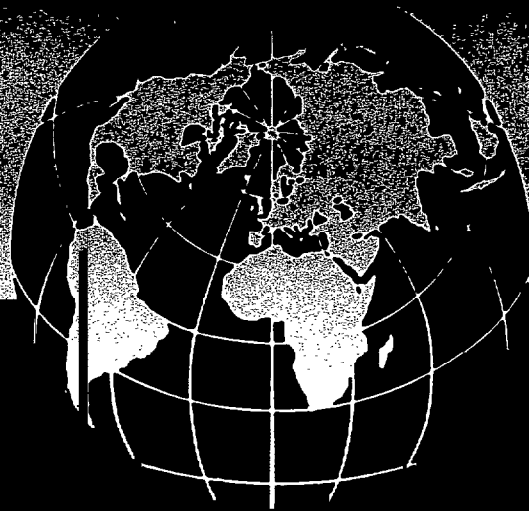


 INTOSAI

20th Anniversary



# International Journal of Government Auditing



# International Journal of Government Auditing

April 1993—Vol. 20, No. 2

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

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

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

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

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# Cooperation, Communication, and Continuity

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By Charles A. Bowsher, Chairman of the Board, INTOSAI

In the six months since XIV INCOSAI, I have received many letters from colleagues thanking the GAO for hosting the Congress. We appreciate these kind words and are gratified to know that delegates found the Congress useful. I hasten to note, however, that the success of the Congress was due in very large measure to the tremendous support and active involvement of so many supreme audit institutions. The outstanding cooperation and communication among SAIs throughout the world before and during the Congress paved the way for the achievements at XIV INCOSAI: new Statutes for our organization; full representation on the Governing Board of all regions and systems of auditing; approved and published standards from our committees; and the Washington Accords, among others.

Our achievements at the 1992 and preceding Congresses will be incomplete, however, unless we use them as a foundation on which to build more successes. Indeed, our achievements pose new challenges for us. Having approved new Statutes, we must use them to bring additional vitality to our organization. Having adopted standards and guidelines for auditing and internal control, we now face the challenge of helping members implement them. And, having created three new groups to study environmental auditing, privatization and program evaluation, we now look to them to provide guidance and assistance on these important subjects. As former INTOSAI Secretary General Broesigke wrote in his farewell editorial in the July 1992 issue of the Journal, "...we must continually strive for improvement. The challenges confronting us are great."

As we face these and other challenges, it is useful to reflect on factors which contributed to our success in the past: cooperation, communication, and continuity. These are the keys to guaranteeing that our progress will be strengthened and sustained.

## Cooperation

A hallmark of INTOSAI has always been the remarkable degree of cooperation evident through members' participation in the organization's programs and activities. This Journal is an excellent example of cooperation in which SAIs volunteer time and expertise to translate each issue into the five language editions. The INTOSAI Development Initiative (IDI) also demonstrates the gains to be made through cooperation; IDI's programs are successful because they are based on close col-

laboration with INTOSAI's seven regional working groups, donors, and the Governing Board.

The development of INTOSAI's financial rules last year further illustrates the benefits of cooperation. An ad hoc working group consisting of two SAIs and the General Secretariat developed a financial management system in keeping with the requirements of the new Statutes. This needed project was completed at minimal cost with a positive result, and can serve as a model for future projects.



Mr. Charles A. Bowsher

## Communication

The second key element is communication. We have been successful in our work because we talk with each other, and in doing so we learn and develop, and reach consensus in ways that would be impossible without this personal contact with colleagues. The General Secretariat's Circulars, this Journal, and the regional journals are our primary means of written communication, and I encourage you to continue supporting these efforts by sending them information about your activities.

INTOSAI's eight committees are another excellent vehicle for communication. The publication and unanimous adoption of the revised INTOSAI Auditing Standards is testimony to the effectiveness of our committees. Audit Standards

Committee members met a few times, corresponded frequently via the mail and fax, and talked with each other on the telephone. The process of sending exposure drafts to all INTOSAI members involved additional SAIs and resulted in an excellent product, and the Protocol being developed by that committee promises to promote even more communication among all INTOSAI members as a regular part of committee work. In that connection, it is heartening to see the positive response from SAIs to the General Secretariat's request for new committee members.

We saw at the Technology Symposium last October how technology can facilitate communication. My office in Washington and the General Secretariat in Vienna now communicate and transfer data files economically and efficiently via an international electronic mail service, and I would be pleased to share information about this with interested SAIs. One of our goals will be to develop strategies to further increase and sustain communication among INTOSAI members, and we will be addressing this issue at the Governing Board meeting next month.

*The more participation we have, the stronger we will be and the more progress we will make.*

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## Continuity

One of the great assets that heads of SAIs generally enjoy is lengthy terms of office. This, coupled with the permanent General Secretariat in Vienna, has been important in establishing and maintaining the continuity of our efforts locally and internationally. At the same time, new challenges and changing times may require new and more vigorous ways of ensuring continuity of our efforts. What can we do to capitalize on the success of a program or activity and to provide momentum for its continuation?

First, we can make a concerted effort to document our successes and share that information with others so that we can more efficiently and effectively build on the past. As host of XIV INCOSAI, I found it invaluable to talk with previous Congress hosts about how they planned and managed their Congresses. It would seem logical, then, for INTOSAI to develop a program manual or guidelines on this topic, as well as similar documents for other recurring INTOSAI events. As with the development of INTOSAI's financial rules, these projects could be undertaken by ad hoc groups comprised of interested SAIs.

Second, we can begin to identify and strengthen linkages between the various INTOSAI programs. We have already seen this in the area of EDP auditing, which was the topic of a subtheme at the Berlin Congress in 1989 which led to the establishment of the EDP Audit Committee in 1991. Then, the 1992 UN/INTOSAI seminar addressed that topic, and later that year we devoted three days to exploring related issues at the Technology Symposium as part of the XIV INCOSAI. Appropriately, the chairman of the EDP Audit Committee served as chairman of the symposium.

Another example of this could be environmental auditing. A committee on this subject was created as a result of the Washington Accords, which also called for this subject to be included as a theme at the XV INCOSAI in 1995. I understand that environmental auditing may also be the subject of the 1994 UN/INTOSAI seminar. In this scenario, we will see the same important topic being addressed in a coordinated manner by three distinct INTOSAI programs over a three year period. This concentration and coordination on one subject makes sense and provides a continuity of effort that benefits all.

Underlying all of this is the notion of inclusion, the idea that we need to involve as many members in as many activities as possible. The more participation we have, the stronger we will be and the more progress we will make. It is through cooperation, communication, continuity, and the involvement of all SAIs that we will strengthen INTOSAI and thus contribute to our broader goal of improved government in all countries. ■

# News in Brief

## Canada

### 1992 Annual Report Tabled

The 1992 Report of the Auditor General of Canada was tabled in the House of Commons on November 24, 1992, and contains 25 chapters including 3 studies and a number of comprehensive and special audits.

The tone of the report is set in the introduction entitled "Matters of Special Importance and Interest", where Auditor General Denis Desautels focuses on issues that are fundamental to achieving accountability in government and to enhancing Canada's national institutions. These issues include the need to clarify the financial relationship between the government and First Nations (aboriginal peoples); the need for "truth in budgeting" so that costs arising from federal programs are recognized on a timely basis; environmental protection concerns; and, stewardship of the national debt. The overriding message here and throughout the report is of the need of Parliament to receive timely and relevant information.

In that regard, an entire chapter is devoted to a study providing practical recommendations for improvements to the information received by Parliamentarians. The study's main message is "Global Stewardship", that is, Parliament should expect and receive a regular accounting on the exercise of the entire business of government. This chapter addresses such issues as departmental production of stewardship documents on a multi-year cyclical basis for an in-depth review by Parliamentary committees, and the development of an electronic library of supplementary information that could be accessed in electronic or print form as needed.

Two other studies were reported in the 1992 report. "The Learning Organization" addresses the need for organizations to adapt and learn quickly in an environment of constant change. The second study considers the effects of current Canadian public service reforms on control at all levels of government, and how the control framework will need to change to respond to the fundamental changes in the nature and levels of delegated authorities.

A number of chapters should be considered as a group, because of related subject matter or because they deal with large government departments. Of particular interest is a four chapter package dealing primarily with risk assessment, accounting policies and information to Parliament on Canada's involvement in international and other financial activities. This includes accounting for sovereign loans, the effectiveness and extent of Canada's participation in international financial institutions, and the

government's handling of loan guarantees.

Copies of the report are available in French and English, at no cost, from the Office of the Auditor General of Canada (ATTN: Mark Hill), 240 Sparks Street, Ottawa, Ontario, Canada K1A 0G6.

## China

### International Seminar Addresses Public Works

The Audit Administration of the People's Republic of China, in cooperation with the World Bank, sponsored an international seminar on the audit of public works in Jiangxi Province from August 3-8, 1992. In addition to the over 50 auditors from provincial audit bureaus in China were experts from Austria, India, Japan, the Netherlands, the Philippines, Singapore, the United Kingdom, the United States and the Asian Development Bank.



Group discussion at the seminar on public works auditing was presided over by Deputy Auditor General Zheng Li of China.

