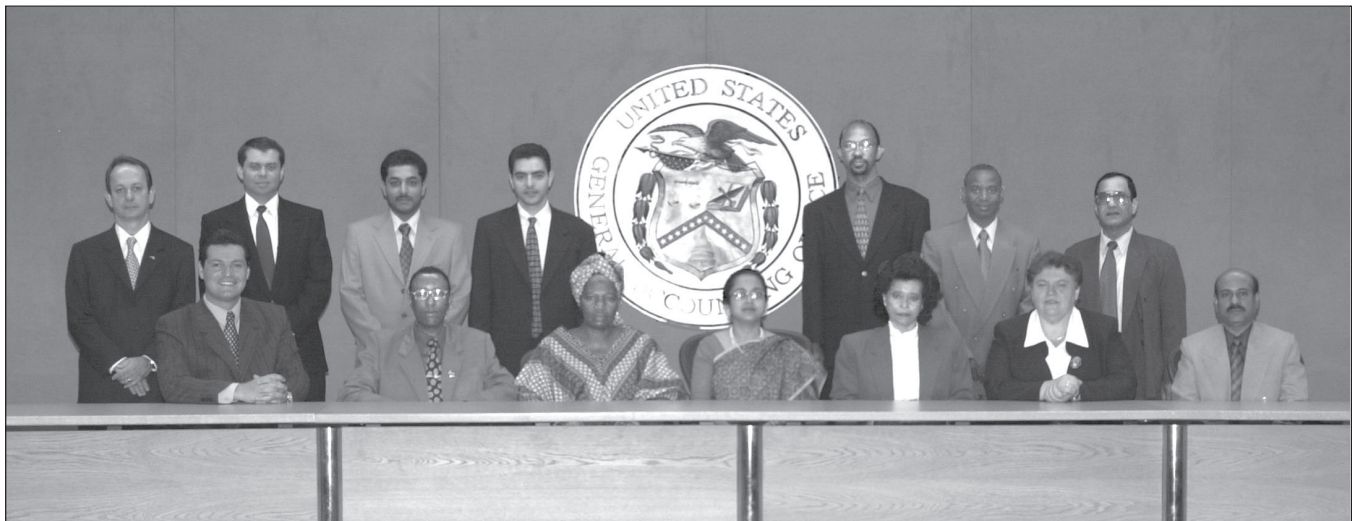
On February 25, 2002, Mr. F.M. Siame, Zambia's Auditor-General, presented a paper entitled "Auditing the National Budget" during a seminar on the role of Parliament in the National Budgetary System for the Members of the Zambian Parliament. The Auditor-General's paper outlined the responsibilities of the audit office and Parliament in auditing the nation's budget and included specific details about the audit office's organization, roles and functions, and scope of work.

The paper noted that the President of Zambia recently urged Parliament to establish systems that will ensure that resources reach the intended beneficiaries and that will prevent abuse and mis-

management of resources. Value-for-money auditing provides opportunities for executive and legislative officials to debate issues in-depth before parliamentary decision-making. The audit office is responsible for auditing projects undertaken by government departments or their contractors for accuracy and completeness but is not entitled to question the merits of the project's policy objectives. Based on the Auditor-General's findings, Parliament's Public Accounts Committee is able to make appropriate recommendations.

In addition, the paper explained Zambia's budget and how it is established and approved, including the responsibilities of the executive branch, Parliament, and the Auditor-General. It also discussed how Parliament should support the Auditor-General's office in its work.

For more information, contact: Office of the Auditor General, Audit House, P.O. Box 50071, Ridgeway, Lusaka, Zambia; Tel: 260 (1) 25 26 11; Fax: 260 (1) 25 03 49; E-mail: [auditorg@zamnet.zm](mailto:auditorg@zamnet.zm). ■



GAO's 2002 International Fellows: (seated) Roman Bokeria (Georgia), Stanley M. Muriuki (Kenya), Marie Kabore (Burkina Faso), Y. Ray Chaudhury (India), Seniat Melese Ejigu (Ethiopia), Eva Karsai Domsodi (Hungary), and Yousuf Abdulla E. Assheriff (Yemen); (standing) Sergio Freitas de Almeida (Brazil), Javier Arturo Blanco Araya (Costa Rica), Younis Sulaiman Saleh Al Tobi (Oman), Nicos A. Hassapis (Cyprus), John Moore (Barbados), Henry D. Zulu (Zambia) and Mohammed Abdul Baset Khan (Bangladesh).

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# Legal Counsel and Auditors: Partners in Internal Oversight

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By Mr. Peter Wilson, Inspector General, Food and Agriculture Organization, United Nations

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**(Editor's Note:** As INTOSAI and its member SAI strengthen partnerships with other organizations sharing similar goals, this article provides useful insights and practical examples of the benefits to be derived when auditors reach out to develop and sustain partnerships with other professions.)

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“Oversight,” in the management jargon of the day, is equated with “supervision” in both Webster’s and the Oxford English Dictionary. According to the Joint Inspection Unit of the United Nations (JIU), “Oversight is a shared responsibility among Member States, Secretariats, and external oversight mechanisms.” JIU describes internal oversight as being first and foremost accountable to executive heads for providing advice on internal control and management practices based on a systematic and independent review of an organization’s entire operations. External oversight, largely provided by supreme audit institutions, is accountable to member states, providing objective information and advice directly to them regarding the management of the organization.

