XVI INCOSAI URUGUAY 1998 (DRAFT OF ACCORDS)

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XVI INCOSAI URUGUAY 1998

THEME I

The role of SAIs in Preventing and Detecting Fraud and Corruption

INTRODUCTION

Choosing fraud and corruption as Theme I for XVI INCOSAI URUGUAY 1998 reflects a growing awareness on the part of the INTOSAI membership of this problem, which exists in varying degrees and forms in member countries.

The development of Theme I began with the preparation of the principal papers for Subtheme IA, The Role and Experience of the SAI in Preventing and Detecting Fraud and Corruption (Austria), and Subtheme IB, Methods and Techniques Used in Preventing and Detecting Fraud and Corruption (United States). Based on these papers, 70 SAIs prepared 130 country papers describing their individual experiences. The resulting contributions were then analyzed by the theme chair and subtheme rapporteurs and served as the basis for the theme's keynote speech and the discussion papers. These also served to stimulate debate during the congress.

Among the numerous considerations expressed, there was consensus that corruption has surfaced in all forms of government. Moreover, it occurs not only in government but also in all spheres of society.

The INCOSAI delegates also acknowledged that corruption in government results in waste of resources and reduces economic growth and the quality of life, and it undermines government credibility and reduces its effectiveness. Some SAIs commented that they have observed a strong correlation between the level of corruption and the weakening of the lawful state and its institutions, along with the violation of individual rights.

In general, it was considered that the socioeconomic environment of the population cannot be ignored when analyzing and dealing with corruption, since social injustice, poverty, and violence are often linked to corruption, which makes it virtually impossible to isolate corruption as a separate problem.

The membership is also aware that a country's traditions, principles, and values influence the nature of corruption and although the SAI can do little about the fabric of society it can influence

the approaches used to combat this problem. It is INTOSAI's hope that SAIs can, through concerted action, play a role in promoting a culture that rejects waste and values honesty, responsibility, and the rational utilization of economic wealth.

Further, SAIs agreed that it is difficult to detect many acts of corruption and to estimate their financial impact, as the loss to the state does not necessarily show in the accounting records or the financial statements of the public entity. Nevertheless, statistical indicators exist that point to a likely relationship between various indices of public finance and perceived levels of corruption.

There is consensus that laws and regulations, along with adequate oversight and enforcement, can deter fraud and corruption. Some SAIs noted that excessive laws and regulations might, in fact, encourage corruption and that over regulation is a danger in itself.

Examples areas of government particularly vulnerable to corruption are

- collection of taxes and other sources of revenue;

- administration of procurement and contracts;

- concession of subsidies, permits, and licenses;

- hiring and administration of personnel;

- customs; and

- privatization process.

Some of the most common forms of corruption mentioned included misappropriation of assets, patronage, influence peddling, and bribery.

The fight against fraud and corruption should be presented as a long-term national effort that must be sustainable; it is not feasible to promise unrealistic progress in a short period of time.

DISCUSSION RESULTS

During the discussion sessions, the delegates made numerous contributions. The debate also provided a confirmation of most of the concerns and ideas that the membership expressed in the country papers.

SUBTHEME IA: THE ROLE AND EXPERIENCES OF SAIS IN PREVENTING AND DETECTING FRAUD AND CORRUPTION

The discussion group emphasized the fact that most SAIs believe that their main contribution as regards the prevention and detection of fraud and corruption lies in improving overall transparency and accountability, supporting an environment that limits the opportunity for acts of corruption, and creating a climate of good governance. The following issues were among those addressed in the country papers and the discussion session:

- Strong Financial Management

When describing how they address fraud and corruption and the extent to which they are involved in their prevention and detection, SAIs generally agreed that fostering strong financial management - based on reliable, sufficient, and timely reporting, including disclosure of deviations -and effective internal control systems, represent the basic elements of the SAI's role. A strong standards framework provides the basis for this. They also agreed that the establishment of internal auditing and audit committees would contribute to strong financial management.

- Mandates

Most SAIs consider their audit mandate sufficient, although some think more investigative powers could be practical. SAIs normally do not have the powers to prosecute acts of corruption that could lie behind audit findings. Others discussed the difficulty in carrying out investigations, in view of the fact that the findings that usually results from the SAI's audit work is not usually designed to confirm the public servant's improper behavior.

Those SAIs that have investigative authority may expand the audit to collect evidence of improper behavior. Further, some SAIs indicated that specific investigative authority is unnecessary, since the responsibility for investigation and prosecution lies within the sphere of other specialized public bodies and within the management of the audited body itself. They noted that the SAI can maintain close collaboration with all these organizations identifying better practices and using these practices as indicators.

- Public Service

Another issue that was raised during debate is the need for honest, able, and well-motivated public servants. In fact, SAIs should encourage the selection of public servants exclusively according to their integrity and capability. Although few SAIs report the existence of government-wide formal codes of ethics, many have in place some set of standards of conduct. When establishing a code of ethics for this purpose, (such as the INTOSAI Code of Ethics for Auditors in the Public Sector) it was suggested that certain principles for the conduct of public servants be defined, such as integrity, objectivity, impartiality, honesty, and professionalism.

- Resources

Many SAIs indicated that they lacked the necessary resources to do the work they felt is required. This is a serious problem that will have to be addressed in some manner. INTOSAI itself could be a possible vehicle to help address the problem.

SUBTHEME IB: METHODS AND TECHNIQUES OF THE SAIS FOR PREVENTING AND DETECTING FRAUD AND CORRUPTION

Although the mandates and activities of SAIs in preventing and detecting fraud and corruption vary widely, it was generally agreed that the auditor and the audit work are significant elements in reducing fraud and corruption. It was agreed that it is more cost effective to deter and prevent rather than to detect and investigate fraud and corruption. Some of the more significant aspects specifically addressed in the country papers and the discussion sessions were the following:

Most subscribe to the need to make SAI audit reports readily available to the public in a timely fashion; however, a wide range of practices exists concerning how and when audit findings are made public. Giving more attention to developing the relationship of the SAI with the media was also mentioned as an issue that might merit consideration.

SAIs noted that some programs have more inherent control weaknesses than others and that these high risk programs by their nature or function foster an environment that favors fraud and corruption.

SAIs generally agreed that they should make the aggressive follow-up on recommendations more effective, although most reported that they do not have a formal system that tracks implementation of recommendations.

It was frequently mentioned that fraud indicators are usually difficult to identify; however, generic indicators are almost always present and auditors must rely on technical experience, professional judgment, and a firm understanding of how fraud is committed to successfully recognize these indicators. Most SAIs consider that lack of experience and training is their biggest obstacle in this respect.

SAIs generally agreed that there should be a closer collaboration between SAIs for an exchange of experiences relating to fraud and corruption.

The position of SAIs concerning financial disclosure (declaration of assets and interest) by public servants varied widely: who must disclose, what should be disclosed, how often disclosures should be filed, and who should be responsible for reviewing these disclosures. Many SAIs stated that the responsibility for reviewing disclosures should be with the government and not the SAI. Some reported that disclosures had proven useful in the prevention of fraud and corruption, while others do not believe that such disclosure is useful. However, most SAIs report that in their countries some form of financial disclosure reporting, mostly by senior public officials and politicians, is required.

Although few SAIs have systems in place to receive information by the public, others consider that such a system could strengthen a preventive environment and help identify fraudulent activity.