Chaired by Deputy Auditor General of China Mrs. Zheng Li, the seminar explored a wide range of issues and challenges facing auditors in the area of public works auditing. Among the conclusions of the seminar were that: public works auditing can play an invaluable role in improving government services; value for money audits should supplement traditional financial audits in this field; training and technically qualified audit staff are needed to successfully conduct such audits; and, further studies to develop relevant audit methodology are needed.

Participants agreed that the seminar was a success, and called for additional seminars of this type in the future. For additional information, contact Audit Administration of the People's Republic of China, A18, Taiping Road, Haidian District, Beijing 100039, China.

## Costa Rica

### Annual Report Focuses on Improving Government

The role of the supreme audit institution in a rapidly changing social and economic environment is a central theme in the 1991 Annual Report of the Office of the Comptroller General of Costa Rica. Issued in May 1992 to the members of the National Legislative Assembly, the report makes it clear that the supreme audit institution has a major role to play in the national effort to achieve economic and social progress, particularly in a world economy marked by competitiveness and rapid communication.

Recognizing the critical contributions of internal controls to efficient government operations, the Office has established a training center designed to train civil servants from all parts of government in the concepts of internal control and their responsibilities as government managers to implement good internal control systems in their daily work.

Another improvement effort has been the introduction of operational or management audits whereby the efficiency and effectiveness of government programs is evaluated by the Office. In

addition, the Office has involved the internal audit offices from the executive branch in an effort to coordinate audit work throughout government. The report notes that this results in a more ". . . participatory approach to audit which fosters intellectual and professional development and at the same time increases public confidence in government."

A number of audits and studies were done on the tax collection programs of the Ministry of Finance. The results of this work show a number of serious problems regarding the administration of tax collection efforts, and the Office has made many recommendations for improving the situation. For example, the Office has proposed that the Ministry of Finance should: enact or amend laws; provide additional financial and human resources to the internal revenue service; consolidate the many various taxes currently in effect; and, correct administrative deficiencies and improve information technology related to internal operations.

For additional information, contact the Office of the Contralor General of the Republic, Apartado 1179 1000, San Jose, Costa Rica.

## Czech Republic and Slovak Republic

### Federation Splits, Two SAIs Created

With the abolition of the former Czech and Slovak Federal Republic on November 25, 1992, all central government agencies, including the former Federal Ministry of Control, were also abolished. Replacing the ministry are supreme audit institutions for the new Czech Republic and the new Slovak Republic. All responsibilities and commitments of the former Federal Ministry were assumed by the new supreme audit institutions beginning January 1, 1993. It is expected that SAIs of both new republics will join INTOSAI and EUROSAI.

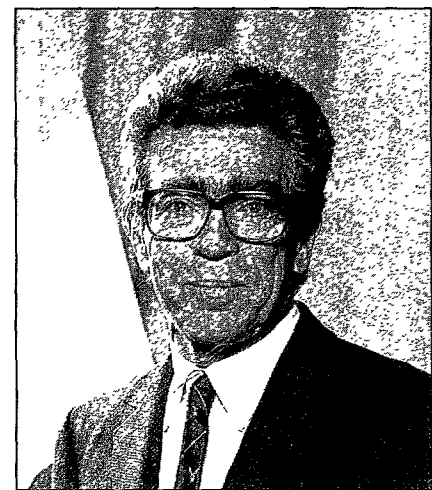
For additional information about these two new SAIs, contact: Mr. Vladimir Ezer, Counsellor, Ministry of State Control for the Czech Republic,

Jankovcova 63, Prague 7, Czech Republic 170 04 (tel: 42-2-8726-536; fax: 42-2-8096-87 or 42-2-8077-30); and, Mr. Karol Melocik, Director, Department for Control, Complaints and Petitions of Citizens of the Slovak Republic, Stefanovicova 5, Bratislava 813 14, Slovak Republic (tel: 42-7-497-624; fax: 42-7-491-313).

## France

### New SAI Head

Mr. Pierre Joxe has been appointed Premier President of the Court of Accounts of France, succeeding Pierre Arpaillange who had held that post since 1990.



Mr. Pierre Joxe

Mr. Joxe is a distinguished public servant who began his career in 1962 as an auditor in the Court of Accounts. He served in the Court for 5 years as rapporteur for the fourth chamber, and at the same time fulfilled duties as rapporteur of the national commission on national and regional development. Beginning in 1966, his duties also included serving as rapporteur of the committee on public enterprises and the auditing commission on public enterprise accounts.

From 1967 to 1970, Mr. Joxe was assigned to the Ministry of Foreign Affairs on temporary duty where he was the official representative in the Department of Technical Cooperations. He returned as a "conseiller référendaire"

in 1970 to the Court of Accounts, where he remained until his election to the National Assembly in 1973. Re-elected to the Assembly four times, he also served as the President of the Regional Council of Burgundy from 1979 to 1982. During that period Mr. Joxe had a seat in the European Parliament (1977 to 1979), and was a member of the French delegation to the General Assembly of the United Nations in 1981, 1982, 1983 and 1987.

In 1981, he was named Minister of Industry, and three years later was appointed as Minister of the Interior and Decentralization, a post he held until March 1986 and then again from May 1988 to January 1991. From January 29, 1991 until his appointment as Premier President of the Court of Accounts, Mr. Joxe served as Minister of Defense.

Mr. Joxe studied at the Henri IV Lycee and the Law School in Paris, after which he served in the Air Force from 1958 to 1960. He completed his studies at the National School of Administration in 1962.

In his inaugural speech on March 18, he affirmed that relations with other SAIs and the work relative to international issues of INTOSAI and EURO-SAI, where he will be a member of the governing board, will constitute one of

the priorities which he intends to emphasize in the French supreme audit institution.

### Retirement of Auditor General

Nominated head of the Court of Accounts in October 1990, Mr. Pierre Arpaillange retired from this position in March 1993.



Mr. Pierre Arpaillange

Mr. Arpaillange represented France during the XIV Congress of INTOSAI during which he presented the French paper on program evaluation written by the Court of Accounts; he was named

head of the new INTOSAI group which will address this issue.

During the course of his career, he served in numerous responsible positions in the jurisdiction of law as well as in the administration of justice, where he was the director of Criminal Affairs and Pardons from 1968 to 1974.

Nominated Counsel to the Court of Cassation in 1974, he became its Attorney General before being called in 1988 to the position of Minister of Justice.

Mr. Pierre Arpaillange is the author of a book on justice (*The Simple Justice*, 1980). He is the Commander of the Legion of Honor, Officer of the National Order of Merit, decorated with the Cross of the Resistance Fighters, and Officer of the Academy of Letters.

## Germany

### 1992 Annual Report Issued

Germany's Federal Court of Audit (FCA) recently presented its 1992 Annual Report to the legislature and to the government. While the report formally covers fiscal year 1990, it deals mainly with matters of topical interest concerning activities that have not yet been finalized. There are many cases where



Participants join host Dr. Zavelberg for group photo during the seminar on auditing and democracy held in Konigswinter on the Rhine, Germany, from November 23-27, 1992.

the shortcomings detected by audit remain open for remedial action. The report also highlights a wide array of significant audit findings.

The report consists of 5 chapters, including: comments about the 1990 fiscal year financial statements of the Federation; observations on specific audit findings on financial management; the advisory activities by the FCA or its President in his capacity as Federal Commissioner for Efficiency in Public Administration; and, significant matters where the executive branch has already followed FCA recommendations.

After unification of the two Germans, focus of this current report is on audit work in the new federal states whose administrative agencies often face a number of organizational and structural problems. In addition, staff is not yet familiar with the applicable laws, regulations, and rules. As a result of uncertainties about federal legislation, a multitude of deficiencies and inaccuracies have arisen and excess payments of considerable magnitude were made. Acknowledging the special situation in eastern Germany and the difficulties of adjusting to the federal system, the FCA incorporated the relevant audit findings into the advisory activity column.

The situation in the new federal states presents a formidable challenge to the FCA's audit staff who are consulted for assistance in a number of cases and make available their expertise to the new federal states. In the next years, special audit emphasis will be placed in this important area.

The full annual report is published in German and can be obtained from the appointed parliamentary publisher, Verlag Dr. Hans Heger, Postfach 20 08 21, D-5300 Bonn 2, Germany. An abridged version in English and German is available at no cost by writing to the Bundesrechnungshof, Referat Pr/Int, Postfach 10 04 33, Berliner Strasse 51, D-6000 Frankfurt 1, Germany.

### **Auditing and Democracy Discussed at International Meeting**

Government auditing and democracy was the subject of an international

meeting for the heads of supreme audit institutions and members of parliament from central and eastern Europe hosted by the German Federal Court of Audit (FCA) from November 23-27, 1992 in Konigswinter on the Rhine. Sponsored by the Federal Ministry for Economic Cooperation within the framework of a government program to promote economic and social development in the target region, the seminar drew participants from Albania, Belarus, Bulgaria, Croatia, the former Czech and Slovak Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia, and Ukraine.

