



Asian Journal of Government Audit

April 2007

Asian Journal of Government Audit



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The Asian Journal of Government Audit is published twice in a year in English on behalf of the Asian Organization of Supreme Audit Institutions (ASOSAI). The Journal is an official organ of ASOSAI and has the objectives of promoting sound and effective State Audit Systems and providing ASOSAI members with a forum of sharing experiences in different for sharing experiences in different areas of State Audit.

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Editorial

Dear friends,

It is with pleasure that I present to you the 28th issue of our journal. This journal which was started in 1983 with an annual issue became biannual in 2004 and has grown in strength over period of time. Keeping with the changing times the journal is now available only in an electronic format. It is now available in PDF on the ASOSAI website and this should enable wider dissemination. We would also send one copy of a CD of the journal to each member SAI.

In this edition we have updates on INTOSAI and ASOSAI, developments and training programmes in member SAs and articles on a wide range of issues from member SAs. It also includes a feature on the first ASOSAI seminar which was conducted in New Delhi in February 2007 on the topic 'Managing Audit Results'. The seminar resulted in recommending strategies to overcome the challenges to audit especially in the area of planning, communication of results and follow up of audit findings. Full text of the recommendations is included in the journal.

The essence of this journal is to share professional experience and exchange information which would enrich all member SAs in this region. I would request all members to actively contribute material to their very own journal. Suggestions and feedbacks for further improving the e-journal are also welcome.

K P Lakshmana Rao

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INTOSAI News

INTOSAI Compliance Audit Meeting

The 4th meeting of the INTOSAI Compliance Audit Sub Committee was hosted by the Comptroller & Auditor General of India in New Delhi from 4-5 January 2007. 15 representatives from 10 SAIs and European Union attended the meeting. The sub Committee meeting was chaired by Mr. Jenes Gunvaldsen of SAI-Norway. Mr. K.P. Lakshmana Rao, Additional Comptroller and Auditor General Inaugurated the meeting.

The Compliance Audit Guidelines Subcommittee is leading the work on developing guidelines for Compliance Audit. Compliance Audit is an important and integral part of public sector auditing and an area where there is a great need for further guidance. The guidelines for compliance audit will provide practical guidance on how compliance audits should be planned, executed and reported on.



Mr. Gunvaldsen, Chairman explained that the Compliance Audit Guidelines were part of integrated set of guidelines for financial audit

to ensure that the public sector auditors took care of the extended perspective. Compliance should be an element in the annual audit.

As per the revised work plan, the final draft on Compliance Audit Guidelines is to be discussed in the Professional Standards Committee meeting by April 2007. The draft Compliance Audit Guidelines will be submitted to all INTOSAI members for comments by May 2007. The finally approved Compliance Audit Guidelines will be submitted to INTOSAI Governing Board by September 2007 for presentation before INCOSAI in Mexico in November 2007.

The two day meeting ended with a trip to Taj Mahal in Agra.

16th Meeting of the INTOSAI Standing Committee on IT Audit

The 16th meeting of the INTOSAI Standing Committee on IT Audit was hosted by State Audit Institution of Oman in Muscat from 5-7 March 2007. The meeting was attended by 51 delegates for 20 countries. The meeting deliberated on present and future projects of the committee. The final product on e-governance was presented by SAI-India along with the updated courseware on IT Audit.

Before the meeting 5th Seminar on Performance Audit on IT Governance was held from 3-4 March 2007. The seminar was coordinated by SAI-USA, with the SAIs of Brazil, Canada, The Netherlands and India on the editorial board.



5th Meeting of the INTOSAI Finance and Administration Committee

The INTOSAI Finance and Administration Committee was established by INCOSAI 2004 with an overall responsibility as Goal Liaison for Goal 4 (Model International Organization) of INCOSAI Strategic Plan 2005-2010. The Committee chaired by SAI-Saudi Arabia has SAIs of India, Korea, Norway, Venezuela and USA. The Secretary General of INTOSAI serves as an ex officio member. The 4th meeting of INTOSAI Finance and Administration Committee was hosted by SAI-Norway in Oslo from 26-27 March 2007. All member SAIs of Finance and Administration Committee except Korea attended the meeting. Besides review of the decision taken by the governing board on INTOSAI in Mexico in 2006, the agenda of the 4th meeting included the following items:

- INTOSAI representation, framework for external funding etc.
- Review of legal status of INTOSAI in light of new Austrian legislation.
- Review of Criteria for associate membership to ensure the global nature of candidates
- Performance measures for Strategic Planning
- Discussion of the next Strategic Plan 2011-2016.
- Discussion of the position of Director of Strategic Planning for the period 2007-2010
- Report on financial condition of INTOSAI
- Update on SAI transformation seminar.