RECOMMENDATIONS

SAIs agree that fraud and corruption are significant problems affecting all countries in varying degrees and that the SAIs can and should endeavor to create an environment that is unfavorable to fraud and corruption. As provided in the Lima Declaration adopted by INTOSAI in 1977, SAIs agreed that they should be independent and have adequate mandates that enable them to effectively contribute to the fight against fraud and corruption. It was also agreed that, where possible, SAIs should

1. seek an adequate level of financial and operative independence and breadth of audit coverage;

2. take a more active role in evaluating the efficiency and effectiveness of financial and internal control systems and agressive follow up in SAIs recomendations;

3. focus audit strategy more on areas and operations prone to fraud and corruption by developing effective high risk indicators for fraud;

4. establish an effective means for the public dissemination of audit reports and relevant information including, establishing good relationship with the media;

5. produce relevant audit reports that are understandable and user-friendly;

6. consider a closer cooperation and appropriate exchange of information with other national and international bodies fighting corruption;

7. intensify the exchange of experiences on fraud and corruption with other SAIs;

8. encourage the establishment of a personnel management procedures for the public service that selects, retains, and motivates honest, competent employees;

9. encourage the establishment of guidance for financial disclosure by public servants and monitor compliance as part of the ongoing audit process;

10. use the INTOSAI Code of Ethics to promote higher ethical standards and a code of ethics for the public service;

11. consider the establishment of a well publicized means to receive and process information from the public on perceived irregularities; and

12. continue work regarding fraud and corruption through INTOSAI's existing committees and working groups, for example the Auditing Standards Committee will consider these issues as part of developing implementation guidance as part of a broader standard framework.

THEME II

Improving Governance by the work of SAIs - results of INTOSAI's standing committees and working groups (Netherlands)

I   GENERAL PART

1. INTRODUCTION

In the three-year period between INCOSAI XV and XVI, the five Standing Committees and three Working Groups of INTOSAI have completed many activities, leading to various useful products. Clearly, INTOSAI's life between congresses is thriving. More SAIs are taking part in the Committees and Working Groups and more activities, such as seminars, committee meetings and consultations, are being undertaken.

Four products, generated by these activities, were prepared for adoption by the Congress: the "INTOSAI Code of Ethics for Auditors in the Public Sector" developed by the Auditing Standards Committee; the "Accounting Standards Framework Implementation Guide" prepared by the

Accounting Standards Committee; the booklet "How SAIs may cooperate in the Audit of International Environmental Accords"; produced by the Working Group on Environmental Auditing and the Guidelines and Best Practice for the Audit of Privatization" proposed by the Working Group on Privatization. Many other products are in different stages of preparation and will be finished in the next period.

The Committees and Working Groups all presented working plans for the next three years leading to INCOSAI XVII, and all received broad support during the working sessions. These plans indicate that the intensity of life within INTOSAI will grow further. This favorable development reflects the trends of professionalization in many SAIs and the need for stronger professional ties between SAIs.

2.   OVERVIEW OF DISCUSSION RESULTS

The Committees and Working Groups have summarized the results of the discussions on their papers in the second part of this summary report. Analysis of the various discussions shows that the exchange of views among the INCOSAI delegates covered all aspects of SAIs' role and activity. For the purpose of giving a general overview four levels of discussions were discerned in every session:

1.   SAIs institutional role in the public sector;

2.   the norms and values of auditors;

3.   the quality standards of auditing;

4.   the implementation of standards, methods and techniques.

2.1   SAIs' institutional role in the public sector

INCOSAI delegates share the view that SAIs play an important role in improving the financial management of governments. By stimulating sound financial management, transparency and accountability in the public sector, SAIs contribute to the proper functioning of the public sector and the democratic process. More specifically, such efforts also provide further protection against forms of fraud and corruption.

The delegates feel in general that SAIs' work tends to raise awareness about ethical standards in both government and the public. However, the application of high ethical standards and the constant fight against fraud and corruption is believed to be the first responsibility of the audited entities. SAIs can and must stimulate them without taking over their responsibility.

The membership generally holds the view that SAIs only can play their role in improving good governance effectively if they are independent and have sufficient mandates and means. INTOSAI will address the topic of independence thoroughly in the next period. The discussions in the group sessions supported this decision.

Attention was drawn to the changing accountability framework that SAIs work within. In many countries the public sector and the responsibilities of central government are subject to change, and mandates of SAIs will have to be adapted accordingly in order not have their position weakened.

In this respect also a general need was felt for INTOSAI's support when SAIs enter new areas of audit in response to new developments in the public sector nationally and internationally. The Working Groups on Privatization, Program Evaluation and Environmental Auditing as well as the EDP Audit Committee, were invited to develop ways to respond to these challenges.

2.2   Norms and values of auditors

All SAIs shared the conviction that professional conduct of auditors in the public sector implies behaving according to high ethical standards. It is generally felt that SAIs in that respect set an example for the public sector as a whole.

Ethical norms and values in the world may differ according to differences of culture, language and legal and social systems, but all countries are believed to share certain basic ethical concepts.

The "Code of Ethics", which has been adopted by INCOSAI XVI, offers these basic concepts and clarifies what is seen by SAIs as the elements of integrity and high ethical conduct. This code has laid the foundation for national codes of ethics to be developed by each SAI. But broader, it is the general conviction that the application of ethical norms in this and similar codes in every country's public sector as a whole would represent a step forward in the fight against fraud and corruption.

2.3   The quality standards of auditing

The discussions during INCOSAI XVI have shown that in the opinion of the INTOSAI members, qualitatively good standards for Auditing, Accounting and Internal Control have been established, which are very useful for the work of the SAIs. It was, however, emphasized that these standards have to be seen as living documents.

This means that due to several changes and developments in the environment of SAIs, the standards should be updated as needed to maintain their usefulness and their quality. In addition, the need has risen to give more attention to linkages between the different areas of auditing. An example is offered by the proposed cooperation between the Internal Control Standards Committee and the Working Group on Program Evaluation on inserting elements of evaluation in internal control standards.

In order to be aware of important developments and activities and to be able to determine their influence of the work of SAIs, the INTOSAI members recognized the necessity of effective coordination and interaction with other relevant organizations. For example, the Committee on Accounting Standards coordinates with the Public Sector Committee of the International Federation of Accountants (IFAC) in connection with the issuance of their exposure draft, "Guideline for Governmental Financial Reporting", to help minimize inconsistencies in proposed products.

The delegates shared the view that high quality standards are important tools in the combat against fraud and corruption. The recommendations of Theme I of this INCOSAI can be considered inserted here in full. Independent and impartial SAIs with highly qualified staff working according to internationally accepted auditing standards have to remind the audited entities that they should apply adequate internal controls to protect its resources. In this regard INTOSAI's "Accounting Standards Framework" in combination with the Implementation Guide, provide a good opportunity to improve the environment in which financial affairs are managed and encourages a level of transparency in financial reporting that helps prevent and detect fraud and corruption.

2.4   The implementation of standards, methods and techniques

The implementation of the results from work of the Standing Committees and Working Groups follows several strategies. In general, emphasis has been given to the practical use of the outputs of the committees and working groups. At INCOSAI XVI many recent products have been released.

During the discussions within the several theme II sub-sessions, the appreciation for the several products was considered high, and the products met with unanimous approval by the delegates. The approaches used by the Committees and Working Groups to implement their outputs have common elements but also vary in some ways. However, the reports show a common approach by all of the Committees and Working Groups in:

-        publishing standards or guidelines of a high professional level, and meant for professional workers;

-        the publishing implementation guidelines, in order to offer practical guidance in implementing standards and guidelines within a SAI;

-        actively gathering information related to the Committees and Working Groups, often followed by an active distribution of this information to the several SAIs;

-        supporting the concept of "living" documents, to be maintained between the congresses.