The objective of the seminar was to provide an overview of the German budgetary and financial accountability systems. Specifically, the conference was designed to help policy makers from the formerly socialist countries reform their government auditing systems and thus help pave the way for full audit coverage of public funds. To support these goals, technical papers were prepared by experts of the FCA, the Court of Audit of North Rhine-Westphalia, the Court of Auditors of the European Communities, and the Federal Ministry of Finance.

The conference was opened by FCA President Dr. Heinz Günter Zavelberg, who addressed issues of the work and role of a supreme audit institution in a democratic government. FCA Vice-president Ernest Heuer lead a discussion on audit methodology, followed by other presentations on issues such as reporting, the role of parliaments, and the audit of secret (eg, defense) spending. A major event of the conference was a panel discussion consisting of the chairmen of the German Budget Committee and the Public Accounts Committee, the President of the Hungarian State Audit Office, and other dignitaries. At the conclusion of the conference, participants attended a parliamentary budget debate and were received by the President of the German Parliament, Dr. Rita Süssmuth.

For additional information about the seminar and the papers presented, contact the Bundesrechnungshof, International Relations Department, Berliner Strasse 51, D-6000 Frankfurt 1, Germany.

## **Japan**

### **New President for Board**

Mr. Takashi Nakajima was appointed as President of the Board of Audit of Japan on October 30, 1992, succeeding Mr. Kiyoshi Nakamura upon his retirement. Prior to his appointment, Mr. Nakajima served as a Commissioner on the Board of Audit.



Mr. Takashi Nakajima

Mr. Nakajima joined the Ministry of Home Affairs in 1955 after completing the Master of Laws degree from Tokyo University. In 1972, he was transferred to the Secretariat of the House of Representatives where he held the office of Deputy Secretary General from 1985 to 1987. In March, 1987, he was appointed as a Commissioner on the Board of Audit.

In his capacity as President of the Board, Mr. Nakajima also becomes Secretary General of ASOSAI.

In a related move, Mr. Shuro Hikida was appointed as a Commissioner of the Board on October 27, 1992. Mr. Hikida joined the Board of Audit in 1959 upon graduation from Tokyo University, and has served as Director General of the First Bureau, Deputy Secretary General, and Secretary General of the Board.

## **Korea**

### **New Board Chairman Appointed**

Former Senior Justice of the Supreme Court Mr. Hoi Chang Lee was appointed as Chairman of Korea's Board



of Audit and Inspection on February 25, 1993. Mr. Lee succeeds Mr. Young Joon Kim who had served as Chairman since 1988.

Mr. Lee's distinguished legal career began in 1957 when he graduated from the Seoul National University College of Law, and has included such positions as Judge Advocate in the Air Force, Professor at the Judicial Research and Training Institute, and Senior Judge in the Seoul District and High Courts, during which time he concurrently served as Director General for Planning and Coordination of Court Administration. In addition, Mr. Lee has had his own private law practice, and from 1988 to 1989 served his government as Chairman of the Central Election Management Committee. From 1981 to 1986, he was a Supreme Court Justice, a position he held once again from 1988 until his recent appointment as Chairman of the Board of Audit and Inspection.



Mr. Hoi Chang Lee

In assuming the chairmanship, Mr. Lee joins the ASOSAI Governing Board as a member, and also serves with Luxembourg as INTOSAI auditor until 1995.

## Libya

### New SAI Head

On November 18, 1992, the General People's Conference of Libya appointed Mr. Muhammad Al Zarouk Ragab as Secretary of the People's Committee for Auditing and Control. He succeeds Mr. Ammar Al Mabrouk Al Taif.

As Secretary of Libya's supreme audit institution, Mr. Ragab becomes Chairman of the Governing Board of the Arab Organization of Supreme Audit Institutions (ARABOSAI) until 1995. Libya hosted the 1992 Congress of ARABOSAI (see this Journal, October 1992).

Mr. Ragab notes his interest in continuing and increasing cooperation between his office, ARABOSAI, and the parent organization, INTOSAI. For further information, contact General Secretary of the People's Committee, P.O. Box 2479, Tripoli, Libya.

## Maldives

### New SAI Head Emphasizes Technology and Training

The President of the Republic of Maldives has appointed Minister of State Mohamed Zakir as head of the Audit Office. The Office is responsible for examining and settling all accounts pertaining to revenues and expenditures of government funds, and to keep the general accounts.

Under Mr. Zahir's leadership, the Office has started to automate its audit tasks with a view toward completely automating all accounts in the future. In addition, special attention is being devoted to training and professional development, and a number of staff are currently participating in training programs sponsored by the SAI of India.

For additional information, contact the Audit Office, Huravee Building, 3rd Floor, Male 20-05, Republic of Maldives.

## Mexico

### Advance Report Issued

The Auditor General of Mexico has issued a new type of report, known as an advance report, which provides a compilation of the conclusions reached as a result of the first comprehensive review of public accounts for the year 1991. The report was submitted to the Congress, and includes a general analysis of the performance of the economy and public finance in terms of government's own goals and objectives. It also includes a preliminary evaluation of a

number of pertinent programs and projects, together with an initial evaluation of the financial status of parastatal entities.

The structure of the report has been modified with a view to improving the logical relationship of the contents, and making it generally easier for legislators to read. At the same time, the advance report serves as a practical basis for the Office of the Auditor General to more efficiently plan and direct its work, and to plan further in-depth reviews of specific programs.

For additional information, contact Contador Mayor de Hacienda (attn: Dr. Fernando Marty), Av. Coyoacan 1501, Col. del Valle, Deleg. Benito Juarez, 03100, Mexico D.F., Mexico.

## Namibia

### New Auditor General Appointed

Dr. Fanuel Tjingaete has been appointed Auditor General of Namibia effective February 1, 1993. Prior to his appointment, Dr. Tjingaete served as the public affairs manager of the consolidated diamond mines, a professor of economics at the University of Namibia, Vice-Dean of Faculty and senior economic advisor in the government's Department of Finance. He is also a



Dr. Fanuel Tjingaete

director of various companies and charitable organizations, and has, in the past, been chairman of the Chamber of Commerce and Industry and the Namibia Employers Federation, and a

consultant to numerous companies in Germany on matters related to strategic planning and financial management.

Dr. Tjingaete earned his doctorate from the Free University of Berlin in 1986 for his thesis on "Monetary Policy Options for Namibia, Theoretical and Empirical Foundations on Monetary Integration and Disintegration."

For additional information, see Audit Profile on page 19 of this issue of the Journal, or contact the Office of the Auditor General, Private Bag 13299, Windhoek 9000, Namibia.

## Norway

### 1991 Annual Report Issued

The Office of the Auditor General of Norway has issued its report on the public accounts of the government, and presented a number of important issues for consideration by parliament. The 1991 report notes a number of inadequate accounting practices, and calls for the development and implementation of new and better computer-based systems to help solve these problems.

Procurement is another major issue raised in the report. A special report on the Army, for example, was severely critical of the Army's procurement practices which lead to large increases in the scope and cost of various projects after the parliament had approved the initial plans. In another case, a hydroelectric statutory corporation was criticized for inadequate internal control and management of procurement for related tunnel and construction projects, only 25 percent of the procurements were documented regarding selection of contractors. The Office recommends that the Ministry of Oil and Energy should take stronger action to ensure the adequacy of internal controls as a way of improving procurement practices.

In the area of environmental auditing, the report criticizes the Ministry of Environmental Protection for violating the principle of cash payments by paying for services and work in advance of actually receiving them. In several cases, in fact, written agreements or contracts did not exist.

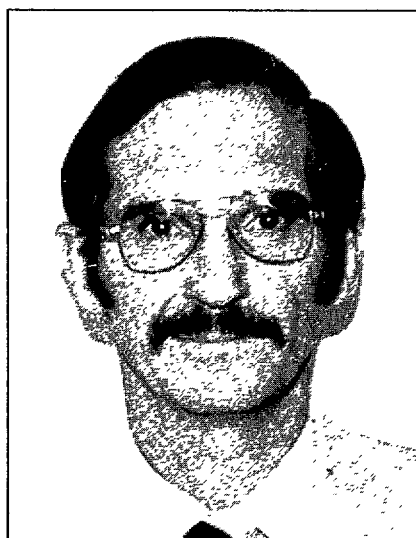
Also noted in the report is a matter related to audit independence, in which the Data Protection Agency has questioned the Office's authority to merge and compare certain types of data files. The Office of the Auditor General believes that it has the legal right to do this, and depending on an opinion of the Ministry of Justice, the matter will be presented to the Parliament for a final decision.

For additional information, contact the Office of Auditor General of Norway, Postboks 8130 Dep, 0032 Oslo, Norway.

## South Africa

### New Auditor General

Mr. H. E. Kluever was appointed Auditor General of South Africa in January, 1993, succeeding R.P. Wronslley who retired. Mr. Kluever, a graduate of the University of Pretoria, has served for 33 years in various capacities in the South African public service. From 1986 to 1991, he served as Deputy Auditor General and was then transferred to the Department of State Expenditure, where he served as Director-General until his appointment this year as Auditor General.