A recent study concerning the U.S. Congress explains that oversight is the term used to refer to “a variety of techniques” for monitoring components of the executive branch, ranging from “formal procedures or processes, such as committee hearings” to “informal” techniques, “such as communication with agency personnel by staff or committee members,” and even “casework” and program evaluations performed by private individuals or groups.

This article focuses on the internal oversight function within the Secretariat of the Food and Agriculture Organization of the United Nations (FAO), and I hope that our experiences may be of interest and use to colleagues in the INTOSAI community. JIU has described the various elements of oversight as being audit investigation, inspection, evaluation, and monitoring. However, many organizations operate under a more integrated arrangement than these specific elements imply. Sometimes they will indeed place all five under one umbrella, but they will also operate separate audit, investigation, and evaluation functions, or whatever combination best suits the overall managerial arrangement of the organization. Such is the case at FAO, where the evaluation function is part of the Office of Program, Budget and Evaluation, whereas all other

elements are integrated in the Office of the Inspector-General. Both are important organizational divisions within the Office of the Director-General and report directly to the Director-General in his capacity as Chief Executive Officer.

**The missing link in all of this is the important role played by the Office of Legal Counsel and that of the Legal Matters Unit in FAO’s Human Resources Management Division.**

It is unusual to find a close working relationship between the various legal offices in an organization and the various elements of oversight. In my own experience as an internal auditor in the private sector, I can recall cooperating with the legal office only once in 10 years, on a recommendation to change the company’s bylaws. In government circles, my experience was limited to assisting in drafting proposed legislation, seeking legal interpretations of statutes, or providing input to cases being presented before the courts. And I am not personally aware of any significant collaboration between auditors and lawyers in the community of international organizations.

**In contrast, a strong cooperative spirit between lawyers and auditors has evolved over the years at FAO.**

Perhaps the working relationship originated with a personal friendship between the head of audit and the legal counsel and grew into a mutual respect and understanding of the benefits to be gained from developing the professional relationship further. No doubt it was reinforced by two facts: the offices are considered independent divisions within the Office of the Director-General and both the Inspector-General (AUD) and the Legal Counsel (LEG) report directly to the Director-General. Clearly this has been enhanced by the management style of the current Director-General of FAO, Mr. Jacques Diouf. In setting his “tone at the top,” he takes advantage of the independence of both AUD and LEG within the hierarchy of the organization. He relies considerably on both offices as valuable sources of advice on a wide variety of issues, not only those of strictly audit or legal nature. Where appropriate, this professional cooperation has also extended to the Legal Matters Unit in the Human Resources Management Division.

The Director-General has supported this quiet partnership in internal oversight at FAO. On a great many of the management, policy, and external relations issues he faces, he calls for the views of AUD and LEG. Very often papers and proposals that are presented to the Director-General for review or approval are routed to AUD and LEG for "comment" or "clearance." As this has become recognized throughout the organization, a pattern has developed where the sponsoring department frequently submits such proposals to AUD and LEG before sending them to the Director-General. This process provides the sponsoring department with the benefit of valuable input from these independent offices and speeds up the clearance procedure. Moreover, in making specific reference to the prior consultation with AUD and LEG, the sponsoring department also increases the Director-General's confidence in the integrity of many of the submissions. Recent examples of such issues covered the development of the strategic framework for FAO; questions relating to corporate communications policy, including the proper use of the FAO logo; procurement; sponsorship, donor relations, and TeleFood matters; and issues concerning the World Agriculture Information Centre, the World Food Summit (5 years later), and many others.

**This development at FAO has improved the quality of advice to top management.**

In terms of audit activities, LEG, AUD, and the Legal Unit work together regularly. This is particularly true when dealing with employee disciplinary matters, ranging from official reprimands for misconduct to summary dismissals. It also includes the extent of cash recoveries to be obtained and more serious questions of fraud and presumptive fraud. In addition, AUD works closely with both legal units on particular investigations. AUD also consults LEG and seeks its advice on many aspects of the audit of contracts, trust funds, third-party relationships, special partnership programs, letters of credit, letters of agreement, and other technical or administrative activities that are subject to audit or inspection.

What may have started out as a professional courtesy between the Legal Counsel and the Inspector-General has developed into a much stronger day-to-day working arrangement. This is not limited to the senior professional ranks but has become standard operating procedure for all auditors when dealing with issues that might have legal implications.

**This relationship adds credibility to the substance of reports emanating from the Office of the Inspector-General, and permeates the whole strata of the audit and legal entities in FAO.**

There is no doubt that oversight has emerged as a key element of governance in the public sector, with increased prominence in recent years. This has been evident at all levels of government. It has also gained similar or even greater prominence in the community of international organizations. Moreover, one has only to scan the business section of the print media, tune in to the talk shows on radio and television, or surf the Internet to recognize the impact it is having in the private sector as well. We in the public sector auditing business, whether we are providing elements of internal or external oversight, are under intense pressure to deliver improved oversight services as a contribution to the overall governance process.

In all our efforts to provide higher quality, value-added oversight services, we must use all of the resources at our disposal. This article has suggested one element that is often missing from the partnership equation. That quiet partner, at least for internal oversight, can be the Office of Legal Counsel and the Legal Unit of the Human Resources Division. The challenge is for others involved with internal oversight, and perhaps those involved with the external oversight function, to develop a similarly effective relationship with our professional partners in the legal profession.