Besides this general approach other strategies mentioned within the subtheme reports include:

-        seeking cooperation with training initiatives such as IDI, or IDI-satellite programs;

- seeking contact with the Regional Working Groups of INTOSAI to encourage regional cooperation, for instance on the Environmental Auditing issues;

- performing studies on technical aspects, for instance in the areas of Information Technology, Privatization and Public Debt;

- organizing coordinated audits between SAIs, for instance in the case of auditing international accords and treaties;

- performing studies on methodological aspects, for instance in the field of Program Evaluation; and,

- performing studies on the effectiveness of their own guidelines, for instance those on the audit of Privatization.

This summary of implementation strategies, while not exhaustive, shows that all the Standing Committees and Working Groups also take seriously their responsibility to promote the effectiveness of their work in a professional and inventive manner. The delegates share the conviction that proceeding as recommended by the Standing Committees and Working Groups, will result in profits for the whole INTOSAI community in the next 3-year period.

3. COMMON DOMAINS OF INTEREST AND EXCHANGE OF INFORMATION

3.1 Common domains of interest

During the discussions about the past and future operations of the standing committees and working groups, the need was felt to identify common domains of interest for the eight subthemes. Within the reports of the Working Groups and Committees reference was made to the need of coordination and/or cooperation between the several committees and working groups.

Reference was also made that outputs from the Committees and Working Groups on Public Debt, EDP-Audit, Environmental Auditing, Privatization and Program Evaluation, should be incorporated within the INTOSAI Auditing-   , Accounting-   and Internal Control Standards. This leads to the conclusion that every Committee and Working Group should seek cooperation with each other.

3.2 Exchange of information

Besides the need for coordination and cooperation, one of the most significant observations regarding the work of the Standing Committees is the need for information exchange and communications. This need extends to all entities within INTOSAI. At this conference we have seen outputs in the form of guidelines, booklets, bibliographies, directories and so on, in a massive amount.

However at the same time also more modern media have been introduced at this congress to communicate with us all. In particular should be mentioned the CD-ROM produced by the EDP-Auditing Committee and the Internet website of the Working group on Privatization and the hompepage and videos of the Working Group on Environmental Auditing.

In several sessions it was reported that there was a call for further communication using new media, but also wishes were expressed for some form of coordination. Those Committees and Working Groups who already made progress were invited to share their knowledge with the others, in order not to have the wheel re-invented several times. This has lead to several suggestions, such as:

- to design an Internet index-page with links to all homepages and Internet e-mail addresses within the INTOSAI community. The International Journal gives these already quarterly on paper. The last versions of the Journal already amount 69 SAI entries. All the so-called webmasters within SAIs or Committees then should link this page to their site. Doing so, will generate a tremendous boost in communication through the Internet between all SAIs;

- the use of CD-ROM's complementary to the Internet facilities;

- the use of standardized formats and standard procedures to collect and disseminate the material.

The use of new media however, should not take over the place of written and printed material, but be complementary to it. Recognizing that several SAIs still are in the process of obtaining access to and knowledge of the new media, all members feel obliged to provide all their outputs in hardcopy versions.

4. RECOMMENDATIONS

1. All Standing Committees and working groups are encouraged to identify domains of common interest with other Committees and Working Groups, in order to establish coordination of activities and to report on their conclusions and possible common activities to INCOSAI XVII.

2. In order to improve the communication within Standing Committees/Working Groups and between all INTOSAI bodies and INTOSAI members the following measures - in addition to the continued use of hardcopy versions of documents - are suggested:

    a) to design an Internet index-page with links to all homepages and Internet e-mail addresses within the INTOSAI Community;

    b) to enhance the use of CD-ROM's for the distribution of vast amounts of information, such as directories, bibliographies and courseware within the INTOSAI community;

    c) to establish a taskforce to design a general communication infrastructure within INTOSAI and to develop related standardized formats and procedures.

II   REPORTS OF STANDING COMMITTEES AND WORKING GROUPS

A   REPORT ON SUB-THEME IIA - AUDITING STANDARDS COMMITTEE

INTRODUCTION

The discussions centered around four subjects:

-   project to restructure the Auditing Standards

-   development of guidance on the implementation of the Auditing Standards

-   development of an approach for the standardization of formats for INTOSAI bibliographies on the Internet; and

-   SAIs' use of the INTOSAI Auditing Standards and Code of Ethics (INTOSAI Code of Ethics for Auditors in the Public Sector) in their work to prevent and detect fraud and corruption.

Auditing Standards Framework

The discussions concluded that with the INTOSAI Code of Ethics in place, the INTOSAI will have a more complete set of standards, which promotes the independence of SAIs and their activities. The different documents may be regarded as a comprehensive framework with the following elements:

-   The Lima Declaration is the foundation with its comprehensive precepts on auditing in the public sector.

-   The Code of Ethics represents the next level with its statement of values and principals guiding the daily work of the auditors. One of the principles outlined in the Code of Ethics is the auditor's obligation to apply generally accepted auditing standards.

-   The Auditing Standards on the next level, contain the postulates and principles for carrying out the audit work.

-   Guidance Material, which is the fourth level provides practical assistance to SAIs in implementing the Standards in their individual constituents.

Project to restructure the Auditing Standards

Members noted that the wording and content of the Standards remained generally relevant and appropriate.

Members agreed, however, that with the Code of Ethics now in place, there is some duplication of rules of ethical relevance within the Auditing Standards. Furthermore, the fast development of auditing in areas such as IT and environmental auditing are not fully taken into account in the present structure of the Auditing Standards. These two factors motivate restructuring of the Auditing Standards in order to clarify the linkages between the Code of Ethics and the Auditing Standards and to facilitate updates and additions in order to maintain the Auditing Standards as a relevant and living document.

Any restructuring would also take account of members' views about the possible inclusion / updating of such areas as performance audit, internal control and fraud and corruption, noting that internal control and the prevention of fraud and corruption is primarily the responsibility of management.

Development of guidance on the implementation of the Auditing Standards

It was agreed that guidance on the implementation of the Auditing Standards would complete the INTOSAI set of standards and form the fourth level of the Framework described earlier. It was also noted that guidance has been asked for by SAIs in their replies to the questionnaire concerning the Auditing Standards circulated in 1997.

The discussion also indicated that guidance material would be able to assist SAIs in the implementation of the Auditing Standards in their own environments. In the preparation of this material, members noted that it would be important to bear in mind the different circumstances for the various SAIs regarding culture, language, and legal and social systems. Members also agreed the Committee should consider the development of better practice against which SAIs could assess their own operations.

SAIs also observed that guidance would have to be developed in consultation with other standing committees and working groups in order to promote consistency of approach.

Development of an approach for the standardization of formats for INTOSAI bibliographies on the Internet

It was agreed that the smoothest and most cost effective way of keeping a bibliography updated is to introduce it on the Internet. SAIs could then continuously update the information concerning their own products. Such a solution requires standardized formats and procedures.

It was noted that this development work would be carried out in cooperation with other INTOSAI standing committees and working groups and with the involvement of the INTOSAI General Secretariat.

SAIs' use of the INTOSAI Auditing Standards and Code of Ethics in their work to prevent and detect fraud and corruption

Members noted that all elements in society have a responsibility to act in accordance with high ethical standards. It was also observed that the prevention and detection of fraud and corruption is not the primary task for SAIs. The INTOSAI Auditing Standards clearly states that it is the responsibility of the audited entity, not the auditor, to ensure that adequate internal controls are in place to protect its resources. However, independent and impartial SAIs, with highly qualified staff working according to internationally accepted auditing standards and standards of conduct, may serve as a deterrent against fraud and corruption.

Members agreed that SAIs may have a role in strengthening ethical awareness within the public sector by performing high quality work with competent staff using appropriate skills, and setting an example of independence, integrity and appropriate conduct.