Mr. H. E. Kluever

### New Audit Act

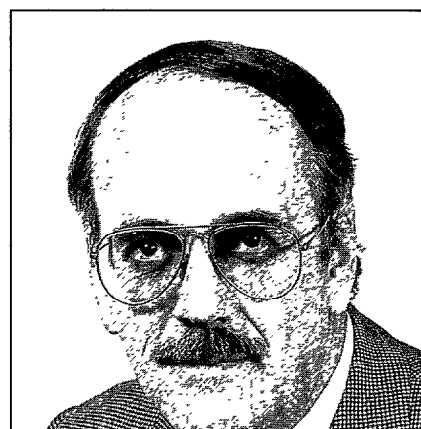
Effective April 1, 1993, the new Audit Arrangements Act of 1992 enters

into force, at which time the Office ceases to be a Department of State and becomes an autonomous organization under appropriate parliamentary control. The single most important feature of this change is that the Office of the Auditor General will now be able to function completely independently from the executive branch of government.

## Switzerland

### New SAI Head

Dr. Peter Probst has been appointed as Director of the Swiss Federal Audit Office, replacing Dr. Gottlieb Schlappi who retired at the end of March 1993, after almost 12 years of service. Dr. Probst has degrees in economics from the Universities of Neuchatel and St. Gall, and considerable experience in the area of public finance. Immediately prior to his appointment as head of Switzerland's supreme audit institution, he served as Deputy Director of the Swiss Federal Financial Administration.



Dr. Peter Probst

A number of innovations were introduced over the last 12 years that have strengthened the role of the Swiss Audit Office, such as access to records of suppliers in cases involving acquisitions by monopolies, and the right to audit price fixing by such suppliers. These legal provisions help ensure that the state, as a buyer, is not taken unfair advantage of in the absence of competition.

For additional information, contact the Swiss Federal Audit Office, Bundesgasse 3, 3003 Bern, Switzerland.

## Thailand

### New Auditor General

Ms. Rudi Jivalak was appointed Auditor General of Thailand on October 1, 1992, becoming the first woman auditor general in Thailand's history. An accountant by profession, Ms. Jivalak joined the Office of the Auditor General in 1959 upon graduation from Thammasart University with a B.S. in Commerce. She later earned a masters degree in business administration (MBA) from Ball State University in the United States.



Ms. Rudi Jivalak

Ms. Jivalak has served on several government commissions dealing with financial and auditing matters during her distinguished career, and also served as the Secretary General of the Institute of Certified Accountants and Auditors of Thailand. She was recognized for her achievements and dedication to public service in 1992 by being named as an outstanding woman by the Thai National Commission on Women's Affairs.

## Zimbabwe

### Annual Report Supplemented by Special Reports

The Office of the Comptroller and Auditor General of Zimbabwe has submitted its annual report for 1991 and, in

addition, tabled three special reports to Parliament. As in previous years, the Comptroller and Auditor General found it necessary to qualify his certification on a number of government accounts, and the report also highlights the continuing concern over the management of suspense accounts. The report points out, for example, that only four ministries managed their block grants without exceeding their allocations.

Three special reports were also tabled during the current session of Parliament. These were issued under legislation that allows the Office to prepare and submit special reports related to state moneys or property which should be brought to the immediate attention of Parliament.

The three reports addressed audit findings on the National Handicraft Center, a wholly government-owned limited liability company; the Zimbabwe Broadcasting Corporation, the only radio and television company in the country; and, a value-for-money audit of the National Registration Bureau, the agency responsible for producing national identity cards.

With more resources becoming available in the area of value-for-money auditing and program evaluation, the Office hopes to be able to produce additional special reports in the future.

For additional information, contact the Office of the Comptroller and Auditor General of Zimbabwe, P.O. Box 8026, Causeway, Harare, Zimbabwe.

## Canadian Comprehensive Auditing Foundation (CCAF)

### 1992 Conference of the CCAF

The 13th annual conference of the CCAF, held in Toronto, November 22-24, 1992, marked a turning point in the Foundation's increasing emphasis on accountability. Underlying the conference theme, "Delivering on Accountability" is the Foundation's aim of achiev-

ing a high level of public accountability in Canada. All 1992 conference sessions related to "...the determination of reasonable action that can be taken by responsible people now."

Since the inception of the CCAF in 1980, its conference themes have focused increasingly on the issue of accountability. First conferences dealt with techniques and practices of value-for-money auditing. Later conferences dealt with supplying managers with a framework for the reporting of effectiveness, and with the audit role of attestation. The 1992 conference stressed the need now for managements to act; to deliver on their accountability obligations, helped by their auditors.

In his opening address the conference chairman, Ross Walker, Chairman and Chief Executive of Peat Marwick Thorne, Canada, introduced to participants the need for legislation to underpin management's obligation to answer—echoed in a later session by a city councillor from one of Canada's western cities. At the conference, legislators joined with public service managers, auditors and other professionals from Canada and abroad to discuss accountability expectations from their respective points of view. The agenda addressed accountability in higher education and the role and obligations of governing bodies in their accountability relationship with management. Ethical issues in comprehensive auditing were also on the program. New to the Foundation's working agenda is accountability for the environment, and the role of audit in serving that public accountability relationship. Future conferences will pursue the issue of accountability and the initiatives needed to shift from "words to action."

For additional information, contact the Canadian Comprehensive Auditing Foundation, 112 Kent Street, Suite 1315, Ottawa, Ontario, Canada K1P 5P2. ■

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# Auditing Guidelines for the European Communities

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By Neil Usher, European Communities Court of Auditors

This article describes the very early stage of work to develop common auditing guidelines for the European Communities Court of Auditors (ECCA) and the national audit bodies of the European Communities' (EC) member states to use in examining EC expenditures.

The need to develop a common approach throughout Europe to audit EC activities was recognized by a meeting of a committee consisting of the presidents of the 13 supreme audit institutions (SAIs) in Madrid in September 1991. This committee consists of the presidents of the 12 national audit bodies and ECCA. At the meeting, the presidents resolved unanimously to establish an ad hoc group to draft guidelines that might be applied, initially, in audits of EC expenditures and revenues. An ad hoc group was set up consisting of representatives from the Danish, Dutch, Italian, and Spanish courts, as well as the ECCA.

## Review of Standards and Audit Manuals

The revised INTOSAI auditing standards provided ECCA an excellent starting point. The auditors quickly identified areas where the EC bodies might benefit from additional guidance on how the international standards should be implemented, and shared the task of drafting these "Implementing Guidelines".

ECCA is not aiming to reinvent the wheel. Rather, each participant has reviewed available literature with the aim of providing the clearest possible guidance that will be acceptable to all EC SAIs. Thus, ECCA has at its disposal a range of audit manuals representing areas stretching geographically from Australia to Alaska (including the manual of the U.S. General Accounting Office), and a similar range of national auditing standards and guidelines.

## Work to Date

So far ECCA has produced five draft guidelines and is considering three more. Also, ECCA has given some thought to future tasks that it may undertake.

The first five draft guidelines were made consistent in style and content with one another and also with the INTOSAI standards, and were translated into the nine official EC languages. They were then considered at the annual meeting of the

presidents in December 1992, and a progress report was presented. The presidents resolved to renew the mandate of the ad hoc group and to refer the draft guidelines to the individual SAIs' technical experts for comment, particularly concerning the guidelines' applicability and acceptability to the individual SAIs.

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*The revised INTOSAI auditing standards provided ECCA an excellent starting point.*

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## Applicability of Guidelines

The guidelines are intended to help the EC audit bodies harmonize their audit approaches to EC financial activities. In the long term, this should give both the national bodies and ECCA greater assurance about the legality, the regularity, and the correct accounting for these activities. It should also provide a sound basis for extended cooperation between the SAIs and for joint audits, the first of which are now being conducted on an experimental basis.

It is intended that the guidelines eventually be adhered to whenever EC activities are examined. But they will not, and indeed cannot, be prescriptive, as they will on occasion conflict with national requirements and legislation. For example, the Italian Court of Accounts has a legal duty to pursue any public employee who, by illicit behavior, causes a loss of even a relatively small amount to the government. In these circumstances, the widely accepted concept of materiality cannot easily be applied.

## The Future

The guidelines produced during the first year of ECCA's work fall somewhere between auditing standards and an audit manual, and attempt to give general guidance. What is also needed—and this was underlined by the 1992 meetings of the 13 presidents—is detailed guidance on the day-to-day conduct of joint audits involving teams from two or more SAIs. ECCA will be focusing on this in the coming months.

From the point of view of harmonizing the audit approaches to EC expenditures, further aspects must be addressed. At present, the above exercise is bringing together the SAIs within EC. But the Maastricht Treaty will extend the principle of "subsidiarity." This implies that EC activities should be carried out by regional and local organizations. In most European countries, external audits of local expenditures are the responsibility of nonnational bodies. Thus, for example, in Germany each of the 16 "länder" has its own audit body (Rechnungshof). ECCA may have to establish links with these regional and local bodies in the future.

Finally, EC boundaries are rapidly expanding. Not only is there a long list of countries hoping to participate in the EC, but also there are significant EC programs taking place in the former Eastern-bloc countries. Further, there is the recent agreement on the European Economic Area, which promises much closer collaboration between the current 12 EC members and the European Free Trade Area states.