For more information, contact the author at: [Peter.Wilson@fao.org](mailto:Peter.Wilson@fao.org). ■





# EUROSAI Congress Focuses on SAI Roles in State Budget

The role of supreme audit institutions in the various phases of the state budget was the central theme discussed when 166 delegates from 43 countries gathered in Moscow from May 27-31, 2002 for the fifth triennial congress of the European Organization of Supreme Audit Institutions (EUROSAI). Joining EUROSAI members were observers from many international organizations as well as INTOSAI regional working groups and other SAIs. Organized and hosted by the Accounts Chamber of the Russian Federation under the leadership of Mr. Sergei Stepashin, the congress highlighted the important role SAIs can play in the budget process and thus help improve governance, transparency and accountability in their governments.

The inaugural ceremony was held in the historic Marble Hall of the Kremlin and was highlighted by welcoming remarks by Russian Federation President Vladimir Putin. President Putin extended a warm welcome to congress participants and emphasized the important role their institutions play in building and supporting democratic institutions and accountable governments. President Putin's welcoming speech was followed by remarks by Mr. Gennady N. Seleznev, Chairman of the State Duma of the Federal Assembly, who talked about the valuable role SAIs play in assisting parliaments.

Joining these top Russian officials in addressing the inaugural ceremony was Mr. Francois Logerot, Premier President of the Court of Audit of France and out-going President of EUROSAI. Mr. Logerot noted that he was privileged to attend the Berlin INTOSAI Congress where EUROSAI's charter was signed in 1989, and he commented on the great progress made by EUROSAI in the intervening 13 years. In that regard, Mr. Logerot observed that he has seen two major characteristics evolve within EUROSAI: its rapid development into a vibrant organization of 45 members and, more recently, a broadening of EUROSAI's vision to engage with other regional and international organizations in mutually beneficial partnerships. Mr. Logerot concluded his remarks by transferring the presidency of EUROSAI to Mr. Stepashin and presenting him with the medal of the French Court of Audit with its symbols of justice, impartiality, and transparency.

The inaugural ceremony concluded with remarks by Mr. Stepashin, who added his welcome to the congress and his thanks to the President Putin and Chairman Seleznev for their support. He noted that EUROSAI was welcoming three new members to its ranks (Andorra, Byelorussia, and Bosnia and Herzegovina), and that the congress was taking place on the

eve of the Russia-European Union summit. Mr. Stepashin summarized the history of his office in supporting accountability, transparency, and sound financial reporting as part of the broader transition to a market economy. He concluded by expressing his wish that the congress be fruitful for participants but that it also contribute to the continuing international dialogue on the need to cooperate globally on transnational financial systems to "meet the new challenges our complicated and unstable world is facing."



Russian Federation President Putin welcomes delegates to the EUROSAI Congress in Moscow as Mr. Logerot (out-going EUROSAI President) and Mr. Stepashin (in-coming EUROSAI President) look on.

## Auditing the State Budget

Among these challenges is the state budget process, and the SAIs' role in that process was the central theme of the congress. It was addressed in three subthemes that covered budget preparation, budget execution, and the role of information technology in this process.

The complete text of congress conclusions and recommendations on the three subthemes is available at [www.ach.gov.ru](http://www.ach.gov.ru) and at . A summary of the major recommendations follows.

### Subtheme I

Subtheme I looked at the role of the SAI in the government's preparation of budgetary proposals and the parliament's examination of them. The chair was Mr. Alfredo Jose de Sousa, Portugal, and the rapporteur was Mr. Dieter Engels, Germany.



Heads of delegations pose for formal photo in front of the Accounts Chamber of the Russian Federation.

The delegates recognized the vast body of knowledge and experience that SAIs have accumulated while auditing the execution of the state budget. In order to convert this potential into improvements in and control of the preparation and execution of the state budget, SAIs can become involved in this process as consultants. Delegates stressed that in principle, the earlier the SAI can begin consulting, the more efficient these consultations will be. While SAIs can provide advice to both the legislative branch and the executive branch, the consulting SAI should maintain its independence at all stages of the process. In addition, consulting SAIs should determine whether the purpose of the consulting arrangement is to examine an input-based or an outcome-based budget. For an input-based budget, SAIs should ensure that the preparation of the budget is transparent so that parliament remains aware of the budget's development and progress. The examination of an outcome-based budget calls for the focus of the consulting engagement to be realigned to final goals and estimated results to facilitate a more effective use of state resources. It was also noted that in those countries where the executive branch has the right to play a major role in introducing changes into budget allocations, an efficient system of internal control in the executive bodies must exist to allow for flexibility in the execution of the budget.

## Subtheme II

Moving their attention to the next stage of the budget process, delegates focused in Subtheme II on their role during and after the execution of the state budget. The chair was Mr. Bjarne Mork-Eidem, Norway, and the rapporteur was Mr. Arpad Kovacs, Hungary.

Discussion among the delegates resulted in a recommendation that SAIs promote transparency in the use of public money to guarantee adequate audit conditions while auditing final accounts. A legal framework to ensure transparency would also help facilitate an efficient and effective execution of the state budget and audit of the state budget. In addition to promoting a legal framework to ensure public money transpar-

ency, SAIs should use both financial and performance auditing in their review to meet parliaments' needs for reliable and verified information. It was noted that when performing this type of audit, SAIs should take the necessary steps to ensure the economical, efficient, and timely execution of the audit. To help achieve this goal, delegates recommended that SAIs utilize a quality assurance system that involves consistently applying accepted and commonly applied audit methods, techniques, and procedures that comply with international standards.

## Subtheme III

The technical theme portion of the congress concluded with discussions on the use of information technology (IT) to audit the state budget. The chair was Mr. John Purcell, Ireland, and the rapporteur was Mr. Miroslaw Sekula, Poland.