Members also agreed that dissemination of INTOSAI's and national auditing standards and codes of ethics would create an interest for ethical concepts and a knowledge about the role and the work of the SAI. It would be appropriate for SAIs, backed up by their own codes of ethics, to initiate discussions about the importance of high ethical standards with auditees and other interested parties.

It was specifically noted in the discussions that the Code of Ethics applies to SAIs. There may be a need to ensure that it is complementary to any professional and/or public service-wide codes.

RECOMMENDATIONS.

The congress:

1. considers that with the INTOSAI Code of Ethics in place, INTOSAI has a more complete set of standards that promotes the independence of SAIs and their activities;

2. endorses the need to restructure the Auditing Standards in order to clarify the linkages between the Code of Ethics and the Auditing Standards and in order to facilitate updates and additions and thus keep the Auditing Standards a relevant and living document-,

3. endorses the development of guidance on the implementation of the Auditing Standards which recognizes the different circumstances various SAIs regarding culture, language, and legal and social systems., This development work should be carried out in consultation with other standing committees and working groups in order to promote consistency;

4. endorses the development of an approach for the standardization of formats and procedures for INTOSAI bibliographies on the Internet. This development should be carried out in cooperation with other standing committees and working groups and with the involvement of the INTOSAI General Secretariat;

5. encourages SAIs to take into account the importance of implementing generally accepted auditing standards and standards of conduct for auditors as a means of contributing to the prevention and detection of fraud and corruption;

6. encourages SAIs to take an active role in strengthening the ethical awareness within the public sector, by performing high quality work, by initiating discussions about ethics with auditees and other interested parties, and by setting an example of independence, integrity and appropriate conduct.

B   REPORT ON SUB-THEME IIB - ACCOUNTING STANDARDS COMMITTEE

INTRODUCTION

In 1992, Accounting Standards Committee (CAS) published two Accounting Statements and a related study that addressed the uses and objectives of government financial reports and financial information that governments provide.

In 1995, CAS published INTOSAI's Accounting Standards Framework that incorporated and built on the 1992 Accounting Statements. For INCOSAI XVI in 1998, CAS prepared INTOSAI's Accounting Standards Framework Implementation Guide for SAIs: Department and Government-wide Financial Reporting (the Implementation Guide), which provides practical guidance for SAIs on how to implement the Accounting Standards Framework.

This implementation Guide has been designed (1) to provide SAIs with guidance to help them review and comment on the departmental and government-wide financial reports that their governments now prepare and publish and (2) where these reports are not now prepared and published, to help SAIs encourage their governments to do so.

The Implementation Guide was prepared in accordance with the Cairo Accords in 1995. The Cairo Accords required CAS to develop and publish four products dealing with financial reports that provide information about compliance, performance, individual departments, and the overall financial situation of the government as a whole. Instead of preparing four documents as originally planned, CAS prepared one product which incorporates all of the elements of the workplan. This approach resulted in a more user friendly product that encompasses all the bases of accounting used by the INTOSAI members and shows how financial, compliance, and performance reports can be integrated for departments and the entire government.

The Guide was prepared with the recognition that there are many different forms, levels, and ways of organizing governments within INTOSAI. In addition, the Guide recognizes that the bases of accounting as well as the focus of the entity's financial statements may differ. Accordingly, the Guide states that it should be applied considering the needs of the users of governmental

financial reports and the financial reporting objectives as discussed in the Accounting Standards Framework. CAS believes that the approach used in this Guide incorporates all of the elements of the workplan proposed in Cairo. The Guide emphasizes throughout that it is to be used as a tool, and is not considered a standard.

In early 1998 CAS sent a draft copy of the Guide in the five INTOSAI languages to each of INTOSAI's members for comment. Responses were received from 33 SAIs, many of which provided substantive suggestions for improving the document. There was general agreement that the Guide would be very useful for SAIs. CAS carefully considered all responses and made a number of modifications to the Guide which improved its clarity.

CAS also coordinated with the Public Sector Committee (PSC) of the International Federation of Accountants (IFAC) in connection with the issuance of their exposure draft, Guideline for Governmental Financial Reporting-, to help minimize inconsistencies in proposed guidance.

RESULTS OF THE DISCUSSION

The discussion centered around the three major topics of this subtheme:

I.   The Accounting Standards Framework Implementation Guide for SAI's : Departmental and Government-wide Financial Reporting (Implementation Guide);

II.   The usefulness of the Implementation Guide and other CAS products in preventing and detecting fraud and corruption; and

III.   The Committee's workplan for the next three years.

I.   Implementation Guide

During this part of the discussion session participants provided input to CAS concerning their experiences using the concepts contained in the Implementation Guide. It was generally agreed that the Guide is very useful, and has been particularly helpful to several SAIs in recent situations where their governments are moving towards adopting accrual accounting concepts or otherwise strengthening financial reporting practices. While the Guide does not specifically advocate accrual accounting, it demonstrates the advantages of accrual accounting and therefore is an effective tool in helping SAIs work with their governments in this regard.

It was noted that SAIs generally do not have the authority to require their governments to use the Guide. However, it was agreed that SAIs should actively encourage their governments to improve financial reporting by promoting the use of the Guide in their countries where appropriate.

II.   Usefulness of the Implementation Guide and Other CAS Products in Preventing and Detecting Fraud and Corruption

During this part of the session the members had a number of comments regarding how the Guide and other CAS products are useful in preventing and detecting fraud and corruption. In general, delegates believe that the Guide provides a good opportunity to improve the environment in which financial affairs are managed and provides a level of transparency in financial reporting that helps prevent and detect fraud and corruption.

It was observed that the requirement to publicly report financial information will lead finance officials to be more demanding of themselves in the preparation of that information. This increased level of public accountability is a significant deterrent to fraud and corruption. However, there was agreement that public reporting and auditing must be timely to be effective in the identification and prevention of fraud and corruption.

While a number of delegates felt that it was not within their explicit responsibilities to prevent and detect fraud and corruption, there was general agreement that the audit process may result in the detection of fraud and corruption and may also be an effective deterrent. It was also noted that SAIs should consider the risk of fraud and corruption in planning areas of audit focus.

Delegates further observed that requirements for good reporting will necessarily lead to good internal controls, which are key to the prevention and detection of fraud and corruption. In this light, it was suggested that SAIs should focus their work on reviewing internal controls. It was further suggested that work of internal auditors in this area could be effectively used by SAIs.

III.   The Committee Work Plan for the Next Three Years

The CAS proposed to complete the following for INCOSAI XVII:

1.   Expand the Implementation Guide to include a section on discussion and analysis of financial and performance results. This section would provide guidance for analyzing and explaining financial results and program performance during the period and in comparison with prior periods when appropriate. With the addition of a discussion and analysis section, the Guide will contain the basic components of an Accountability Report that provides information to citizens about government accountability for resources entrusted to it.

2.   Provide comments on accounting standards proposals of the IFAC PSC. During 1998, the PSC started a multi-year "standards project" that will develop a core set of recommended financial reporting standards and guidelines for the public sector. Input from CAS on these standards and guidelines will help ensure that insights drawn from the various perspectives and traditions of SAIs are taken into account, and that the needs of all SAIs are considered as the standards and guidelines are developed.

3.   Update the Implementation Guide to reflect additional comments received from SAIs on the Guide after its initial publication as well as revisions that may be appropriate based on SAI input about accounting standards published by other professional organizations, and update other CAS documents as needed.

During this part of the session the participants provided their views on the workplan for the next three years. It was generally agreed that the proposed workplan is appropriate and useful. There was general support for expanding the Guide to include a section on discussion and analysis of financial and performance results. Several SAIs commented in particular that the discussion and analysis project is very important to providing the opportunity to go beyond the numbers and provide meaningful analysis of the results of government activities, including discussion of performance measures. It was also agreed that illustrations are needed.