For more information, contact the author at: European Communities Court of Auditors, 12, rue Alcide de Gasperi, L-1615 LUXEMBOURG. ■

### **New Telephone Numbers for the Journal**

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**Please note that the telephone and fax numbers for the Journal's editorial offices in Washington, D.C. have changed. The new numbers are:**

**Telephone: 202-512-4707**

**Facsimile: 202-512-4021**

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# Monitoring the Privatization Process

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By Dr. Arpad Kovacs, Hungarian State Audit Office

## Introduction

One great problem of the Hungarian economy, and of eastern European economies, is that the percentage of property owned by the state is so high that it obstructs the opening of new paths of development.

Privatization is one way to open new paths of development. Economic and social restructuring and reducing bureaucratic control are equally important. Privatization, deregulation, and economic liberalization are closely connected.

Privatization, as a major instrument of and catalyst in economic restructuring, is a totally new concept in Hungary. In our country, the number of state enterprises to be privatized is close to 2200. Their assets are worth about US\$25 to US\$30 billion. In Hungary, the basic principle of the privatization process excludes reprivatization. Instead, compensation is paid to former land and real estate owners within a narrow limit; this compensation is in the form of compensation notes, which can be exchanged for property.

The privatization process can be divided into two phases.

The first is "denationalization," or "raw" privatization, by which state enterprises, within the bounds of new laws, become potentially suitable for privatization. The companies of the state have the opportunity to convert to other enterprises (or joint ventures), to establish companies, to issue shares, to reconstitute themselves as property management holding companies, etc. The first phase, which can be accomplished relatively quickly by the legislature and the government, is the first step toward a market economy.

The second phase is privatization itself. In "real" privatization, the organizations still owned by the state become, with the infusion of private capital, corporate structures, some elements of which operate entirely with private capital and some of which are still partly state-owned.

Real privatization is longer and much more difficult than raw privatization. From 1990 to the spring of 1992, the value of assets in companies that had undergone real privatization totaled US\$2 billion. The dominance of state-owned business, with only a few exceptions, is still absolute in industry, transportation, telecommunications, and public utilities. In trade and agriculture, the dominance of state ownership is less and the private sector has grown faster. According to present plans, the proportion of state ownership in enterprises is hoped to be

reduced from its present level of around 90 percent to roughly 40 percent. In the coming few years, the state sector will still enjoy, albeit in reduced measure, dominance.

The pace of privatization is one of the most controversial issues among experts and in the media. Public opinion is divided as well. If the speed of Hungarian privatization is compared with that in other eastern European countries, we can be proud. If it is compared with our own expectations and economic demands, we are not satisfied.

During the next few years, domestic capital will not have a strong role in Hungary's privatization. Total foreign investment amounted to US\$2 billion by the end of 1991, and an analysis of negotiations and planned investments shows that in the first half of this decade, Hungarian privatization will be able to attract about US\$1 billion per year.

In a market economy, if a proportion of the private sector can reach a certain level, the national economy starts to function according to market rules. We hope that this will occur before the transfer of ownership is completed.

## Managing and Controlling Privatization

Today one of the most important questions is whether, during privatization, the preponderance of state ownership can be eliminated in such a way that the needs of the national economy will be fully met and that the government will use the resources gained from privatization to achieve Parliament's goals. The government has assigned the State Property Agency (SPA) an important role in these tasks, which is to centrally monitor and direct privatization. SPA's responsibilities are as follows:

- To oversee activities of state-owned corporations engaged in self-initiated privatization; and, in case of approval, to control their implementation.
- To prevent transactions that damage the state's ownership rights or the rights of society and that may result in losses to society or the state.
- To develop and carry out different privatization programs created by the government's privatization strategy. SPA carries out the so-called active privatization programs directly, but carries out another part of privatization indirectly.

- To manage and account for state-owned property, to use this property and that of corporations under state administration, to evaluate property, and assist in the implementation process.
- To perform the tasks assigned to SPA by the so-called preprivatization law.
- To organize and carry out investor-initiated privatization.

## State Audit Office Tasks Regarding the SPA

According to law, a commentary from the President of the State Audit Office (SAO) must be attached to SPA's annual report. Naturally, this commentary explains SAO's role regarding SPA. At present, a main SAO task is auditing the state's economic activities—executing denationalization laws and directing privatization.

Two legislative documents govern privatization.

The first is the government's multiyear privatization concept, which in practice covers the whole term of the government until the next election. The other is the Asset Policy Guideline, which outlines this multiyear concept for a given budget year. The Asset Policy Guideline, passed yearly by the Parliament, establishes the procedures for sales and circulation of state shares and for SPA's ownership of property conduct, and procedural focus. Further, it also states how, and for what goals, the proceeds from privatization may be used. State assets are those, whether functioning or structured now as state companies, subsidiaries, or state securities, that are sold wholly or in part to private firms.

In addition to the two previously mentioned documents, laws concerning SPA, the management and use of assets belonging to it and the protection of assets entrusted to companies by the state, are the basis for the SAO's work. These laws enable SAO to compare its goals with its results.

Through SAO audits of companies that have been or are being privatized, our daily supervision of asset holdings, our examinations of macrodata, and SAO's annual supervision of the SPA, we can form an opinion about the privatization process.

Last autumn, the SAO President gave his first report about the SPA to Parliament. The most important conclusion was that SPA's tasks were too diverse. SPA is involved in several very different functions. Its responsibilities included owning property on behalf of the state and linking the duties of the asset manager, the dealer, and the official authority. SPA leadership had to reconcile opposite demands day by day. Although SPA staff worked very hard, it seemed that SPA's capacity was inadequate to carry out its tasks.

When the SAO audited the SPA initially, privatization was progressing rather poorly because, at that time, the government preferred a centralized and tightly conducted privatization process.

## SAO Suggestions Adopted by the Government and Parliament

As the SAO suggested, the government has clarified the role of SPA, its personnel and technological conditions, as well as the number of the staff and the informational structure in place to meet demands.

The State Audit Office audited the SPA again in 1992. Early indications are that the situation has already improved.

## Conclusions

Privatization, it is said, is not "pleasant and kind" in every aspect; it yields profit for certain people while others experience a loss. On the whole, privatization is not a way to solve political, moral, and historical problems. It is an economic step that tries to achieve economic goals, and it must follow economic laws. Finally, it brings economic results.

An extremely hard task in managing Hungarian privatization is solving controversial problems. The economy's performance is weak. The country wants to simultaneously establish a new ownership structure, modernize companies, and create an effective market economy.

In the first part of 1992, the extent of real privatization is reflected in the actual sale of former state assets of US\$2 billion. This is a low percentage of real privatization compared with the market value of the state assets. But with the establishment of SPA, the privatization pace was expected to rise sharply by the second part of 1992.

We draw a lesson from the experiences of the last few years. In addition to depending on the government's activities, the privatization process depends considerably on the activities of companies and the purposes of investors, as well as their harmony with employees and local authorities.

Company-initiated and market-based privatization must have a wider role, which the government could control indirectly. In this way, the division of labor in privatization could progress to a more rational level. This would also unburden SPA and lead to acceleration of privatization. We hope that Parliament and the government will continue a more open privatization policy.

The SAO's approach was too rigorous, and our experiences and the government's implementation of SAO's suggestions illustrate this. The SAO needs to be flexible with respect to both organization and methodology because its role regarding the use of public property will change. Following the completion of privatization, a few companies will continue to be publicly managed. Since the government will own a share of these companies, it will be interested in their efficient operation. Frequent detailed auditing of public enterprises and shareholding companies, which now represent a relatively small part of the SAO activities, will be one of its most important duties.

For additional information, contact the author at: Allami Szamvevoszek Apaczai Csere Janos U. 10, 432 Budapest, Hungary. ■

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# Auditing to Serve Public Accountability

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By Henry E. McCandless, Audit Operations Branch, Office of the Auditor General of Canada

## Accountability and Audit

Public accountability is the obligation to answer publicly for the discharge of responsibilities that affect the public in important ways. The obligation to act is the responsibility, and the obligation to report is the accountability. These are not the same thing. Even though people are acting on something, they are not necessarily being accountable. Audit is not accountability either.

Accountability makes visible the operating standards of those with the responsibilities. Adequate accountability reporting gives governing bodies the information to assess performance and, coupled with audit, helps ensure that the agendas of those accountable are visible. Accountability is a powerful influence on management. People who are asked to account publicly for their performance do not wish to make impoverished assertions, and what they report can be independently audited for its fairness and completeness. But the accounting should come before the auditing, and it should not be replaced by audit.

The objectives of government audits vary in interesting ways, depending on the legal mandate and the auditor's approach. But the common objective is to serve an explicit or an implicit accountability relationship between those carrying out responsibilities and those in oversight roles. As the Canadian Comprehensive Auditing Foundation (CCAF) stated in a recent study:

“Audit serves an accountability relationship. It is the independent, objective assessment of the fairness of management's representations on performance or the assessment of management's systems and practices, against criteria, reported to a governing body or others with similar responsibilities.”<sup>1</sup>

The governing bodies can be of many kinds: executive government bodies, boards of directors or governors, city councils, and legislatures. But the question is whether serving accountability leads the auditors logically to a guiding concept for value-for-money audit and reporting. This article argues that it does.