ASOSAI News

At the 35th meeting of the Governing Board of ASOSAI held in September 2005 in China it was approved by the board that in line with the strategic plan and the desire of the Governing Board expressed in its 4th meeting and considering the present level of resources available with ASOSAI, some more seminars for middle and senior level audit managers from member SAIs of ASOSAI should be organised. Accordingly it was decided to organise one ASOSAI Seminar (a five day seminar every alternate year) and two, JICA sponsored Seminars should be organised to facilitate knowledge sharing among member SAIs besides the regular ASOSAI sponsored workshop which is held every year.

JICA sponsored ASOSAI workshop

JICA sponsored ASOSAI workshop on "Challenges to new Frontiers-How to Develop and Manage Human Resources for Dealing with emerging Audit Issue" was held in Tokyo, Japan from November 12- 2, 2006.

The workshop was organised under the Japanese Government technical development assistance scheme and it was intended for senior officials of SAIs of member countries who were in charge of developing and managing human resources in their respective SAIs and in the age group of 30-50 years. 14 participants from SAIs of Bangladesh, Bhutan, India, Indonesia, Malaysia, Maldives, Mongolia, Nepal, Oman, Saudi Arabia and Thailand attended the workshop. Mr. Subir Mallick from SAI- India was the Subject Matter Expert.



The contents of the workshop were: Lectures in Audit System in Japan, Site Visits in Local and Central Government Offices; Presentation & Discussions based on Country Reports, Comparison and analysis of human resource development and management efforts to cope with merging audit issues and formulation of Innovative Practices.

Before attending the workshop the participants were requested to write a country paper highlighting the functioning of their SAI and human resource management practices in their respective SAIs. Each participant was given 30 minutes for his/her presentation and 30 minutes for question and answer session.

The workshop started with briefing on 13 November 2006 (FN) followed by the Key Note Address by Nobuo Azuma, Senior Director, Research and International Division, Board of Audit Japan. In the evening the participants called on President of the Board of Audit Japan.

A field study to the Internal Audit Office of Nara Prefecture was also organized.



The following challenges were identified during the discussions in the workshop

- Information and Communication Technology Audit

- More knowledge of English language for better interaction with other SAIs and other international bodies for knowledge sharing
- Motivation and incentive for audit personnel
- Audit of complex technical projects requiring multidisciplinary knowledge
- Environmental audit
- Performance audit
- Investigative auditing
- Increasing and varied expectation of stakeholders from the SAI Solutions

These challenges could be met through bridging of the gaps in skill and capacity in the existing human resources through preparing clear strategic plans for recruitment, training, appropriate incentives and motivators for human resources, etc.

Recommendations

1. Recruitment:

a. Audit personnel recruited should have the required educational qualifications viz accounting, finance, business administration, legal, information technology, engineering/ quantity surveyors, statistics, medicine, etc so that the SAIs are able to meet the increasing and varied expectations of the stakeholders. However, as was evident from the presentations made, only SAI's of three countries have full freedom to recruit audit personnel as per their requirement. Other SAI's are mostly dependent on centralized recruitment agencies that recruit for the entire government. Therefore, the skill gap would have to be bridged by engaging consultants, entering into short term contracts with specialists and outsourcing specific assignments but with close association of the SAIs audit personnel.

b. All the participating SAIs' representatives indicated that there was requirement for more human resources in each SAI. Therefore to meet the shortage of human resources, more posts need to be created and recruitments made to meet the challenges posed by new developments in audit.

2. Training:

All participants agreed that there was need for more trained personnel in new and diverse audit areas. Emphasis should be more on practical and on the job training rather than theoretical lectures. Following specific recommendations were made in this regard:

a. Continued professional education should be emphasized in various areas e.g. IT Audit, languages, environment audit, performance audit, investigative audit etc. Where expertise in other specialized fields is

required while auditing a particular project e.g. expertise in engineering, medicine, environmental studies, statistical studies etc. consultants can be engaged. However, since the final responsibility of presenting the audit findings rests with the SAI, complete dependence on a consultant may not be advisable. Hence, some exposure to the specialized area of knowledge should be ensured through training for the audit personnel associated with the project.

b. Audit personnel should be encouraged to acquire internationally recognized professional certifications and higher academic qualifications in their field of expertise

c. Apart from Training programs organized in house by the SAI, training through outside agencies could be encouraged. The trainings could be organized to combine theoretical inputs with practical exposure. These can be organized with the help of educational institutions and professional auditing firms. Distance learning should be encouraged through structured training modules developed by SAIs or ASOSAI. E-learning modules can be developed by ASOSAI for wider coverage. Secondments to external agencies for experience of their audit function and trainings should also be encouraged by SAIs.

d. Due to increasing interactions between SAIs, English is emerging as the language of communications. Therefore, trainings to develop report writing skills in English should also be organized. ASOSAI can develop guidelines on good report writing including a glossary of important audit phrases in English.

e. Increased interaction in the audit community has led to greater awareness of better auditing practices one of them being risk based audit planning and audit. Therefore training to develop skills for preparing risk based audit plans should be imparted either in house or through outside agencies like other SAIs or ASOSAI.

f. Seriousness in training should be ensured through proper de-briefing exercise, before training/after training assessment, selection of the right people for training, etc. Trained personnel should be assigned jobs which allow application of the skills learnt. The expertise gained through training should be disseminated by using such personnel to train others in the organization. Training material should be collected from the trainees and kept in a centralised training library.