The delegates acknowledged the benefits of implementing state-of-the-art IT as a tool to support efficient and effective auditing of the execution of the state budget. They clarified this recommendation, however, by noting that utilizing IT tools involves more than trying to understand and implement up-to-date solutions. Rather, IT implementation in this arena involves skillfully applying developments in the IT field in order to achieve clearly defined and specific audit objectives and add value to the audit process. In order to take advantage of IT developments and apply this technology to the budget execution audit, delegates recognized that the SAI should make continuing and considerable investment in human and technical resources.

To achieve an SAI-friendly IT implementation environment, SAIs should have dialogues with the executive and legislative branches. Delegates agreed that SAIs should have sufficient legal powers to access all the data required to achieve proper control over the formation and execution of the state budget, regardless of the format. Delegates recognized factors that SAIs should take into consideration when making decisions on the character and the degree of the application of information technologies and choice of IT tools. They noted that SAIs should ensure that the development of the IT tools selected coincides with the development of audit concepts and methodologies. It was also agreed that the SAI has the responsibility to clearly understand the auditee's data systems and structure and to take advantage of situations in which the SAI can benefit from compatible technological solutions and software.

## Professional and Technical Initiatives

In addition to the technical themes, the congress considered a number of professional development initiatives undertaken in the region.

## Training

The EUROSAI training strategy was presented by a representative of the Court of Audit of France on behalf of the EUROSAI Training Committee. The strategy's specific objective is to share experiences and recent knowledge via case studies and transfer technical information and skills. The strategy includes specific training activities, such as the IT seminar in Golavice in February 2001, and the planned value-for-money seminar in Budapest in September 2002 and internal control seminar in Prague in May 2003. Supporting the strategy is the EUROSAI training web site hosted by the French SAI and the EUROSAI web-based newsgroup hosted by the Danish SAI. Concurrently, EUROSAI is cooperating with the INTOSAI Development Initiative (IDI) by offering the long-term regional training program for SAIs in central, eastern, and southeastern Europe. Mr. Magnus Borge, director-general of IDI, presented additional information on IDI's work with EUROSAI; additional information is available from [www.idi.no](http://www.idi.no).

## Information Technology

Delegates also approved a resolution creating the EUROSAI IT working group. In presenting the resolution for discussion, Mrs. Saskia Stuiveling of the Netherlands said that this was in response to an initiative launched by INTOSAI's IT committee at the INTOSAI Congress in Seoul for the regionalization of the committee. EUROSAI's interest in this area is evident by the 21 SAIs that have joined the working group, which has targeted three IT-related topics: e-government; international agreements and treaties such as privacy; and issues related to how governments invest in IT hardware, software and "humanware." The SAI of the Netherlands will chair the new working group, which will work collaboratively with its INTOSAI counterpart.

## Environmental Auditing

In the same spirit of regionalization of INTOSAI-level committees and working groups, EUROSAI has created an Environmental Auditing Working Group. Led by the SAI of Poland, the group conducted a seminar hosted by the SAI of Norway and held in Oslo from May 14–16, 2002, with 28 EUROSAI member SAIs participating. Full details of this seminar as well as additional information can be found on the group's web site: [www.nik.gov.pl/intosai/index/htm](http://www.nik.gov.pl/intosai/index/htm).

## Observers Present Reports

In addition to these EUROSAI initiatives, a number of observers reported on programs related to the region, including the European Organization of Regional SAIs (EURORAI) and the SIGMA project. Representing the *International Journal of Government Auditing*, U.S. Comptroller General David M. Walker presented information on the *Journal* as well as the INTOSAI Governing Board Strategic Planning Task Force, which he chairs. Mr. Walker also addressed issues of current

concern to SAIs worldwide (see editorial on page 1). Representatives from ARABOSAI, OLACEFS, and the INTOSAI General Secretariat also made remarks to the congress with expressions of support and cooperation.



IT discussions were led by the auditors general of Ireland, Mr. Purcell (center) and Poland, Mr. Sekula (right) while congress host Mr. Stepashin (second from left) observes the proceedings.

## Other Business Issues Decided

In addition to technical and professional issues, the Moscow congress afforded delegates an opportunity to deliberate and decide on a number of business issues related to ongoing EUROSAI programs and activities. The congress unanimously elected two new auditors, the SAIs of Iceland and Belgium, and two new Governing Board members, the SAIs of Italy and Lithuania. Financial issues related to increasing budget available to fund training and other programs were also discussed, and it was agreed that membership dues would be raised to help fund expanded training programs; in a related financial decision, the congress agreed to limit the hard copy publication and distribution of the *EUROSAI Journal* to the English language version with the other four languages (French, German, Russian, and Spanish) available electronically on the EUROSAI web site: [www.eurosai.org](http://www.eurosai.org).

Finally, the congress unanimously and gratefully accepted the offer of the German Federal Court of Audit to host the 6<sup>th</sup> EUROSAI Congress in Bonn in 2004. In inviting delegates to Bonn in 2004, Dr. Dieter Engels, President of the Federal Court of Audit, presented a videotape showing the many attractions of the city; it concluded with a shot of the entire staff of the Court waving a hearty welcome to the next congress.