## Reporting Standards for Public Sector Accountability

In the private sector, standards for financial reporting are usually stated in terms of fairness, timeliness, relevance, and

the like. That is because the common objective of business corporations is sustained cash flow. The reporting objective is to portray the results of business transactions fairly. In the public sector, which has individual program effectiveness as its objective, attributes of financial reporting are not enough. Governing bodies and the public need government managers to state what they intend to achieve. Descriptions of intended activity offer no basis for holding managers accountable for results. Standards of service to the public are a good example of achievement-oriented assertions.<sup>2</sup> From management's assertions, it should be possible to tell, for example, whether policies are at cross-purposes and whose needs are being met by government. Management should also make visible its rationale for its decision-making. It can be argued that disclosure of the decisions and the rationale for them are the essence of accountability.<sup>3</sup>

Shared responsibility and accountability, often the case in government departments, need to be made visible. If governments wish to move from being doers of things to being “facilitators” and “partners,” they still are responsible for ensuring that what is done actually works equitably for the long-term common good. Shared responsibility for environmental protection is an example of the need for effective accountability reporting not just within and by corporations and governments, but as an interlocked system of global public accountability.

Management reporting on the quality of its internal control is also needed. In recent years, the quality of management control has become a major issue for government oversight bodies in determining the duty of management of financial institutions and other corporations, and the duty of the external auditors.

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<sup>1</sup>Comprehensive Audit Reporting—Concepts, Issues and Practice, Ottawa, CCAF, (Ottawa, 1991), p. 32.

<sup>2</sup>The *Citizen's Charter* in the United Kingdom and the individual charters being developed for UK government agencies are examples of achievement-oriented accountability statements.

<sup>3</sup>The author is indebted to Patrick Lafferty, partner of Coopers & Lybrand, for this proposition.



Governing bodies need management's assertions of what has actually been accomplished and an explanation for variances from planned results. And they need reporting on the important lessons learned and how they have been applied. Organizations need "corporate memory" that outlasts turnover in senior officials and ministers.

Standards such as these can be applied to government accountability reporting for different responsibilities at all levels of government.

No one would suggest that any major government body is already using such a comprehensive set of reporting standards. But frameworks have been suggested. For example, the CCAF, in its 1987 study on effectiveness reporting, advanced a 12-point comprehensive framework for organizations to use. It comprises standard dimensions of organizations' effectiveness and has been applied in pilot projects in Canada by government-owned corporations, provincial departments, municipalities, and hospitals. An alternative approach is to identify the specific objectives of the audited units and the critical success factors. Different approaches can be used to check on the completeness of the principal reporting approaches the governing bodies choose.

## The Auditor's Role

The foregoing reporting criteria suggest that government auditors consider how they can best help bring about improved quality of reporting: what advice they can give to governing bodies on what they should fairly expect from management's reporting. When the auditors understand what type of information the governing bodies need most for their accountability role, they will know what needs to be audited.

Auditors have important decisions to make in their audit and reporting approaches. The first is whether to undertake direct assessment and reporting on management's performance (direct reporting) or attestation to the fairness and the completeness of management's own reporting on its performance.

If government management is not asked to account, there is, of course, no attestation option. If management is reporting, the auditors can still report directly, in effect bypassing management's reporting. But this doesn't make sense unless the auditors conclude that management's reporting is largely unreliable. If management is not reporting adequately, is it being held to account? The assurance about performance should be given by the party accountable, which is management. When auditors step in and assess and report to governing bodies, the auditors are doing management's job. The most familiar attestation audit report is the auditor's opinion on the fairness of financial statements and the attestation role is deliberate.

The underlying choice facing all government auditors in their value-for-money and compliance reporting is whether to emphasize deficiencies (deficiency reporting) or management's responsibilities (accountability-based reporting). The objective of each approach is different.

The objective of deficiency reporting is to report only instances of management's failure to meet important performance criteria. The governing bodies then act on a management-by-exception basis. The objective of accountability-based reporting is broader: to report whether management met the most important performance criteria. If significant deficiencies are found, they are reported. The auditor reports state the important responsibilities subject to audit and the performance criteria applied.

Performance criteria should include the quality of management accountability reporting. The reports then state that all criteria were met, none were met, or, most often, some were met. The rationale is that the governing bodies should have the news, at an audit level of rigor, on management's most important responsibilities.

In railway operations, for example, management's responsibilities for safety are critical for the public. If safety systems and procedures appear reasonable from a preliminary survey designed to identify major deficiencies in the whole operation, should these control systems nonetheless be assessed and reported on at an audit level of rigor? And if the audit conclusion is that the systems met reasonable criteria, shouldn't the auditors want to say so?

The auditors' decisions to emphasize either deficiencies or accountability depend largely on two things: what the audit mandates ask for and what the auditors think is the most useful information for the governing bodies for making decisions. We are concerned here only with cases in which auditors are authorized to decide the reporting approaches, because some audit mandates may limit the auditors to deficiency reporting only.

For the auditors to report only on deficiencies is easier. If management concedes that it hasn't met reasonable criteria, the audit reports are easily defended. To assert that management met important criteria requires more professional skill and risk-taking. Yet private sector external auditors report, as their daily business, whether management met important reporting criteria, risking legal liability if they are judged wrong. A problem created by reporting deficiencies is that the report users may infer more comforting messages from the audit reports than the auditors intend. This danger is summed up perfectly in the expression, "Nothing said, all's well."<sup>4</sup>

Audited government managers and members of governing political parties understandably tend to view the practice of reporting only deficiencies as unfairly negative. As a result, auditors may look for instances of "good management" to produce "balanced" reports. But this is not a professional approach to promoting accountability.

If management chooses not to report on its value-for-money performance and isn't asked to, the external auditors have a common sense duty to identify and report information

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<sup>4</sup>Clemens N. J. van der Werf, "Beleid Nader Bekeken: de Accountant en Evaluatieonderzoek, *de accountant* (January 1989), p. 253.

to the governing bodies. This will mean ranking management's responsibilities to keep audit scope within the audit resources available, with the rankings known to the governing bodies.

Accountability suggests that governing bodies are best served by knowing whether the most important management responsibilities have been satisfactorily discharged, but even in the direct reporting role, the auditors can promote better accountability. The reports can include a statement along these lines:

“Management is not reporting on the following important responsibilities, which is a matter for agreement between the parties to the accountability relationship. Meanwhile, here is what we think is important for the board (or the council or the legislature) to know about these responsibilities.”

Promoting accountability means more than simply carrying out audits, although it does not mean reporting on the merits of executive government policy. Each jurisdiction may want to consider legislation to take adequate performance reporting beyond the financial level.

## Conclusion

The government auditors can help governing bodies understand the choices available in audit reporting and the usefulness of each approach for holding management accountable. And with no loss of independence, auditors can foster better accountability by helping government managers develop more useful accountability reporting. But it is equally important that auditors encourage governing bodies to use more informative management reporting fairly. ■

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# Audits of the Management of the Swedish National Debt

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By Bjorn Hasselgren, Bureau Performance Audit Division, Swedish National Audit Bureau

During the current recession, the national debt of Sweden has grown very fast. The debt totaled about SEK 900 billion (about US\$125 billion) in the beginning of 1993, which was approximately 60 percent of GDP. The interest payments have become the largest single appropriation of the state budget. A governmental agency, the National Debt Office, is in charge of debt management.

The Swedish National Audit Bureau (RRV) has carried out a performance audit of the management of the Swedish national debt. An audit report ("Statsskuldforvaltningen") was published in January 1993.

## Audit Purpose

The audit's purpose was to assess the effectiveness of the Debt Office's management of the objective, set out by the Swedish Parliament, of minimizing costs related to borrowed capital. The audit also covered (1) the Debt Office's constraints, internal strategies, and risk management, and (2) some aspects of the work of the three debt-managing departments of the Debt Office. Also, the audit's purpose was discussed with the Ministry of Finance and the Swedish central bank (the Riksbank).

## Research into Debt Management

The audit started with a study of public debt management in general. Reports of several Swedish state committees from the beginning of the 1980s, dealing with national debt questions, were studied, discussions were held, and research was done in financial management and economics.

At an early stage, contact was made with colleagues in other countries dealing with debt management questions. The Danish state auditors (Rigsrevisionen) were contacted, and their report on debt management was studied. Further, debt management was discussed with the Ministries of Finance in Denmark and Finland.

Another useful source was discussions at the National Audit Office (NAO) in Great Britain. In addition, through NAO, RRV was able to discuss debt management with officers at the Treasury in London. NAO invited RRV to take part in a meeting of the INTOSAI Public Debt Committee in London in May 1992. Later in the audit, RRV got an interesting report on debt management topics from the Office of the Auditor General in Canada.

RRV used information from all these sources to write a comparative chapter in the final audit report.

## Impact of Debt Office Issues

A considerable part of the audit dealt with general market analysis, the Debt Office's market role, and its borrowing strategy. One of RRV's purposes was to measure the impact of the Debt Office's very large issues in the domestic money and bond markets. RRV wanted to determine whether these issues had influenced the market interest rates and whether there were differences in market impact on different segments of the market. These determinations were made partly by statistical analysis of a time series of market interest rates and auction results. Statistics from RRV's analysis were obtained from the Riksbank, the Debt Office, and one of the Debt Office's retailers, a market maker in Stockholm.