3. Manuals:

Manuals including questionnaires on different areas of audit should be prepared by SAIs' e.g. IT audit, performance audit, environment audit, investigative audit etc. If necessary these can be prepared in consultation with other SAIs/ ASOSAI. A centralized knowledge pool or data base on existing manuals with appropriate links to on line

resources/contact persons of various SAIs should be created by ASOSAI and made available on the internet for easy access.

4. Better resources:

The audit teams should be equipped with laptops and appropriate soft ware and audit tools to facilitate their functioning.

5. Interactions between SAIs:

Bilateral and multilateral interactions between representatives of SAI's at different levels should be encouraged through meetings and workshops for sharing of knowledge and developments in different SAIs.

6. Treatment/incentives to audit personnel:

a. Performance assessment should be based on detailed performance agreements. To the extent possible, it should be made objective.

b. In SAIs of five countries of the eleven countries that participated in the workshop, the remunerations paid to employees of the SAI are higher as compared to employees of other government departments. It was agreed that higher remuneration to audit personnel would be a motivating factor for better audit output and retention of experienced and qualified audit personnel in the SAIs.

c. Incentives in the form of faster promotions that are performance linked should be introduced by SAIs. Incentives should be given by SAIs for acquiring internationally recognized professional certification to encourage continued professional education of its personnel.

ASOSAI Seminar

The First ASOSAI Seminar on Managing Audit Results was hosted by the Comptroller & Auditor General of India at its International Training Centre from 12-16 February 2007. This seminar was targeted for the middle and senior level managers of the member SAIs of ASOSAI with vast experience in the field of audit. This was a maiden seminar of its kind since inception of ASOSAI, where the intended participants were middle and senior level managers of the member SAIs.

The objective of the seminar was to enable Auditors to learn about the prevalent practices in various SAIs on how Audit results were managed to maximize the goal of effectiveness of audit, identify challenges to this goal and suggested strategies to overcome the challenges.

The experienced senior audit professionals from diverse SAIs discussed and learnt about the management of audit results to improve the entire process of accountability of government and related organizations.

24 participants and two SMEs participated in the seminar besides some eminent speakers from commercial enterprises, Media and NGOs. SAIs of India, Japan, Oman, New Zealand and Saudi Arabia presented the papers besides the presentations by the two Subject Matter Experts from the office of the Comptroller & Auditor General of India and GAO-USA. The five day programme also covered deliberation from the commercial enterprises, Media and NGOs, The CAG of India inaugurated the seminar on 12 February and Deputy CAG of India presided over the valediction function on 10th February where the certificates were distributed to the participants and SMEs.



Following is the text of the summary & recommendation of the seminar:

It is a best practice for SAIs to establish systems and processes that allow them to follow up on audit findings and recommendations to ensure that the results of audits are implemented so that they can make improvements in the economy, efficiency and effectiveness of government operations. However, SAIs may face certain challenges because of the constraints placed on them by their authorizing mandates, regulations, and budgets. The participants in the ASOSAI Seminar on Managing Audit Results reached consensus on the following challenges and recommended strategies to address them.

Challenges and Recommended Strategies:

Challenge: Ensuring the quality of the audit plan, process, and results

- **Audit Planning Challenges:** For many SAIs audits are not conducted according to an Annual Plan, or in consultation with the audited entities, and/or national/legislative committees. As a result, they face time delays, antipathy and negative mindset of the auditee and/or national committees in the conduct of audits, which can often result in delays in obtaining information from the audited agency or interest from legislative bodies.
- **Audit Process challenges:** Many SAIs face audit process challenges because they have not yet established their own audit standards, code of ethics / internal regulations that are consistent with INTOSAI standards. Moreover, for outsourced or third party audits SAIs do not have review processes to ensure the quality of audit work performed. Many SAIs also lack adequate Audit Manual/s especially in the application of new methods and techniques and for IT tools that are used to carry out the audit of computerized systems. Some SAIs are also inhibited in fulfilling their audit functions because of the lack of information about audited entities, unclear and undefined audit objectives and scope of certain audits, and outdated audit programs or authorities.
- **Human Resources Challenges:** Many SAI's face a number of human resource challenges because of lack of adequate numbers of skilled audit professionals or the prevalence of a work culture and mindset of audit staff that is not conducive to creative thinking and developing an excellence in government. Some SAI face challenges of staff that lacks motivation, adequate skills, abilities, and experiences certain kinds of technical expertise.
- **Quality Assurance Challenges:** Many SAIs have internal audit processes but the results of these processes are often not credible or cannot be relied upon to ensure the quality of the audit process.