For more information on the EUROSAI Congress, contact: Chamber of Accounts, International Relations Department, Zubovskaya Street 2, 121901 Moscow, Russian Federation (Tel: 7-095-914-0190, 914 06 01; fax: 7-095-247-3160; e-mail: [webmaster@ach.gov.ru](mailto:webmaster@ach.gov.ru) or [intrel@ach.gov.ru](mailto:intrel@ach.gov.ru); Web site: [www.ach.gov.ru](http://www.ach.gov.ru). Additional information about EUROSAI is available at [www.eurosai.org](http://www.eurosai.org). ■



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# Audit Profile: Office of the Auditor General of Cyprus

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By Theodoulos Rokopou, Audit Officer

Government accountability is something the public demands and deserves, and the Audit Office of the Republic of Cyprus serves an important role in achieving it. The Supreme Audit Institution (SAI) of Cyprus is an independent office, distinct from the three powers composing the state: the executive, the legislative, and the judiciary.

## Historical Development

The history of Cyprus' SAI goes back to the preindependence era. Following the colonization of the island in 1878 by the British, the first auditor under the colonial regime was appointed in February 1879. He was also the accountant of the colony and a member of the Executive and Legislative Councils of the island. Five years later, the regime decided to separate the duties of the auditor and the accountant. The official title of the auditor at that time was Director of Audit, and the appointed person was always a British officer.

Recognizing the need for separation between the audit function and local administration at an early stage, the British placed the local Audit Office, then called the Audit Department, under the administration of the Comptroller and Auditor-General of Great Britain. In 1910, following organizational and administrative changes in Great Britain, a new unit, the Overseas Audit Office, was formed and the Audit Department was placed under its jurisdiction. This arrangement lasted until 1960, the year Cyprus became an independent state.

## Legal Authority and Independence

The legal nature and structure of the Audit Office are similar to those of most commonwealth countries, such as the United Kingdom, Canada, and Australia, as opposed to the Court of Audit systems more common in France, Italy, Greece, and other European countries.

Under article 115 of the 1960 Cyprus Constitution, an independent Audit Office has been established. The constitution also provides that the Auditor General and the Deputy Auditor General be appointed by the President of the Republic, like the other independent officers of the state, and not by the Public Service Commission, which is responsible for the appointment of government employees.

The constitution reinforces the independence of the Auditor General and the Deputy Auditor General in the following ways:

- They cannot be removed from office until retirement age, which is now 60.
- They cannot be removed from office except on the grounds and in a manner similar to those for removing a judge of the High Court (i.e., mental or physical incapacity or misconduct).
- They have the right of access to all books of account and records when performing their duties.
- Their compensation is charged to the consolidated fund and therefore they will be paid irrespective of the approval or not of the state budget.

These constitutional provisions indicate that the basic concept underlying the creation of the Audit Office was to separate the auditing institution of the country from the power responsible for its financial administration (the executive branch) and give it the required independence in carrying out its functions.

It may be argued that the following present a flaw in the Audit Office's independence. Practice up to now, however, proves that no serious problems have been encountered:

- The appointment, salary setting, promotion, and discipline of staff are vested in the Public Service Commission, which is responsible for the rest of government departments.
- The Audit Office's budget is not approved directly from the House of Representatives but is subject to executive allocation and review, as is the case for all government departments and other independent offices.
- The Auditor General has no power to audit the end user of government funds (private organizations or private individuals).



## Organization

The Auditor General is the head of the SAI, The Deputy Auditor General is the Deputy Head and discharges responsibilities of the position with help from 100 audit officers and 13 supporting staff members.

The SAI is divided into three divisions. Staff coming under Divisions A and B of the office carry out mainly financial and performance audits, whereas Division C undertakes the audit of capital projects (technical inspections and examinations). Division B incorporates the Computer Audit Service.

Audit work other than technical work is divided between six branches, which are subdivided into 12 sections. Under each section, approximately five to seven staff are engaged.

Divisions A and B and the six branches are headed by a qualified professional accountant/auditor who is a member of an international body of accountants; Division C and its two branches are headed by a qualified engineer.

The SAI has no regional offices. This presents no difficulty to gather data, test transactions, and observe first-hand how government activities and programs are carried out, as distances are very short.

## The Work of the Office

Article 116 of the constitution describes the office's responsibilities:

1. The Auditor General assisted by the Deputy Auditor General shall, on behalf of the Republic, control all disbursements and receipts and audit and inspect all accounts of moneys and other assets administered, and of liabilities incurred, by or under the authority of the Republic and for this purpose he shall have the right of access to all books, records and returns relating to such accounts and to places where such assets are kept.
2. The Auditor General assisted by the Deputy Auditor General shall exercise all such other powers and shall perform all such other functions and duties as are conferred or imposed on him by law.
3. The powers, functions and duties of the Auditor General provided in this Chapter may be exercised by him in person or by such subordinate officers acting under and in accordance to his instructions.

4. The Auditor General shall submit annually a report on the exercise of his functions and duties under this Chapter to the President of the Republic who shall cause it to be laid before the House of Representatives.

Besides auditing the central government, the Auditor General also audits by specially enacted law all statutory bodies, local authorities, and school committees and various other funds.

The Audit Office's fundamental responsibility is the preparation of the *Annual Report* and subsequent reporting to the House of Representatives. The *Annual Report* summarizes the most important issues and findings reported upon by the Auditor General to the various government departments, statutory corporations, and local authorities in exercising the audit office's duties. Auditees are provided with the opportunity to comment on the draft report.

The SAI is free to make the results of its work directly available to the public and the Parliament. The Constitution does not establish a formal relationship between the SAI and Parliament. In practice, however, a good working relationship and lines of communication have been established.