There was agreement that it is important for SAIs, represented by CAS, to participate in the comment process on the IFAC PSC exposure drafts to help ensure that SAI views and experiences are properly considered in the standards issued by IFAC PSC. It was also noted that the PSC is basing its standards on previously developed standards for private sector reporting, adapted as necessary to reflect the unique nature of certain government activities. This approach will result in harmonization, to the extent possible, with private sector accounting, which several delegates believed was important. The importance of linkages between financial, budgetary, and management reporting was also emphasized by some delegates.

The Committee's plan to periodically update the Guide, as well as other CAS documents was widely accepted.

Overall, the results of the discussions by SAIs on Subtheme IIB indicated that there is 1) broad support for approval of the Implementation Guide; 2) agreement that the reporting concepts advocated in the Guide are an effective tool for the prevention and detection of fraud and corruption; and 3) consensus that the Committee's workplan for 1999 through 2001 is appropriate.

RECOMMENDATIONS

The Committee recommends that:

1.   The Accounting Standards Framework Implementation Guide for SAIs: Departmental and Government-wide Financial Reporting, be approved by the Congress.

2.   The Guide be promoted by SAIs to their governments, where appropriate, to provide transparency in financial reporting and public accountability and thus help prevent and detect fraud and corruption.

3.   The Committee's Work Plan for 1999 through 2001 be approved as proposed.

C   REPORT ON SUB-THEME IIC - INTERNAL CONTROL STANDARDS COMMITTEE

INTRODUCTION

The INTOSAI's Internal Control Standards Committee conducted its discussions on the afternoon of Tuesday, November 10, to consider the report submitted by the Committee at the first Congress Plenary Session. The Committee appreciates the participation of the distinguished delegates, and their valuable contributions that have enriched this report and have contributed to the Committee's workplan for the 1998 -   2001 period. We should also thank the Chair and Moderator of this Sub-theme for their outstanding work in conducting the debates.

BACKGROUND

Taking into account the recommendations adopted by the INCOSAI VIII, the grounds were established for creating this Committee, to coordinate. integrate and develop theoretical, methodological and practical issues related to internal control, as well as promote the preparation of professional subject-matter literature, in order to establish and maintain effective internal control.

To such end, the Committee identified four key areas:

1.   Concepts and objectives of internal control;

2.   A minimal component of internal control standards to be applied by any nation as a framework for developing a specific internal control structure;

3.   The implementation of an internal control structure;

4.   The periodical follow up of the effectiveness of the implemented internal control structure.

The Committee's initial work resulted in the adoption of the General Guidelines on Internal Control Standards, approved by the INCOSAI XIV, held in Washington, D.C., in 1992.

CONCLUSIONS

The Theme IIC Discussion paper submitted by the Committee and the debates that took place in the respective sessions, allowed for concluding:

1.   For all INTOSAI members, the summarized recommendations and statements contained in the report, Guidance for reporting on the Effectiveness of internal Controls.-   SAI Experiences in Implementing and Evaluating Internal Controls, are useful tools for SAIs to create internal control structures, enhance their capability and assess their activity. The Committee thanks the SAIs of Bolivia, China, Costa Rica, Egypt, Iceland Japan, the Netherlands, New Zealand, South Africa, Tonga, the United Kingdom and the United States for their valuable contributions.

2.   The conclusions of both the conference held in Budapest in 1997, and the meeting of the Ad hoc Expert Group created within the Committee's framework and held in Hungary in 1998, made evident the need to expand the conceptual principles of internal control by means of exchanging experiences among all INTOSAI members and review the existing internal control guidelines to determine if they need updating.

3.   Efficient and effective internal control systems are one of the suitable ways of preventing and detecting fraud and corruption.

4.   The need for exchanging technical and updated information among the member SAIs requires a review of the existing International Bibliography on Internal Control (IBIC).

RECOMMENDATIONS

Pursuant to the above, the following actions to be developed by the Internal Control Standards Committee during the next triennial period are hereby recommended:

1.   The Internal Control Standards Committee should consider the need to update the Guidelines on Internal Control Standards adopted by the INCOSAI XIV held in Washington, D.C. in 1992, thus turning them into a modern tool supporting the management of public institutions and the work of SAIs. Such an update might include the development of a common model of internal control and consistent guidance for assessment.

2.   The Internal Control Committee has done much work to inform SAIs on the concept of internal control and internal auditing. In preventing and detecting fraud, a system of internal control and the assessment (evaluation) of the system by auditors are key factors. At the same time several INTOSAI committees and working groups are addressing this issue. Therefore, we recommend that, SAIs should consider adopting the internal control definition contained in the guidelines adopted by the INCOSAI XIV held in Washington, D.C. in 1992. Also, the INTOSAI committees and working groups should coordinate their efforts related to internal control to assure a consistent use of the defintion.

3.   The Internal Control Standards Committee should promote a conference by late 1999 or early 2000, in order to consider the following issues:

   - Management responsibilities in establishing and maintaining adequate internal control systems.

   - The role of internal and external auditing in the assessment and evaluation of internal controls, as well as management methods and techniques.

   - The follow up of internal and external auditing recommendations.

   - The evaluation of control risks in administrative decentralization processes.

   - The study of possible modifications to Guidelines for Internal Control Standards.

4.   The outcome of this conference should be included in a brochure containing the key guidelines on internal control.

5.   Recognizing the value of the IBIC and the need to update its content and presentation, Internal Control Standards Committee should work with other committees and working groups who are currently preparing or updating their bibliographies in order to establish a standardized format facilitating the access of SAIs by means of cross-references.

D   REPORT ON SUB-THEME IID - PUBLIC DEBT COMMITTEE

INTRODUCTION

When the Public Debt Committee (PDC) presented its first guidance document during the INCOSAI XV, along with its working program for the 1995 - 1998 triennial cycle, it received valuable suggestions that were taken into account for the publication and distribution of its "Guide for the Definition and Disclosure of Public Debt" and for the preparation of its working program.

For this congress to stimulate and organize debate, the PDC prepared a discussion paper in which it described the products prepared through the work of the past three years and raised the issues of interest for its working program for the 1998-2001 term.

In this context the two guidance documents prepared by the PDC since the INCOSAI XV, were presented and the issues covered subject to discussion, these were "Guidance on the Measurement and identification of Actual and Contingent Debt" and "Guidance for Planning and Conducting an Audit of Internal Controls of Public Debt".

Regarding the issues for future work, two general issues were presented, the first of which has to do with the continuing increase in the complexity, uncertainty and volatility of the global financial market, which poses a formidable challenge for most governments as the higher risk and cost levels of servicing the debt, force them to reconsider debt management strategies and the criteria for the assessment of debt sustainability levels.

In this respect, the interrelationship that exists between fiscal and economic policy and the amount, profile and cost of public debt, and that between public debt and the stability of the national and global financial markets, has become of fundamental importance and increased awareness of this fact in legislatures and governments is considered important.

The task of making these adjustments and of controlling the compliance of management operations with this new framework, opens a growing field of oversight for the SAI, that demands new methods and approaches, a more active audit presence and the ingenuity to develop the necessary technical arsenal to meet the challenge.

The second issue that was exposed for discussion is the fact that most governments have additional wide-ranging and varied commitments under current laws that can encumber future fiscal resources and constrain their future financial flexibility. These commitments include liabilities such as providing pensions for public employees and, more broadly, general social security and health care benefits, as well as loan guarantees, insurance commitments and comfort letters.

DISCUSSION RESULTS

The debate was divided in two phases, during the first of which the work of the Public Debt Committee of the past three years was discussed, and during the second phase several issues of interest for future work were put up for discussion.