Recommendations: To address these challenges SAIs should consider implementing the following strategies

- Establishing annual audit and strategic plans, which also include the input of stakeholders.
- Establishing and improving existing audit processes to be in compliance with International & INTOSAI Standards.
- Providing continuous training both internal and external for audit staff.
- Conducting Peer Reviews by external parties and establishing a Quality Assurance Unit for internal reviews of audit processes.
- Continuous exchange of information and experiences with other SAIs

Challenge: Ensuring effective communication of the results of audits to stakeholder

- Communication challenges with auditee: Many SAIs have ineffective working relations with auditees because of poor communication and coordination processes. This is often caused because past audit results have been too focused on numbers of findings and recommendations, insignificant findings, and illogical recommendations that are not adequately supported by the evidence. As a result, many auditees do not take the findings of the audits seriously and do not implement the recommendations made by the SAI.
- Communication challenges with national committees/PACs: Many SAIs face challenges in implementing the results of their audits because they cannot obtain the interest of the national committees or PACs that they will help provide the focus necessary to obtain compliance from the audited agency. Moreover, the time gap between the occurrence of an event that may trigger an audit, identification of audit findings, and the delivery of the final report to the Legislature is very long and could take one to two years in some cases. This long process can result in the legislative committees not paying due consideration to the Audit Report when it is delivered because they are focused on other more pressing issues.
- Communication challenges with the media and public: Most SAIs recognize the importance of communicating audit results through the media and to the public. However, many are restricted by their mandates from using such public forums to share audit results and others have not established processes by which to do so. SAIs also recognize the need to manage the risks associated with using the media as a form of communication for audit results; and they recognize the need to make the language of their audits reports more easy to understand by the media and the public.

Recommendations: To address these challenges SAIs should consider implementing the following strategies

- Establishing communication protocols with auditee so that communication, cooperation, and coordination can be enhanced and their willingness to implement audit results can be increase.
- Preparing a summarized version of audit reports for use by other stakeholders that is easy to understand and concise.

- Establishing a communication strategy for sharing audit results with national committees and PACs in a timely manner to ensure their interest and deliberations on audit findings
- Establishing a media policy and process by which information on audit results can be shared throughout the year with various media and public sources.

Challenge: Ensuring that audit findings are followed up by the SAI

- Challenges of accountability for the audit recommendations: Most SAIs face challenges in effectively managing audit results because they have not developed the processes, databases, and technologies that will allow them to monitor the results of their audit findings. In most SAIs, the auditor is often responsible for the audit work as well as the follow up work. This causes dilution in both the audit work and the follow up work.

Recommendations: To overcome this challenge SAIs should consider implementing the following strategies

- Establishing a database to facilitate the follow up of audit recommendations.
- Establishing a group of audit staff who are responsible for tracking, monitoring, and documenting recommendation follow up.
- Developing approaches by which to measure audit effectiveness in monetary terms.

8th ASOSAI Research Project

37th Meeting of the Governing Board of ASOSAI held in Shanghai, China on 15 September 2006 decided that the topic of the next ASOSAI Research Project would be "Environment Audit Guidelines". This decision was based on the survey, which was conducted by ASOSAI Secretariat in June 2006. In the survey all the member were also requested to convey their willingness to join the research team and preferences for the topic of research.

For the Environmental Audit Guidelines, initially, SAIs of Afghanistan, Australia, China, Thailand, India, Iran, S. Arabia, Malaysia, Pakistan and Maldives conveyed their willingness. Meanwhile, a road map for the project is under consideration and will be communicated to the team members of the project. The dates of the start up meeting will also be decided and communicated to the members of the Research Team of the 8th ASOSAI Research Project on "Environment Audit Guidelines"

Annual Contribution

The annual contribution of ASOSAI is due from 1 January, 2007 for the financial year 2007.

The annual contribution of members of ASOSAI is equivalent to their annual contribution to INTOSAI. INTOSAI has changed its currency for financial transactions from US dollars to Euros from the financial year 2007. This has affected the ASOSAI members who are paying more than 500 US\$ per annum. This has been listed as one of the items for discussion in the forthcoming meeting of the ASOSAI Governing Board which is scheduled in Kuwait from 3-5 September, 2007. The decision taken in this regard would be communicated to member SAIs of ASOSAI.

Training in Member SAIs

Kuwait

SAB participated in INTOSAI Standing Committee on IT Audit 16th meeting and Performance Audit 5th Seminar on "IT Governance" held during the period from 3 to 7 March 2007.

SAB participated in the following training programs held by ASOSAI and SAIs members:

- International Training program on "Environmental Auditing" held by SAI of India during the period from January 5th to February 7th, 2007.
- Seminar on "Managing Audit Results" held in NOIDA, India during the period from 12 – 16 February 2007.
- SAB participated in the 67th Intensive Training Program on "Performance Audit" held in Lahore, Pakistan during the period from February 6th to March 10th 2007.