The work of the Audit Office can be classified into the following broad categories:

Financial and Compliance Audits. Audits relating mainly to the audit of the accounts of all ministries, independent offices, departments, local authorities and statutory corporations for budget adherence, compliance with laws and regulations, and certification of financial statements.

Performance (Value-for-money) Audits. These audits concentrate on the economy, efficiency, and effectiveness with which public funds are spent. Separate reports are issued in every case.

Technical Audits. Audits covering the construction of capital assets such as roads and dams. These audits determine whether project execution has been carried out in accordance with the technical terms and specifications and, generally, in the most economical way. Furthermore, they verify whether the projects have been planned, designed, and executed satisfactorily.

Audit of Information Technology (IT) Systems. A computer audit service, established in 1987, is responsible for the study and evaluation of current and new IT systems and for IT staff training.

### Special Audits

Preventive Audit. Substantial time and effort is directed towards this type of audit. Before the payment of any amount

of pension or gratuity to ex-government officers by the Treasury, the relevant computation form, together with the employee's personal file, is sent to our office for examination. Any errors and omissions are corrected, and the approval is given for starting the payment of pension.

Special Investigations are derived from the office's own initiative, requests from House of Representatives, complaints from the public, or issues raised by media.

Representatives from the Audit Office participate as observers in the Main Tender Board or other Committees to evaluate systems or procedures.

Over the years, the SAI has been applying the professional standards on auditing issued by the International Federation of Accountants (IFAC), the International Accounting Standards Board, as well as the various pronouncements of the International Organization of Supreme Audit Institutions (INTOSAI).

## Monitoring System

Monitoring Quality of Work. The SAI's commitment to quality means adhering to very demanding professional standards. These standards require that staff be qualified and not subject to undue influences, that they carry out the assignment in a professional manner, and that the work be of sufficient depth to answer the audit's objectives. Audit work is properly planned based on materiality and audit risk and supervised to ensure that sufficient, reliable, and competent evidence is obtained. Audit reports to management are reviewed by the Senior Audit Officers, the Senior Principal Auditor and Director of Audit, as the case may be, and need the approval of the Deputy Auditor General and Auditor General before they are sent to the auditees. Training is part of the process of maintaining a high quality of work. It is an ongoing activity and is conducted on the job as well as through in-house sessions and external courses. Most external training includes courses organized by the professional accountancy bodies,

offered by the British and U.S. governments, or funded by regional and international agencies.

Monitoring Time and Costs. This includes yearly and quarterly programs, monthly job reports (budgeted v. actual), monthly job sheets prepared by each officer, and costing of the audit work.

## Future Prospects

### Accession to the European Union

As Cyprus is moving quickly towards accession to the European Union (EU), our office will need to carry out additional work. We are already involved in government efforts to set the right procedures for the management of EU funds.

### Information Technology in Government

As information technology is applied at large in the government and other auditees, the SAI is rapidly adapting its procedures to cater to this new environment and to new demands. The introduction of IDEA as a tool for auditing computerized systems on a higher scale than the past is in progress.

### Environmental Audit

This is a new theme for many SAIs. Issues such as environmental management systems, natural resources accounting, and environmental reporting, together with environmental auditing policies and guidelines, will soon need to be undertaken by our office.

### Privatization

The government of Cyprus is moving towards privatizing a number of sectors of the economy. Soon, the SAI will be facing the challenge of auditing privatization and, for this purpose, will be calling upon the experience of other SAIs with history in this field of audit.

For more information, please contact: Audit Office of the Republic, 12, Vyzantiou Str.; Tel: 357 (2) 661332; Fax: 357 (2) 66 8153; e-mail: cao@cytanet.com.cy. ■

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# Reports in Print

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Readers may be interested in obtaining copies of the *Public Budgeting & Finance Journal*. This journal serves as a forum for communicating the results of research and experiences in all areas of government finance and providing meaningful exchange between university researchers, private and nonprofit research institutes, practitioners in public financial markets, and government agencies. The journal also communicates the experiences of those who practice government budgeting and finance. Researchers, teachers, and practitioners of applied government finance can turn to the *Public Budgeting & Finance Journal* to find understandable, reliable, and thoughtful analysis of issues important in their fields. The journal covers a wide spectrum of budgetary processes and policy and financial management. It is not limited to one level of government or one country, but rather it even-handedly covers all disciplines and approaches in applied government finance. The *Public Budgeting & Finance Journal* is published by Public Financial Publications, Inc. To order a copy of the journal, contact Blackwell Publishing, Boston, Massachusetts, or call at 1-800-835-6770 (toll free in North America) or at 44-1865-244083 (United Kingdom office).

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The International Conference on Oversight Function: Challenges of the New Millennium was held September 10 through 12, 2000, in Dhaka, Bangladesh. The proceedings document is now available. It has been organized into four primary sections: (1) a summary of the recommendations drawn on the proceedings of the conference, (2) the speeches of the key speakers at the inaugural session of the conference, (3) the three main theme papers, and (4) the report of the Rapporteur of the conference and overall proceedings. The three theme papers covered such topics as effectiveness of public sector auditing, parliamentary control of public expenditures, and the accounting profession in Bangladesh. To obtain a copy of this document, contact the Office of the Comptroller and Auditor General of Bangladesh at Audit Complex, Segun Bagicha, Dhaka-1000, Bangladesh (telephone: 9331810 or fax: 8802-8317487).