During the discussion sessions, there were numerous contributions from delegates from all regions and audit systems. The various issues put up for discussion received considerable attention and valuable contributions were collected to guide the Committee's actions.

The contributions and comments of the delegates indicated that the guidance prepared and published by the PDC as an aid for the audit of public debt operations was a useful technical reference for SAIs. Many of the contributions from delegates were of a directly propositive nature.

Incurring in debt was considered as an unavoidable source for the funding of development projects in many countries, in which the traditional sources of government income are limited by their socio-economic circumstances, which means that governments have accepted that they have to learn to manage debt and allocate its proceeds effectively and efficiently.

Several delegates indicated that there was a need for guidance regarding ways to identify and define public debt items. The methods and assumptions for the measurement of the various instruments of debt was also considered as one of the relevant issues when auditing public debt. Others mentioned that this was also considered necessary as a way of assuring the effectiveness of the limits imposed by the legislatures on the total balance, the service cost and on the additional net indebtedness for the year. Most coincided in that debt disclosure should be all-inclusive, encompassing all items of internal and external debt.

It was mentioned that there was a need to establish effective communication between the internal audit systems and the external audit function of the SAI. It was also indicated that the internal controls on public debt should be evaluated by the SAI to ensure their effectiveness. It was considered that inadequate controls and weakly supervised public debt operations could be prone to significant fraud and corrupt conduct.

It was also mentioned that SAIs should participate in assuring the adequate disclosure of contingent liabilities and other major government commitments, with as much information possible on such liabilities and on the events that would convert them into actual debt and to provide governments with vital information they need to make well founded decisions about timely program changes before their costs bring about crises that threaten fiscal stability and program benefits for important sectors that depend on them. The study of efforts made in this respect could help governments to better define, measure, analyze and disclose major commitments.

Some even suggested that SAIs could verify that only payments arising from properly recorded contingent liabilities be authorized.

Several delegates indicated their concern regarding the verification by SAIs of the way the resources financed with debt were utilized.

It was also suggested that the PDC should take care to maintain a close collaboration with other INTOSAI Committees, to avoid duplication of efforts and to benefit from related work done by the Committees,

It was also proposed that the PDC, should find ways of distributing its products, including specifically through the establishment of a specialized Web Page to make available its guidance manuals to other SAIs and interested parties.

RECOMMENDATIONS

In response to the above mentioned discussion results, the following recommendations are proposed

1. That the guidance manuals prepared by the PDC to help SAIs in planning and conducting their audit work on public debt contribute to detect fraud and corruption in public debt management operations.

2. That the two guidance documents presented be published by the PDC and made available to the membership, once their suggestions and contributions, to be received prior to February 28, 1999, have been accounted for, and that it continue to expand and update its guidance documents to further indicate ways in which the SAI could participate in the audit and evaluation of the various aspects of public debt operations.

3. That SAIs should encourage the establishment of a sound internal and external control system for the management of public debt operations, as a means to further contribute to prevent and detect fraud and corruption in the increasingly complex debt operations that have become necessary to complement budgetary expenditures without endangering the stability of the local and international financial markets.

4. The PDC should endeavor to prepare guidance for SAIs regarding the preparation of studies that contribute to a greater awareness in the legislative and in government with respect to the effects of fiscal policy on public debt management performance.

5. That the PDC study the nature, management and the risk of major government contingent liabilities and commitments, with a view to provide guidance for SAIs on ways in which they could encourage their appropriate identification, recording, evaluation and control to ensure that the government adequately accounts for the exposure that these potential major obligations represent to overall financial and fiscal responsibilities.

6. The PDC should continue to find ways in which it could make available its products to the membership and other interested parties in the best way possible (distribution of hard copies, specialized journals, distribution of e-files, a permanent web page, etc).

E   REPORT ON SUB-THEME IIE - STANDING COMMITTEE ON EDP AUDIT

INTRODUCTION

The committee held two discussion sessions in the five INTOSAI languages. The overall objective was to provide the committee with an opportunity to consult with the SAIs so as to get information for finalizing the workplan for the period till the INCOSAI XVII and undertake projects and activities that SAIs will find useful and relevant.

During the discussions the committee reported that over the past six years, since the inception of the EDP Audit Committee in 1992, it has continued to provide support to SAIs in developing their knowledge and skill in the use and audit of Information Technology. The membership of the committee has grown from 12 to 18. The committee identified distinct areas of operation, each of which was assigned to a working group.

The original three working groups merged into two during April 1997. The Working Group I covers Performance auditing of the use of EDP systems including the research project on EDI. The Working Group II covers the audit of EDP based accounting systems, EDP audit training, EDP support in auditing and include the research project on auditing in a client server environment.

DISCUSSION RESULTS

The discussions concentrated on the status of work in the three areas of "Information Interchange", "Knowledge Development and Transfer' and "Knowledge and Skill Development'. The sessions also focused on the future workplan of the committee.

During the first part of the discussion various products and activities of the committee were reviewed. Two products, on a CD, were demonstrated. The views of the delegates were as follows:

- The products featured on the CD, especially the Electronic Compilation of SAI mandates, were appreciated as being very useful. Delegates felt that this was a very practical way of disseminating large volumes of information.

- In the context of plans to share software, the cost and effort in maintaining the software need to be given proper consideration.

- IT audit courseware was seen as a timely product by SAIs which were planning courses for themselves or for other SAIs.

- In view of the varying EDP environments in various SAIs there is expressed a view to adapt standards and methods.

- The Year 2000 problem was seen as a critical issue on which the committee was urged to focus attention. Issues such as form of audit opinion to be issued in 1999, requirement for systems testing and checking adequacy of contingency planning were discussed. The committee indicated its plans on this issue and also availability of guidance and existing reports issued by some SAIs which could be made available to those SAIs which need it.

- In the field of Performance Auditing of IT one view was to focus on impact of IT, security issues on account of wide data sharing, growth of EDI, contract management in view of large third party involvement. A close liaison between the EDP committee and the Internal Controls Standards committee was suggested.

- On the whole the delegates endorsed the committee's work during the last three years as useful and important.

During the second part of the discussion the committee's workplan for the next three years were reviewed. The planned activities, as before, would relate to Information Interchange, Knowledge and Skill Development, Knowledge Development and Transfer. The plan is a mix of continuing projects, follow up on completed projects and some new projects. The plan was fully endorsed by the delegates as appropriate. Some other views on the workplan were as follows:

- The new projects relating to Detection and Prevention of IT related Fraud and Computer related Communications Security might require the assistance of experts in these fields.

- The Year 2000 problem requires appropriate and immediate focus in view of the short time available.

Some other suggestions were as follows:

- Auditing of IT systems , both regularity and performance, should not be seen as different from the normal audit in view of the wide prevalence of IT in most auditee organizations. However it was recognized that these audits do require special skills. There was thus a related need for the EDP audit Committee to collaborate with the Committee on auditing Standards so that the Standards for EDP Audit could become a part of Auditing Standards. The committee finds this suggestion useful and relevant.

- The identified need to provide assistance, in terms of financing and deputing of experts and designing specific products for their use, to SAIs, where both the IT and IT audit functions were not well established.

RECOMMENDATIONS:

The committee recommends to the following:

1. The Congress endorse the products and activities of the Committee in the past three years, which were received during discussions.