SAB ended its training plan for the fiscal year 2006-2007. 922 trainees participated in the following 55 training programs that were implemented based on SAB training plan:

1. One hundred fifty seven trainees participated in 10 fundamental programs on accounting and financial reports international standards, international review and performance and programs budgeting.
2. Two hundred eleven trainees participated in 13 specialized programs.
3. Sixty Five trainees participated in (4) supervisors programs.
4. One hundred eighty four trainees participated in (10) general programs.
5. Two hundred Forty Three trainees participated in (11) symposiums.
6. Sixty two trainees participated in (7) IT programs.
7. Two hundred and forty one trainees participated in the following (16) training programs that were not included in SAB annual training plan:
8. Fifty Five trainees participated in (3) new staff training programs.
9. Forty three trainees participated in (2) informative programs addressed to entities subject to SAB control.

10. Eighty three trainees participated in (5) programs dedicated to Investment Sector Audit staff.
11. Seven trainees participated in (2) programs dedicated to Financial Breach Department staff.
12. Four trainees participated in (1) program dedicated to Services and Financial Affairs Department staff.
13. Seven trainees participated in (1) program dedicated to Services and Financial Affairs and Supplementary Bodies Departments staff.
14. Forty Two trainees participated in (2) programs dedicated to Companies and Supplementary Bodies Sector staff.
15. Nineteen trainees participated in contractual programs for staff from Performance Audit Unit, Oil Sector, Companies Audit Department and Investment and Financial Establishments Audit Department.
16. Sixty trainees participated in (29) training programs implemented by local training institutions or government ministries and institutions.
17. Forty six trainees participated in (51) specialized programs implemented by specialized training institutions held abroad during 2006.

Malaysia

NATIONAL AUDIT ACADEMY

-The Training Centre for Government Auditors

Introduction

The National Audit Academy of Malaysia commenced operations in September 2005 is another milestone in the 100 – year history of public sector auditing in Malaysia. As a dedicated training institution, the Academy is equipped with modern facilities that will promote an environment that is conducive for training, dissemination of knowledge and information to the participants. Amongst others the facilities are Lecture Hall, Lecture Rooms, Auditorium, Computer Lab, Language Lab, Library, Hostel, Dining Hall and Gymnasium.

The establishment of the National Audit Academy of Malaysia is critical from The viewpoint of developing human capital of the National Audit Department to meet the increasing demand for higher professionalism amongst the audit staff, in the light of the expanding role of The Department in providing quality audit not only in terms of financial managements but also performance audit with respect to Government programs and projects as well as management audit of public agencies whether at the level of Federal, State or Local administration. In addition there are new fields of auditing such as environmental, ICT, water privatization projects which The Department will be involved much more than before.

1. Courses Offered

In developing highly skilled and professional government auditors, the academy has tailored various courses according to the needs and current development of the auditing profession. The various courses offered by the academy are administratively conducted under four schools namely the School of Auditing, School of ICT, School of Accounting and School of Management. Each School has its own distinctive programs and designed to cater the needs of the auditors and also the aspiration of the management in creating a highly trained and professional audit personnel. The programs conducted by each school can be applied by interested participants throughout the year once the training calendar for the year is published which is available by the first day of January each year.

The courses offered the four schools are shown in the table below:

No	School	Courses
1	Auditing	<ul style="list-style-type: none"> i. Financial Statements Audit ii. Financial Management Audit iii. Performance Audit iv. Companies Audit v. Contract Audit vi. Investment Audit vii. Risks Based Audit viii. Forensic / Fraud Audit ix. Revenue Audit x. Land Administration Audit xi. Environmental Audit xii. Effective Audit Report xiii. Basic Auditing
2	ICT	<ul style="list-style-type: none"> i. ICT Awareness ii. ICT Control iii. CAATTs & Data Downloading iv. Auditing System Development Life Cycle v. ICT Security vi. ICT Performance Audit vii. ICT for Managers viii. Multimedia and Desktop Publishing ix. Application for End Users x. National Vocational Training Council
3	Accounting	<ul style="list-style-type: none"> i. Basic Accounting ii. Commercial Accounting iii. Government Accounting iv. Management Accounting v. Financial Reporting Standards Updates vi. Islamic Council Best Practices
4	Management	<ul style="list-style-type: none"> i. Induction Course ii. Integrity Course iii. Team Building iv. Motivation v. Communication Skills vi. Administrative Management vii. English Courses

2. Courses Conducted

Since its inception in September 2005, the academy has conducted various courses not only for audit personnel but also personnel from other government agencies and the private sectors. The courses offered by the academy have received a very encouraging response from the participants and the number of people applying for the courses has also increased.

The number of courses conducted and the number of course participants since its inception can be seen in the table below:

Year	Number of Courses	Numbers of Participants
2005 (Since Sept)	15	437
2006	71	2116

3. Courses Offered for International Participants

Despite being a brand new institution, The Academy is poised to conduct courses for international participants in line with the Department's commitment to knowledge sharing and international cooperation. Because of its excellent facilities, the Academy has recently been approved by the Government of Malaysia to conduct courses under the Malaysian Technical Cooperation Program.