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The United Kingdom's National Audit Office has published its new version of *State Audit in the European Union*. The document was originally published in 1996. The new version examines the role of the 15 state audit offices in the European Union and the European Court of Auditors. The publication describes the work of these offices and the environment

in which they operate. It illustrates the different approaches to the task of examining public funds, and reports on the results of such examinations. Some approaches are common to a number of countries, while others are specific to one or two, reflecting particular historical developments or circumstances. The 15 countries included in this report are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. To obtain a copy, contact the National Audit Office in the United Kingdom at 157-197 Buckingham Palace Road, Victoria, London, England.

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The International Monetary Fund (IMF) has published another booklet in its series on economic issues. Written by Friedrich Schneider and Dominik Enst, *Hiding in the Shadows, The Growth of the Underground Economy*, explores the economic activities that would generally be taxable if they were reported to the tax authorities. These can include not only illegal activities but also unreported income from the production of legal goods and services. This booklet explains what the shadow economy is and how large it is. It discusses how the shadow economy has grown and the labor force that supports it. IMF publications are available from IMF Publications Services, 700 19th Street, NW, Washington, D.C. 20431, USA (telephone: 202-623-7430, fax: 202-623-7201, or e-mail: publications@imf.org).

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The accounting system's self-regulatory system for auditors, which largely depends on voluntary contributions from the accounting industry, is plagued by fragmentation, lack of coordination, poor communication, and conflicts of interest. The U.S. General Accounting Office (GAO) has issued a report addressing this issue. *Accounting Profession: Oversight, Auditor Independence, and Financial Reporting Issues* (GAO-02-742R) was published on May 3, 2002. In GAO's view, the current self-regulatory system is broken, and oversight by the appropriate government agency has fallen short in protecting the public interest. Because of the important role played by independent auditors, GAO believes that direct government intervention is needed to create a new body to oversee the auditing of public companies by the accounting profession. For a copy of the report, contact GAO at 441 G Street, NW, Room 7826, Washington, D.C. 20548 or through its website at [www.gao.gov](http://www.gao.gov). ■

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# Inside INTOSAI

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## INTOSAI Working Group on the Audit of Privatization

From June 10 through June 11, Mr. Bjarne Mørk Eidem, Director General of the Riksrevisjonen of Norway, hosted the ninth meeting of the INTOSAI Working Group on the Audit of Privatization. The meeting took place in Oslo under the chairmanship of Sir John Bourn, Comptroller and Auditor General of the United Kingdom, and representatives of 26 SAIs (out of a total working group membership of 35) attended, including representatives from Romania and Bangladesh who were attending their first meeting.

The working group was guided by the remit set for it at XVII INCOSAI, where SAIs agreed that in the period leading up to XVIII INCOSAI in Budapest in 2004, the working group should focus its efforts on

- monitoring the effectiveness of the guidelines adopted by INTOSAI and
- developing future audit guidance as necessary (for example, on audit issues arising in the field of partnerships and where the state is a minority shareholder and on alternatives to regulation).

The working group's discussions took place with this remit in mind. The group noted considerable interest around the world in privatization and its aftermath (such as residual shareholdings by the state in private bodies and state regulation of privatized companies).

The working group discussed three areas: experience of auditing privatization and of using its guidelines (including presentations from the SAIs of Egypt, Germany, the Russian Federation, Norway, Zambia, Denmark, and Peru); the risks faced by governments and SAIs when the state enters into partnership with the private sector (including draft guidelines developed by the working group and a presentation from the SAI of Poland); and alternatives to the state-imposed regulation that often accompanies privatization. The group also welcomed two speakers from the private sector: Mr. Tormod Hermansen, Chief Executive Officer of Telenor, the privatized Norwegian telecommunications company, and Mr. Derek Higgs of Partnerships UK, a new private sector body in the United Kingdom whose goal is to assist the public sector in concluding public-private partnerships and other deals with the private sector.

The working group agreed to continue developing guidelines on the risks in public-private partnerships, and exploring the possibility of updating its existing guidelines in light of practical experience using them. This project may also include developing training on using the guidelines.

The working group agreed to continue its discussions of these areas at its next meeting, which will be held in Prague in 2003. More information on the working group, including its guidelines on best practices in auditing various aspects of privatization, is available on its website at <http://www.nao.gov.uk/intosai/wgap>.

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## Public Debt Committee Seeks To Increase Expertise of Debt Auditors

Auditors from 11 supreme audit institutions met in Stockholm in June to discuss ways to enhance their ability to perform financial and value-for-money audits of public debt. Hosted by the Auditor General of Sweden and chaired by the Auditor General of Mexico, this meeting of INTOSAI's public debt audit committee marked a significant milestone for the Public Debt Committee, which was established in 1992 to publish guidelines for use by auditors to encourage the proper reporting and sound management of public debt.

In its ten years the Committee has produced five documents on debt auditing, fiscal commitments and fiscal indicators. Three guidance documents has been produce to help auditors define what is public debt, examine internal controls and recommend reporting standards for public debt. Papers on fiscal commitments and indicators of fiscal risks have been produced to increase the awareness of fiscal programs that could trigger unexpected debt increases and should be monitored by debt auditors. These Committee products are posted in its website (<http://www.intosaipdc.org.mx>,) and in INTOSAI's website (<http://www.intosai.org>).



With these guidelines as a foundations, the Committee is looking forward and plans to create a network of debt auditors, experts and trainers in INTOSAI's seven regional groups. The network will facilitate knowledge sharing among SAIs, and help to identify specific training needs as well as debt experts in each region. In the coming months, the following PDC members will assess training needs in each region: Zambia (AFROSAI), Jordan (ARABOSAI), Korea (ASOSAI), United Kingdom (EUROSAI), Mexico (OLACEFS) and Fiji (SPASAI). In addition, the SAI of Mexico has proposed sponsoring a training seminar for OLACEFS members.