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*At an early stage, contact was made with colleagues in other countries dealing with debt management questions.*

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In one part of the statistical analysis, RRV compared a time series of 15 days' marginal change in interest rate<sup>1</sup> on half-year Treasury bills and the state's monthly net borrowing requirement. The analysis showed a time link between the borrowing requirement and the interest rate. When the borrowing requirement was high (negative values), the interest rate was normally high and vice versa.

RRV concluded that the state's borrowing had affected the interest rates in the domestic markets and that the borrowing planning should be changed to get an adjusted seasonal borrowing structure. Instead of meeting most of the borrowing requirement in the last 3 months of the year, the state should determine whether meeting higher proportions of the borrowing requirement in other parts of the year would be economi-

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<sup>1</sup>The difference between the market rate on one day and the rate on a day 14 days later, for example, day 1 and day 15 in every month.

cally efficient. This could mean a higher proportion of Treasury bonds with longer maturity than the Treasury bills studied.

## Measurement of Auction Results

In the second part of this analysis, RRV measured the auction results from the Debt Office's issues of Treasury bills and Treasury bonds. First, RRV compared the interest rate that the Debt Office had accepted and the market interest rate before and after the auction. The analysis showed that the interest rates often peaked when the Debt Office issues bills and bonds. Second, RRV tried to explain the auction results by using linear regression analysis. Two models were formulated explaining up to 53 percent of the differences between auction interest rates and market interest rates. The models show a correlation between the number of bids made in an auction and the auction result. When many bids are made in an auction, there seems to be uncertainty about market rate levels. Uncertainty often means a negative auction result for the Debt Office and vice versa.

## Use of Consultants

In two different parts of the audit, RRV used financial consultants to help make judgments.

In the first case, a consultant who specialized in the domestic markets was used. This consultant helped analyze Debt Office methods for interest rate risk measurement and its domestic borrowing strategy.

In the second case, financial consultants helped evaluate Debt Office management of the debt in foreign currencies.

RRV wanted to determine whether the Debt Office's limits for interest rate and currency risks were appropriate and whether these provided the Debt Office a reasonable possibility to use financial instruments to minimize costs. This part of the audit showed that the foreign debt department of the Debt Office had performed well for the most part.

RRV still must determine whether the department should change the currency composition in the benchmark measuring currency risk, and whether the limits for the use of financial instruments should be reviewed.

## Open Relationship with Debt Office

While the audit was being carried out, RRV had an open relationship with the Debt Office. On several occasions, RRV discussed the preliminary audit results with Debt Office management. One of RRV's main recommendations was that the Debt Office develop its internal borrowing strategy. A direct result of this recommendation is the Office's present effort to develop a more complete and explicit borrowing strategy. The Ministry of Finance, which RRV also reported to, has reacted positively to the report and is studying ways of defining the objectives for the debt management and ways of improving the external control exercised by the Debt Office.

## How to Obtain Report

An English summary of the audit report (F1992:38) can be obtained from the Swedish National Audit Bureau, Box 34105, S-100 26 Stockholm, Sweden, (telephone: 46 8 738 4000 or fax: 46 8 656 0425). ■

# Audit Profile: The Office of the Auditor General, Republic of Namibia

By Walter P. Barth, Deputy Auditor General

*Editor's Note: Continuing the practice of using Audit Profile to introduce new INTOSAI members to the Journal's readers, we are pleased to feature Namibia's office in this issue. Namibia was welcomed as a new INTOSAI member at the XIV INCOSAI held in Washington, D.C. in October 1992.*

## History

The powers and duties of the Auditor General are enshrined in the State Finance Act, 1991, which enables him to carry out audits of all government institutions, local authorities and other bodies assigned to him by the law.

Prior to April 1, 1991, the Office of the Auditor General, in what was then South West Africa, was governed by the head office of the South African Auditor General. In April 1991, the Office of the Auditor General became an independent office of the interim Government of Namibia with reporting obligations to the Administrator General as head of the interim government.

## Independence

Independence of the Auditor General is ensured by the powers given to him in the act and the fact that he is not a public servant. Presently the only constraints effecting the independence of the SAI are connected to financing and staffing. The budget is part of the budget of the Office of the President and budget constraints may affect proper execution of the audit tasks. Recruitment is presently done by the Public Service Commission and is very time consuming. The Commission also determines the staff size of the office as well as the salary structure. A draft bill for the SAI, in which these limitations are considered, is receiving attention.

## Scope of Audit Authority

The State Finance Act provides for the Auditor General to determine the extent of any audit in his or her discretion. He may require a person to appear before him in connection with an audit and has legal access to all bodies, vouchers, documents, money, stamps, securities, forms which have a face or potential value, equipment, stores and other moveable goods owned or leased by the state or statutory institutions. It is also stipulated in the act that he may investigate whether any money in question has been expended in an efficient, effective, and

economic manner, as well as look into the efficiency of internal control measures. He may enter into agreement with one or more persons to assist him in carrying out his duties.



Mr. Barth (left) and Mr. Kruger (right) represented Namibia in Washington, D.C. at the XIV INCOSAI.

## Type of Work

The work is primarily aimed at certification audit which requires that the Auditor General must satisfy himself that:

- all reasonable precautions have been taken to ensure that all moneys to which the investigation, examination, and audit relate, are collected;
- the laws relating to the collection of such moneys have been complied with;
- all reasonable precautions have been taken in connection with the receipt, custody, issue of, and accounting for stamps, securities, forms having a face or potential value, equipment, stores and other movable goods; and
- the expenditures or payments requiring authorizations or approvals have been incurred or made under and in accordance with such authorization or approvals, and that they have been supported by adequate voucher or other proof.

A small component of the audit staff has recently embarked on a value-for-money audit and are still undergoing training in this regard.

Under some circumstances, special audits may be authorized. Whenever the President deems it necessary in the public interest, he may require the Auditor General to investigate, examine, and audit, in accordance with the provisions of the law, the account books, account registers or statements of any body, association or organization other than a statutory institution, as if such body, association or organization were a statutory institution. If by reason of the confidential nature of any account, the President is of the opinion that such account should be excluded from a detailed examination under the State Finance Act, the President may, after consultation with the Auditor General determine to what extent the investigation, examination, and audit thereof is to be carried out and which vouchers are to be made available for such investigation, examination, and audit.

### **Audit Planning**

The scope of audit currently consists of 20 ministries, 15 municipalities, 12 statutory bodies, 6 national funds, 7 trade accounts, and 6 "other accounts." The strategic planning for the SAI covers all of these areas. An operational audit plan is submitted by each audit team leader before commencing with an actual audit activity.

### **Reporting**

Prior to 1991, the acts relating to the powers and duties of the Auditor General required him to report to Parliament. The most recent act differs slightly in this regard by requiring him to transmit his report to the Minister of Finance who is granted one month to discuss it with the Cabinet. Neither he, nor anyone else, has authority to make any alterations; and, if the Minister of Finance fails to table the report in the National Assembly within one month's time, the Auditor General may

table the report himself through the Speaker of the National Assembly. These reports are referred to a Public Accounts Committee which is empowered to hear evidence from accounting officers and to make recommendations to the National Assembly. The Auditor General acts as advisor in this committee and renders assistance in compiling its reports.

### **Organization and Size of the Office**

Apart from the Auditor General and the Deputy Auditor General, the audit staff consists of 66 posts, 37 of which are currently filled. The total workload is divided into three zones, each headed by a Chief, Audit Services. The administrative staff, consisting of 12 staff members, is headed by a Chief Control Officer—currently 7 of these positions are filled.

### **Staff Capabilities and Training Programs**

Due to a serious shortage of skilled auditors, the number of unqualified staff used for specialized audits is too high and the risk of undetected errors is considerably high. External courses are used to upgrade audit skills and an internal comprehensive audit course must be successfully completed before a person can qualify for the post of auditor. Although the local university does not have faculties covering all disciplines, it is possible to qualify for certain degrees, mainly a Bachelor of Commerce. Courses cover accountancy and auditing within the syllabus for this degree, and at a lower level it is possible to study for diplomas in both accountancy and auditing. Negotiations to obtain technical assistance from abroad for the SAI are underway.

### **For More Information**

More information about the Office of the Auditor General of Namibia can be obtained by contacting Dr. Fanuel Tjingaete, Auditor General, Private Bag 13299, Windhoek 9000, Namibia. ■

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# Reports in Print

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Recognizing that, "Now more than ever, the public sector is under pressure to perform economically, efficiently, and effectively," and noting that government and the public expect a "value added approach to auditing," the Australian National Audit Office (ANAO) has issued a guide on performance auditing. The guide provides ANAO policy on performance audits and includes guidance to:

- assist auditors in conducting performance audits;
- assist performance auditors in managing the audit;
- establish a basis for development of performance audit methodology and professional development; and
- set out a basic structure within which professional judgement may be exercised.