The courses that have been identified for the initial program are Performance Audit and ICT Audit. The Performance Audit course will commence in June 2007 and will enroll 25 participants from regional Asian countries as well as 15 local participants. The duration of the course is two weeks and the objectives of the course are to enhance knowledge and skills in Performance Auditing techniques and to share ideas and experiences among participants in the implementing performance audit.

The next course will be ICT Audit which will be conducted at the end of November 2007 and the number of participants as well as the duration of the course will be the same as the Performance Auditing course. The objectives of ICT Audit are to enhance knowledge and skills in ICT audit and controls, to learn more about checking and reporting procedures for strategic ICT planning and documentations, to enable the

auditor to do preliminary research into the audit systems, including systems testing, to be able to describe the standards, procedures and management and development of any new systems and to ensure the smooth transition to new systems as stipulated in the strategic plan.

The academy has made the necessary preparations and arrangements for both courses and is looking forward to receiving and welcoming its first foreign participants.

4. Conclusion

The establishment of the National Audit Academy will benefit not only the audit personnel from the National Audit Department but also from other government agencies in Malaysia as well as members from other Supreme Audit Institutions. The establishment of the academy is further testimony to the National Audit Department's commitment towards enhancing the quality and professionalism of the audit personnel as well as for the betterment of the profession as a whole. The Academy has the obligation to fulfill the aspiration of the nation – to become the centre for excellence in public sector auditing.

China

National Audit Office of China hosted China-African Audit Seminar

The National Audit Office successfully hosted a China- African International Audit Seminar in November 9-18, 2006. SAIs of 14 African countries including Algeria, Cameroon, Congo (Dem), Egypt, Ethiopia, Gabon, Ghana, Morocco, South Africa, Sudan, Tanzania, Tunisia, Zambia and Zimbabwe sent high level delegation headed by heads, deputy heads and senior level managers to the seminar.



Mr. Li Jinhua, Auditor General of China welcomed the African colleagues in Haikou, capital city of China's tropical Hainan Province. He said that CNAO values its ties with African SAIs and the seminar provides an excellent opportunity for CNAO to expand its cooperation with African SAIs and share mutual experience in the field of government auditing. During the multi-lingual (English, French and Chinese) seminar, Chinese and African auditors exchanged views on capacity building, environmental auditing, performance auditing and other issues of common interest.



As part of the seminar programme, the participants also visited Beijing and Shenzhen. African auditors spoke highly of the audit seminar, saying that the seminar is an excellent opportunity for them to understand the Chinese auditing system and practices. They thanked CNAO for the hospitality and friendship extended to them and hoped that CNAO will increase technical assistance to African SAIs by further intensifying mutual exchanges.

International Training Programmes in India

SAI-India has been organizing International Training Programmes since 1979 and has contributed to professional capacity building in SAIs all over the world. So far 77 International Training Programmes (ITP) have been organised. Since the last issue of the journal 75th ITP on performance Audit” was organised from 20 November to 19 December 2006. 38 Participants from 31 SAIs participated in this ITP. The 76th ITP on “Environment Audit” was organised from 8 January to 7th February 2007 and 36 participants from 28 SAIs participated in this ITP. The last 77th ITP scheduled for the year 2006-07 was titled “Audit of Energy Sector” which was held from 26 February to 27 March 2007. In this programme 28 participants from 26 SAIs participated. All these ITPs were held at the training facility of the office of the Comptroller & Auditor General of India known as International Centre for Information System and Audit (iCISA).



The following International Training Programmes have been scheduled for the international training programmes that have been approved for 2007-08 are as follows:

- 78th ITP – Information Technology Audit 7.08.2007 – 6.07.2007
- 79th ITP – Performance Audit 18.09.2007 – 17.10.2007
- 80th ITP – Environmental Audit 20.11.2007 – 19.12.2007
- 81st ITP – Performance Audit 8.10.2008 – 7.02.2008
- 82nd ITP – Information technology Audit 26.02.2008 – 27.03.2008

Developments in member SAIs

China

CNAO to audit Olympic Organizing Committee

National Audit Office of People's Republic of China (CNAO) will audit the financial expenditure and income of the Beijing Olympic Organizing Committee every six months.

The audit will focus on the construction of the main Olympic stadium, the National Aquatics Center, the Conference Center and the Olympic Village since Olympic construction has entered a very intense phase with all stadiums and gymnasiums scheduled to be largely completed by October 2007. Construction progress, quality, safety and cost will top the audit agenda of CNAO.

Other CNAO priorities in 2007 include the South to North Water Diversion Project and major railway construction projects. The audit on the water diversion project will examine not only the construction of the project but also water pollution control. The central government invests more than 50 billion yuan in railway construction every year, and vast bank loans are required. The CNAO will audit the management of the investment.