To assess training needs and to identify debt themes and debt experts, the Committee will work closely with the INTOSAI Development Initiative (IDI) in Norway which has prepared a strategic plan for delivering training to SAIs in each region. Also, the Committee has been in communication with

multilateral organizations that provide training to debt managers in low-income and middle-income countries. These organizations include the Commonwealth Secretariat in London and the United Nations Conference on Trade and Development in Geneva.

The Committee's ongoing research efforts will be focused in producing guidance that fills the knowledge gap of debt auditors and can be used for training purposes. Specifically, the U.S. General Accounting Office will be responsible for coordinating the production of guidance on substantive tests performed in public debt audits.

For more information, contact: Auditor Superior, Auditoría Superior de la Federación, Av. Coyoacán N. 1501, Cal del Valle, Delegación Benito Juárez, CP. 03100, México D.F., Mexico.



IDI Update keeps you informed of developments in the work and programs of the INTOSAI Development Initiative. To find out more about IDI and to keep up-to-date between editions of the *Journal*, look at the IDI website: <http://www.idi.no>.

In this edition, IDI Update provides the latest training news from each of the INTOSAI regions, showing how IDI has truly spread its wings to all parts of the INTOSAI community.

### **Training News From Africa**

IDI, in cooperation with francophone African SAIs, will conduct a second 2-week Regional Audit Workshop, comprising an 8-day financial audit course and a 2-day fraud module in Dakar, Senegal, in October 2002. Selected IDI Training Specialists will deliver the workshop to auditors from French-speaking African SAIs.

A Regional Symposium for Trainers and Training Managers of English-speaking African SAIs was held in Johannesburg, South Africa, May 26-31, 2002. The primary aims of this IDI-sponsored symposium were to establish a network among trainers and training managers in the region and share best practices in audit training.

### **ARABOSAI Website**

IDI has been working in cooperation with ARABOSAI to develop an ARABOSAI website, enabling training material and other information on ARABOSAI's activities to be published on the Internet. The project will also provide the ARABOSAI Secretariat with an email address.

### **IDI and CAROSAI**

The second part of the Long Term Regional Training Program (LTRTP) in CAROSAI will take place in St. Kitts between October and December 2002. The 6-week Course Design and Development Workshop will be the first step towards providing a pool of 25 trainers to manage the development of SAI training, in conjunction with the Regional Training Committee, at regional and national levels.

### **Performance Audit Capacity Building in SPASAI**

SPASAI started a new performance audit capacity building program with ADB (Asian Development Bank) and IDI funding. As the first activity in the program, a 2-day workshop on performance audit was conducted for the auditors general and other senior management in conjunction with the 7th SPASAI Congress at the Cook Islands in May 2002. A 5-week workshop to train performance audit trainers in the region will be delivered by selected training specialists and other resource persons from November 2002.

### **EUROSAI—An End and a Beginning**

The third activity of the EUROSAI Long Term Regional Training Program (LTRTP), an Instructional Techniques Workshop, was delivered to 26 participants from SAIs of 12 EU candidate countries in April 2002 in Krakow, Poland. Participants who successfully completed the requirements of the program received an IDI Training Specialist Diploma. The final activity of the EUROSAI LTRTP, a 2-week Regional Audit Workshop comprising an 8-day financial audit course and a 2-day fraud module, will be conducted in Tallinn, Estonia, in September 2002 by selected IDI Training Specialists.

The next phase of IDI/EUROSAI training cooperation, which will cover central, eastern and southeastern European countries, is currently being planned.

### **OLACEFS Performance Auditing Course**

The first training course of the partnership program established in 2001 between OLACEFS, the United States General Accounting Office, the Inter American Development Bank, and IDI will be held in November 2002 in Bolivia. The topic of the course will be performance auditing.

### **ASOSAI—The First to Plan LTRTP2**

ASOSAI, in partnership with the Asian Development Bank and IDI, has launched a new program to train 25 additional training specialists, with a preparatory meeting held in Istanbul, Turkey, from June 2-14, 2002. A team of 8 training specialists selected from the existing pool will deliver a 7-week Course Design and Instructional Techniques Workshop in Bangkok, Thailand, from September 30-November 15, 2002.

### **Contacting IDI**

If you would like to discuss any of the issues raised in this edition of IDI Update, please contact IDI by telephone at +47 22 24 13 49 or by email at [idi@idi.no](mailto:idi@idi.no). ■

# 2002/2003 Calendar of INTOSAI Events

## July

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*11nd EUROSAI/OLACEFS Conference  
Cartagena, Colombia  
July 10-11*

## October

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*50th INTOSAI Governing Board Meeting  
Vienna, Austria  
October 16-18*

*31st ASOSAI Governing Board Meeting  
Manila, Philippines  
October 22-24*

*Commonwealth Auditors General  
Conference  
Kuala Lumpur, Malaysia  
October 6-10*

## 2003 January

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## April

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## August

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## November

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*EDP Audit Committee Meeting  
New Delhi, India  
November 27-29*

## February

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## May

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## September

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*OLACEFS XII General Assembly  
Mexico City, Mexico  
September 24-27*

*Auditing Standards Committee Meeting  
Stockholm, Sweden  
September 27*

## December

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## March

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## June

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**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.