The guide is organized into six major parts which are followed by a bibliography, and several appendices. Part One provides an overview which describes the rationale for the guide and outlines its applications; a description of performance auditing in the ANAO; and the process to conduct and control performance auditing. Parts Two through Six describe reporting, strategic planning, conducting a preliminary planning study, implementing an audit plan, and following-up on performance audits. The appendices include checklists to review work done in reporting, strategic planning, preliminary study, implementation and follow-up; a Guide for Auditees; illustrative performance measures; and a copy of the ANAO Performance Audit Follow-up Package.

Copies, in English, of *Performance Auditing*, June 1992, may be obtained, at no cost, from the Executive Director, Policy and Development Branch, Australian National Audit Office, GPO Box 707, Canberra ACT 2601, Australia.

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A recent performance audit conducted by the Swedish National Audit Bureau focused attention on human resource management in government. Citing the fact that government agencies need to adjust to changing conditions, the report examines the ways in which staff in these agencies develop and adapt skills to meet change. In the introduction to *Human Resource Management in a Perspective of Change: An International Presentation of a Performance Audit Project*, Assistant Auditor General Ingemar Sergergran noted that this summary report was issued because "human resource management will also be a key issue in an international perspective during the 1990's, and we feel it is important to stimulate an international exchange of experiences in this field." The booklet summarizes the observations from the report which addressed

several questions: how can agencies be induced to adapt their skills to actual and anticipated changes; what obstacles, shortcomings, and other difficulties are common; and what factors contribute to a successful process of change? The performance audit methodology and the experiences gained by working on this project are discussed in an appendix. Copies, in English, are available at no cost by contacting the Riksrevisionsverket, Box 34105, 100 26 Stockholm, Sweden.

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The Ottawa, Canada, Chapter of the Institute of Internal Auditors has issued a research study examining "Internal Auditor's Contribution to the Management of Quality/Productivity." The study was completed to develop a framework for the management of quality/productivity that could be used in the federal government; to determine the validity of the framework, the extent to which its characteristics are implemented in departments and agencies, and the extent to which internal auditors are auditing these characteristics; and, to develop suggestions for the improvement of internal auditing in the federal government.

Within the framework, the seven characteristics of organizations concerned with their quality/productivity were identified as (1) focus on the customer, (2) long-term commitment, (3) senior management support/direction, (4) emphasized employee participation, (5) standards, measures, and feedback, (6) commitment to training, and (7) rewards and recognition.

The study discovered that there was a high level of support for the framework and for the idea that internal auditors should audit against its seven characteristics. However, it also found that the framework was not always implemented well within departments, and internal audits were not focused on the seven characteristics. In light of this gap between the theory and the practice of quality/productivity management, the study presents an agenda for change which would allow internal audit to make significant contributions. The study is available, at no cost, in a combined French/English format by contacting the Institute of Internal Auditors, Ottawa Chapter, P.O. Box 2274, Station D, Ottawa, Ontario K1P 5W4, Canada.

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For eight years the Washington International Financial Management Forum of the International Consortium on Governmental Financial Management has sponsored a monthly series of lunchtime speakers, and the text of the remarks presented during 1992 is now available. In support of the Consortium's goal of fostering the exchange of information

and ideas, speakers last year addressed a variety of issues including: corruption, international trade policies, implementation of the Chief Financial Officers Act, programs of the World Congress of Accountants, oversight trends in government, issues in auditing A.I.D.'s decentralized operations, the role of accountants in a multi-national world, efforts to combat corruption in international business transactions, and fiscal technical assistance through the Inter-American Development Bank. Copies of the "Proceedings of the Washington International Financial Management Forum for the Calendar Year 1992" are available in English, at no cost, by contacting the **International Consortium on Governmental Financial Management, P.O. Box 8665, Silver Spring, MD 20907, United States of America.**

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In January, the United States General Accounting Office issued two sets of reports advising President Clinton's administration and the members of the 103rd Congress about what needs to be done to meet pressing national issues. The 28-volume Transition Series, which was prepared at the request of the Speaker of the House of Representatives and the Majority Leader of the Senate, presents lessons learned from GAO's work on economic, program, and financial management issues. The 17-part High Risk Series focuses on programs considered by GAO to be especially vulnerable to abuse because of weak controls or large amounts of funds disbursed through contracts or grants.

Copies can be ordered as sets or requests can be processed for the report on a single issue. Issues treated in the Transition Series include: Budget, Investment, Government Management, Financial Management, Information Management and Technology, Program Evaluation, Public Service, Health Care Reform, National Security, Financial Services Industry, International Trade, Commerce, Energy, Transportation, Food and Agriculture, Environmental Protection, Natural Resource Management, Education, Labor, Health and Human Services, Veterans Affairs, Housing and Community Development, Justice, Internal Revenue Service, Foreign Economic Assistance, Foreign Affairs, NASA, and General Services.

The High Risk Reports covered: Farmers Home Administration's Farm Loan Programs, Guaranteed Student Loan, Bank Insurance Fund, Resolution Trust Corporation, Pension Benefit Guaranty Corporation, Medicare Claims, Defense Weapons Systems Acquisition, Defense Contract Pricing, Department of Energy Contract Management, Superfund Program Management, NASA Contract Management, Defense Inventory Management, Internal Revenue Service Receivables, Managing the Customs Service, Management of Overseas Real Property, Federal Transit Administration Grant Management, and the Asset Forfeiture Programs.

There is no charge for one complete set or one copy of a single report which can be obtained by contacting the **United States General Accounting Office, Office of International Audit Organization Liaison, Room 7806, 441 G Street NW, Washington, D.C. 20548, United States of America.**

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For the first time Germany's Federal Court of Audit (FCA) has recently issued a 1991/1992 Annual Report compiling several documents that have so far been published separately. The Annual Report presents in one volume both the FCA's 1991 observations on major audit findings (Part A) and the 1992 comments of the Public Accounts Committee on the audit findings including the Budget Committee's recommendations for resolution to be adopted by Parliament (Part B). Thus audit findings can be compared easily with any parliamentary action proposed to address the shortcomings stated. This volume also presents a special audit report (Part C) and a listing of advisory reports of the FCA addressed to the budget committee or its rapporteurs from July 1991 through June 1992 (Part D). Since the German SAI does not possess any power of enforcement, it needs to convince by the strength of its argumentation. By uniting its findings and the response received by parliament in one volume, the FCA wants to increase public awareness of the fact that audit work does not remain without effect. Thus the book gives a comprehensive overview of government auditing and parliamentary supervision in Germany. The report is available in German, at no cost, from the **Bundesrechnungshof (Federal Court of Audit), Referat Pr/Int, Postfach 10 04 33, D-6000 Frankfurt 1, Federal Republic of Germany.**



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# Inside INTOSAI

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## Committee Update

An important feature of the XIV INCOSAI (see this Journal, January 1993) was the integration of INTOSAI's committees into the congress program. Theme II was lead by the committees on auditing, accounting, internal control and public debt, and the Technology Symposium was chaired by the head of the EDP Audit Committee. This format provided opportunities for INTOSAI members to participate in the work of each committee, and to have a voice in helping shape the future direction of the committees. To support this work, the Journal is pleased to provide the following information on the status of each committee.

**Audit** *Revised Standards approved at XIV INCOSAI.....Committee making minor amendments to Standards and finalizing Protocol for approval by the Governing Board in May.....plan is for other committees to adopt Protocol.....bibliography of guidance material on auditing under development.... contact: Australian National Audit Office.*

**Accounting** *Accounting Statements 1 and 2 approved and published at XIV INCOSAI.....preliminary draft of Statement 3 (Qualitative Characteristics of Government Financial Reports).....contact: Office of the Auditor General of Canada.*

**Internal Control** *"Guidelines for Internal Control Standards" approved at XIV INCOSAI.....new committee chairman is Professor Hagelmayer (Hungary).....Committee developing a questionnaire to send to all INTOSAI members soliciting relevant bibliographic information, will report on progress at May Governing Board meeting.....contact: State Audit Office, Hungary.*

**Public Debt** *SAI survey on public debt being analyzed.....interim report on survey results to be finalized at committee meeting in Lisbon early May.....Chairman Castillo to report to Board following the Lisbon meeting.....contact: Contadoria Mayor de Hacienda, Mexico.*

**EDP** *Terms of Reference approved by Board in October 1992.....Committee chairman Somiah chaired technology symposium at XIV INCOSAI.....committee has formed 3 working groups to study special areas and plans to meet in 1993.....Chairman Somiah to report to Board meeting in May.....contact: Office of the Comptroller and Auditor General of India.*

**Environmental Auditing** *established by Governing Board in October 1992 in response to Theme IA recommendation.....chaired by Mr. Engwirda (Netherlands).....committee currently being formed..... Terms of Reference prepared and circulated to committee members for comment, and will be submitted for approval to Governing Board.....contact: Court of Audit of the Netherlands.*

**Privatization** *established by Governing Board in October 1992 in response to recommendation from Theme IC at XIV INCOSAI.....chaired by Sir John Bourn (United Kingdom).....proposed Terms of Reference drafted for presentation to Board.....contact: National Audit Office of the United Kingdom.*

**Program Evaluation** *Established by Governing Board in October 1992 in response to recommendation from Theme IB at XIV INCOSAI.....chaired by newly-elected Premier President Joze.....progress report to be given at next Governing Board meeting.....contact: Court of Accounts of France.*

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