Concurrent Audit's on a roll between the CNAO and BAI

Dust and Sand Storms (DSS), an environmental problem affecting China, Korea and other Northeast Asian countries, have come to the attention of many environment authorities or relevant agencies, including SAIs in this region. Ever since the beginning of 2006, SAIs of China and Korea have been actively executing the concurrent audit on DSS prevention projects and in October 2006, the recent study tour by the Korean auditors to China's DSS Monitoring Network and Afforestation Project sites has further contributed to the establishment of a close and cooperative mechanism between the concurrent auditors in China and Korea.



It was during the XV INCOSAI in Cairo in 1995 that the protection and improvement of the environment was acknowledged as one of the relevant issues when SAIs were discharging their audit responsibilities and to this effect INTOSAI has been playing a significant role of encouraging joint or concurrent audits between SAIs from the perspective of environment. Responding to this call, on June 24th, 2005 in Seoul of Korea, Mr. Li Jinhua, Auditor General of National Audit Office of China (the CNAO), and Mr. Yun-Churl Jeon, the then Chairman of the Board of Audit and Inspection of the Republic of Korea (the BAI) have shown their interests in co-operating with each other in the initiation of concurrent audit over DDS prevention projects, which are a matter of common interest for both countries. Following this consensus, in January 2006, SAIs of China and Korea have reached a *Cooperation Protocol between the Board of Audit and Inspection of the Republic of Korea and the National Audit Office of the People's Republic of China with Respect to Cooperative Audit on Dust and Sandstorms Prevention Projects*.

According to the agreement, the SAIs of China and Korea shall conduct concurrent audit on DSS prevention projects and the audit shall be targeted at further promoting the cooperation and exchange between the two SAIs and providing recommendations for better implementation of DSS prevention projects. The scope of audit will include both countries' government programs and projects on DSS prevention — e.g., a project to establish a monitoring network for DSS, a project to establish a system for forecasting/early warning of DSS —

which have been completed or are under way, in addition to both countries' international cooperative programs and projects of the same character. Various aspects, like the occurrences of DSS and the damages, measures and the response systems for mitigating DSS damages, and the performance of DSS prevention projects shall be taken into consideration for the concurrent audit over DSS prevention projects.



Pursuant to the timetable for this concurrent audit, each SAI shall complete the audit no later than December 2006 and present the final audit report respectively by the end of June 2007. A joint report may also be produced based on the two audit reports, upon the consultation between the two participating SAIs.

Ever since the launching of concurrent audit over DSS prevention projects, the CNAO and BAI have been co-operating with each other in the provision of relevant data and information on the audit and a close and continuing cooperative relation from planning to reporting stages has been maintained. In October 2006, an audit team composed of 7 senior auditors from the BAI has carried out a study tour to various DSS Monitoring Network and Afforestation Project sites scattering in Inner Mongolia Autonomous Region, Liaoning Province and Shandong Province of China. Through field visits and discussions with project officers of relevant authorities, like local Forestry Administration and Meteorological Administration, the Korean auditors have collected the first-hand information regarding the

performance of DSS prevention projects in China under the assistance of Korean government.

As mentioned by the auditors of Korea and shared by the Chinese counterparts who have participated in the concurrent audit over DSS prevention projects, by conducting this concurrent audit, the two SAIs can contribute toward the governments' efforts to minimize damages from DSS and further promote the existing friendly relationship between the two SAIs. As the one of the pioneer cases of concurrent audit in Asia, the audit over DSS prevention projects by the CNAO and BAI is moving smoothly on its right track.

Emphases of Auditing in China for the Year of 2007

The National Audit Work Conference was held in Beijing on 8th and 9th of January. One of the primary works of this conference is to research and arrange the audit work in 2007.

The audit work of year 2007 will surround the overall situation of economic and social development tightly, surround the central work of the Communist Party of China (CPC) and government tightly, and surround the significant matters which concern the self-interests of the public. The main work contains the following six aspects.

1. Continually deepen budget implementation audit and promote administration and work according to the laws.

In year 2007, the National Audit Office of China (CNAO) will put emphases of work on audit on the central departments of state council and some oversea agencies, as well as final accounts audit on some central departments. The audit on central departments will focus on the situation of budget management and the enforcement of financial and economic laws. The audit findings will exert themselves to reflect the outstanding problems existing in the distribution and management of budget, to promote the establishment of the scientific standard of budget ration and payout and to standardize the distribution of fiscal funds.

2. Strengthen the audit on significant investment projects, promote the consummation of investment management system, and improve the investment performance.

To surround the implementation of the macroscopical adjustment and controlling measures of state council and the overall situation of economic social development, in 2007 the audit institutions will further strengthen the audit and investigation on important investment projects, important zoology protection projects and key

drainage area (region) pollution revolution projects and etc., which concern the national economy and the people's livelihood.