2. The Congress endorse the workplan for the next three years, of the Committee already circulated at the Congress.

F   REPORT ON SUBTHEME IIF - WORKING GROUP ON ENVIRONMENTAL AUDITING

INTRODUCTION

Environmental auditing is and will continue to be an important issue in the work of SAIs. The results of the second questionnaire on environmental auditing (available in print and on the homepage) showed three favourable developments: first, the number of countries with an environmental policy increased; secondly, a growing number of SAIs have the authority to audit this policy; thirdly, the amount of work that SAIs performed in this field has grown since the previous INCOSAI in Cairo (1995). Considering these favourable developments, SAIs are encouraged to continue their efforts in the field of environmental auditing.

The Working Group on Environmental Auditing has produced a number of products during the last three years; such as a report on Natural Resource Accounting, a draft version of standards and guidelines on methods and techniques, and a homepage with all kinds of information that can help SAIs prepare and execute environmental audits (also helpful will be the bibliography and links to a database on environmental treaties).

The Working Group has also produced a video entitled "Green auditing; a global challenge" which can be used by all SAIs.

The Working Group's booklet "How SAIs may cooperate in the audit of International Environmental Accords" was earlier this week approved by INCOSAI.

Consistent with the Terms of Reference of the INTOSAI Working Group on Environmental Auditing and the CAIRO Statements, the Working Group proposed a workplan and activities of the Working Group for the next three years. During the discussion sessions of subtheme IIF of INCOSAI XVI, participants expressed the view that this workplan and the activities are appropriate.

WORKPLAN AND ACTIVITIES

I.   Strategy

1.   Gathering and especially disseminating information should continue to be one of the tasks of the Working Group.

2.   Since the INTOSAI regions are closer to the individual SAIs, and taking into account the regional dimension of many environmental questions, the Working Group wants to develop possibilities of cooperation with the INTOSAI regions, who -   amongst other possibilities -   should consider initiating their own regional working groups on environmental auditing.(to facilitate this development, the Working Group organized itself in regional start-up teams, headed by a "trekker").

3.   In view of the importance of the issues concerned with the protection and improvement of the environment and the results of the Working Group activities, the Working Group will continue its efforts during the next three year period.

However, the Working Group should review its continued existence at the end of the coming period, and prepare a proposal to be decided upon by the Governing Board in 2000 / during the XVII INCOSAI in 2001 in Korea.

II.   Specific subjects

1.   INCOSAI encourages the Working Group to promote and facilitate the conduct of audits of international environmental accords in cooperation with other SAIs, preferably focused on fresh water. When considering auditing international accords (either world-wide, continental or bilateral), SAIs are advised to use the booklet "How SAIs may cooperate in the audit of international environmental accords", approved by INCOSAI XVI, Montevideo.

2.   The Working Group will facilitate SAIs by making a selection of international environmental accords and agreements (and if possible an audit scope) which can be used by all SAIs of those countries which have ratified those accords.

3.   The Working Group will help organize regional meetings or workshops on coordinated audits in cooperation with interested INTOSAI regions.

4. Given the growing importance of natural resource accounting, INCOSAI recommends that SAIs and regions study the information gathered by the Working Group and discuss the options mentioned in the memorandum of the Working Group on this subject.

5. Since it is expected that more SAIs will be confronted with the concept of "sustainable development" the Working Group will make a study on this subject.

6. The Working Group will make a preliminary study on "the relationship between environment and employment".

III.   Information exchange

1. SAIs are encouraged to use the information gathered on the Working Group's Internet homepage (address: www.rekenkarner.nl/ea) and the Working Group will continue this method of information exchange. INCOSAI encourages individual SAIs to explore and to make use of the possibilities of E-mail and Internet, and to provide information on environmental auditing on their own homepage.

   INCOSAI urges members that have not yet contributed to the Working Group's homepage, to do so as soon as possible.

2. INCOSAI supports a third survey of environmental auditing at the end of the period 1999-2001.

IV.   Methods and techniques of environmental auditing

Considering the interest members have shown in the methods and techniques of environmental auditing, the Working Group continues its activities in this field and will prepare the booklet "Standards and guidelines for environmental auditing" in time to be approved as an official INTOSAI document by INCOSAI XVII in 2001.

SAIs are invited to comment on the exposure draft of this booklet that will be circulated early in 1999.

OTHER REMARKS

In the discussions two issues were raised several times:

1. Mandate

Some SAIs stressed that they lacked the necessary authority to perform environmental audits. However, from the survey it is clear that some comparable SAIs found creative ways to interpret their mandate and are able to carry out regularity audits on the money spent on environmental programs. In this way they are able to perform environmental audits. The next survey hopefully will show even more SAIs that find their mandate includes environmental auditing .

2.   Complicated field

SAIs agree that the new field of environmental auditing is complicated, especially the international dimension of it. However, SAIs can overcome these difficulties by using the experiences of other SAIs, which are available on the Working Group's homepage (http://www.rekenkamer.nl/ea). Also, during the session new inspiring examples from different SAIs from different regions were given.

RECOMMENDATIONS

1. The strategy of the INTOSAI Working Group on Environmental Auditing has two main equally important components:

   - one component is to continue gathering and to disseminate information throughout the whole of INTOSAI with the emphasis on using the INTERNET homepage of the Working Group (www.rekenkamer.nl/ea)

   - the other component is to develop close cooperation with the INTOSAI Regional Working Groups, who should consider -taking into account the regional dimension of many

environmental questions -initiating their own regional working groups on environmental auditing. INCOSAI is recommended to support this strategy of the Working Group.

2. INCOSAI is recommended to encourage SAIs to conduct audits of international environmental accords in cooperation with other SAIs, preferably focused on fresh water. INCOSAI advises SAIs to use the booklet "How SAIs may cooperate in the audit of international environmental accords" approved by INCOSAI XVI, Montevideo.

3. INCOSAI is recommended to agree to the workplan and activities of the Working Group on Environmental Auditing for the next three years. During its third term of existence the Working Group amongst other activities:

- will prepare the booklet "Standards and guidelines for environmental auditing";

- will make a study on the concept of "sustainable development";

- will make a preliminary study on "the relationship between environment and employment"; and

- will execute a third survey on environmental auditing.

G   REPORT ON SUBTHEME IIG - WORKING GROUP ON THE AUDIT OF PRIVATIZATION

INTRODUCTION

The discussion focussed on four aspects of the Group's work:

- the implementation of the "Guidelines on Best Practice for the Audit of Privatisations" adopted by INCOSAI XVI;

- arrangements for the exchange of information and experiences;

- the audit of new and developing forms of privatization;

- the audit of economic regulation.

The discussion noted that privatization by sale is not the end of the privatization story. The public and private sectors are increasingly working together in a variety of ways including contracting out, public/private partnerships and concessions, joint ventures, selling public services into wider markets.

Such arrangements, for which the citizen will be paying, whether as taxpayer, or user, or both, raise important value for money questions which SAIs are increasingly being asked to address. Economic regulation too is a growing area of importance for Governments and citizens as well as for the industries on the receiving end, including those which have been privatized, and SAIs are increasingly being requested to examine the activities of regulators.

PRIVATIZATION GUIDELINES

The guidelines on best practice for the audit of privatizations are practical tools to be tested SAIs are already using them in their work, and sharing them with public sector practitioners. The Group will be checking how the guidelines have been used in practical and whether they are working.

EXCHANGE OF INFORMATION

An important additional way for SAIs to extend their expertise is in the exchange of information on completed privatization audits. The Working Group have set up a website on the Interment giving contact details for each SAI on the Group, and the text of working papers produced. The website can be accessed at the following address:

http://www.open.gov.uk/nao/intosai/home.htm

All SAIs have been invited to provide details of sectors in which privatization audits have been carried out, methods of privatization adopted in these cases, issues dealt with in the audits, and the name and address of a contact person. From these details a Directory of Privatization Audit

has been prepared containing these key data for the 44 SAIs who have responded to the invitation to contribute them. Copies of the Directory have been given to all delegations. All SAIs who are interested and involved in privatization audit are encouraged to provide their details, where they have not already done so. The Group will be glad to update the Directory accordingly.

In addition the Group will be preparing a Digest of key lessons arising from completed privatisation audits, as notified to them by SAIs.

FUTURE WORK OF THE GROUP

Two areas in particular were discussed. First, the increasing variety of ways in which the public and private sectors are working together, for instance the growth of public/private partnerships and concessions. Second, the increasing importance of economic regulation.

PUBLIC/PRIVATE PARTNERSHIPS AND CONCESSIONS

In recent years , in an increasing number of countries, governments have sought to involve the private sector in financing and constructing capital projects such as roads, airports, prisons, hospitals and computer systems, in return for which the private sector partner is given the concession to operate these services, receiving payments from the state over the period of the concession for the provision of the service involved (e.g. prisons) and/or payments charged to users (e.g. toll bridges and roads).

In many ways these arrangements raise similar audit issues to those set out in the privatization guidelines. But there are differences as well, in particular the ongoing relationship between the public and private sector governed by detailed contracts which commit the citizen, whether as taxpayer, or user, or both, to substantial expenditure extending for periods of up to 25 years or more.

Such arrangements pose important questions as to whether the citizen is likely to get value for money. In particular, it is likely to be more expensive for the private sector partner to borrow money to finance such projects than for the state. On the other hand, if a better deal can be obtained through placing risks with the party better suited to managing them, and through facilitating innovation in design and management, including achieving economies of scale, such deals could be beneficial to the taxpayer.

It is important for the public sector to carry out a thorough cost benefit analysis of the proposed project -including the cost benefit of alternative solutions -   and to secure a well managed competitive process. It is also essential for such projects to be carried through in accordance with the law and in a transparent competitive process. If this is not done the way will be open to fraud and corruption, discreditable in themselves, and also putting at risk the whole process and the possibility it offers of securing better service for the citizen.

ECONOMIC REGULATION

Over a third of all SAIs have so far responded to the Working Group's June 1998 questionnaire on the audit of economic regulation. The responses underline the role of government in regulation. In many countries, for example those in transition, the industries concerned are both owned and regulated by government.

In some other countries, where these industries have remained in private ownership, systems of regulation carried out by accountable public bodies, operating at arm's length to government, have been developed over many years. More recently the privatization of monopolies or dominant companies has been accompanied in a number of countries by the creation of industry specific regulators, also operating separately from government. Some other countries have however decided not to go down this route, relying on existing general competition regulation.

Industries subject to economic regulation often account for more than 20 per cent of Gross Domestic Product and privatization has been a factor in the decision to impose regulation in about a third of industries. Ensuring that the regulated business supplies the service is a key regulatory objective in over a third of cases. Other objectives include protecting consumers against abuse of monopoly, developing competition and securing social goals.

A growing number of SAIs are carrying out examinations of economic regulatory activities and producing reports which are leading to positive impacts in the form of improved benefits for

customers of regulated industries, improvements in the operational methods of the regulators, and improvements in the regulated industries themselves.

CONCLUSIONS

The interaction between the public and private sectors in the provision of public services grows ever more important in the economic life of all countries. SAIs are playing a leading role in securing the success of these projects through developing guidelines, encouraging transparency and accountability and sharing best practice. The field is constantly charging and developing however and SAIs need to maintain their expertise and ability to carry out authoritative and constructive analyses of those transactions, encouraging public bodies to combine care for the hones protection of the public interest with imaginative projects for securing value for money for the citizen.

RECOMMENDATIONS

Acting within the ambit of their terms of reference the Working Group should:

1.   monitor the effectiveness of the guidelines of the "Guidelines on Best Practice for the Audit of Privatisations";

2.   continue to facilitate the exchange of information between SAIs on completed audits in the privatization field;

3.   develop guidance on the audit of public/private partnerships, and concessions and on economic regulation.

H   REPORT ON SUBTHEME IIH - WORKING GROUP ON PROGRAM EVALUATION

INTRODUCTION

Pursuant to the recommendations adopted by the INCOSAI XV, the report submitted to the INCOSAI XVI by this Working Group included a definition of evaluation, a comparison between evaluation and other audit instances, a presentation of various types of evaluation and an outline of methodological framework. These elements were supported by concrete case studies and quotations from methodological guides of several SAIs.

This document has been widely approved and has given rise to a fruitful debate where delegates have suggested different orientations for the follow up of the Group's work.

Therefore, the Congress is requested to extend the mandate of this Working Group in order to continue its work and provide SAIs with information, analysis and methodological tools, according to the needs stated by the delegates.

SUMMARY OF DISCUSSIONS

Discussions have unanimously noted the usefulness of a document on program evaluation, which is an essential challenge and perspective for SAIs. The evaluation practice, more than any other audit process, requires information exchange, mutual communication on concrete experiences and dissemination of methodological tools. The development that started in 1992 has not produced its full effect yet and should be extended as defined by the INCOSAI XV.

Discussions raised four key conclusions:

1.   SAIs need to count on a definition of several types of evaluation according to their objects; but the Working Group is requested to work on a priority basis on the most necessary methodologies, so as to achieve a fast dissemination of these tools instead of making a comprehensive analysis. The analysis should also take into account the specific conditions and structures of the various SAIs.

2.   Several SAIs are looking for methodological tools and models that should indicate the way to proceed; the wish has been stated to benefit from the experience of those SAIs that have already developed such practices. A methodological guide and a database appear to be necessary.

3. The Working Group is requested to continue its work in order to propose this guide during the next Congress.

4. It has been deemed suitable that the works of the Working Group should be coordinated with of other committees, particularly the Internal Control Committee, the works on prevention and detection of fraud and corruption, and the EDP Committee.

Discussions also raised two particular issues:

- evaluation does not threaten the independence of SAIs, as far as programming remains independent, the credibility of the institution is not harmed, and the professionalism of its work is assured.

- evaluation leads to cooperation with government organizations that relates SAIs to the definition of public performance indicators, thus taking them to a judgment on the concept of information systems; at the same time, the SAIs encourage administrations and other public organizations to carry on independent evaluations on their own activities.

RECOMMENDATIONS

The INCOSAI XVI requests the Working Group on Program Evaluation to continue its work according to the guidance and conditions stated below, and with the participation of other institutions that may request so.

The Working Group should:

1. Identify conditions favouring the implementation of evaluations by SAIs, as well as factors allowing for assuring the independence of SAIs in their relationship with the executive or the legislature. It should also analyze the consequences of evaluation practice on the professional competence and training of SAIs' staff, their structures and organization;

2. keep working on the methodological analysis and complete the report presented to the INCOSAI XVI, in order to prepare a methodological guide that could result in a draft INTOSAI official document to be submitted to the next Congress;

3. specify the definition for the various categories of evaluations, in order to identify the applicable methods, techniques and tools in each case, particularly those types of evaluation on a priority basis:

  - evaluation of programs and organizations;

  - evaluation of some health and social programs, in such areas as health, employment or education;

  - evaluations suitable to the needs of developing countries.

At the same time those evaluations contained in the already done evaluations should be particularly analyzed by request of the controlled entities:

4. explain the relationship between evaluation and information systems, and analyze the role of SAIs in favoring the development of public performance assessment;

5. identify the usefulness of evaluation for preventing and detecting fraud and corruption, mainly by disclosing the gaps or weaknesses of management systems and the various modes of financial operations;

6. continue the compilation, analysis and discussion of information, based on evaluation examples and methods. To assure as well the dissemination among SAIs, mainly through Internet;

7. establish any linkage deemed necessary with other INTOSAI instances, mainly the Internal Control Committee and the EDP Committee.