Other than the South to North Water Diversion Project, major railway construction projects and construction of the main Olympic projects, which will be audited by CNAO, local audit institutions will also conduct audit on key investment projects combining with real situation.

3. Strengthen special audits and audit investigation to promote harmonious development of the society.

Paying more attentions to social vulnerable groups, promoting the carrying out of all kinds of policies which will benefit the people, increasing the ability of government to provide public services, forcing the settlement of outstanding social problems, for example employment, hospitalization, education, social security and so on, which withdraw attentions and consuming reflection from the public.

4. Strengthen financial audit and promote the financial organizations to prefect the system, standardize the management and keep away from risks.

In 2007, the financial audit will focus on disclosing and punishing the significant problems which violate the laws and provisions, meanwhile, the financial audit will put more emphases on disclosing the weak chain of the management and control of the financial organizations, reflecting the outstanding problems in financial domain which will influence the carrying out of national macroscopical adjustment and control measures and promoting the keeping away from risks, standardizing of the management and increasing of the benefit.

The CNAO will organize the audits on the assets, liabilities, profits and losses of China Development Bank, Agriculture Bank of China, China Everbright Bank, People's Insurance Corporation of China and China Reinsurance (Group) Co., as well as the audit investigations on the four asset management corporations, China Huarong Asset Management Corporation, China Cinda Asset Management Corporation, Great Wall Asset Management Corporation of China and China Orient Asset Management Corporation, on the situation how they deal with the state owned asset.

5. Strengthen the enterprise audit, promote the reform to a deeper stage and change the mode of economy increasing.

In 2007, depending on the commission of department of organization of CPC Central Committee and State-owned Assets Supervision and Administration Commission of the State Council,

CNAO will organize the accountability audits on the leaders of four enterprises owned by central government and financial incomes and payments audits on some railway bureaus. Meanwhile, the residential audit offices will strengthen the supervision on enterprises owned by central government according to the division of the work. Audit institutions at local level will also organize audit on state-owned enterprises at each level.

6. Continually push forward the accountability audit on leaders of CPC and governments to facilitate the leaders to perform their responsibilities according to the laws.

In 2007, CNAO will continually carry out the experimental audit on accountability of leaders at minister level. Audit institutions at local level will sequentially consummate the system of accountability audit on leaders at village level, continually deepen the accountability audit on leaders of CPC and government at or below county level and comprehensively push forward the accountability audit on leaders of CPC and government at bureau level.

India

Visit of Auditor General of Bhutan

Mr. Ugen Chewang, Auditor General of Bhutan visited India from 10-20 December 2006 along with three senior officers. During the visit bilateral issues in training & co-operation were discussed. The delegation visited SAI India's offices in Chandigarh, Jaipur and Kolkata besides a visit to the National Academy of Audit and Accounts in Shimla where the training is imparted to the probationers of the Indian Audit & Accounts Services.

Visit of Auditor General of Pakistan

Mr. Mohd. Yunis Khan, Auditor General of Pakistan visited India on a bilateral visit along with two seniors from his office from 12-17 March 2007.



During the visit the Auditor General visited the regional office in Punjab and Shimla. He also paid a visit at the National Academy of Audit and Accounts in Shimla



Mr. Mohd. Yunis Khan at the National Academy of Audit and Accounts, Shimla

Visit of Deputy Chairman of SAI-Oman

Mr. Nasser Al Rawahy, Deputy Chairman of SAI-Oman alongwith a senior officer, visited New Delhi from 16-20 April 2007 to hold discussions on the possible areas of cooperation in capacity building. During the Meeting Mr. Al Rawahy called on the Comptroller & Auditor General of India and held discussion with Mr. C.V Avadhani, Deputy Comptroller & Auditor General and Mr. K.P. Lakshmana Rao, Additional Comptroller & Auditor General-International Relations.



Three presentations each on training facilities, IT Audit and Performance Audit were made at the International Training centre of the Comptroller & Auditor General of India.

Kuwait

1- The following visits were paid to SAB by SAIs members in ASOSAI to enhance the mutual cooperation:

- The President of the State Audit Bureau of Qatar and the accompanied delegation visited SAB, during the period from 12 to 14 January 2007, and get acquainted with Kuwait experience in audit work and the relationship between SAB and the Legislative Authority.



The visit of The State Audit Bureau of Qatar President & the accompanied delegation to SAB

- The Chairman of the Accounts Chamber of Kyrgyz Republic and the accompanied delegation visited SAB, during the period from 19 to 25 December 2007, and got acquainted with Kuwait in audit work, enhanced the cooperation between the two countries and signed the mutual meeting protocol.



he visit of The Chairman of Kyrgyz Republic Accounts Chamber & the accompanied delegation to SAB

- President of the Supreme Court of Audit of Iran and the accompanied delegation visited SAB during the period from 2 to 6 March 2007, and got acquainted with Kuwait experience in audit work, enhanced the cooperation between the two countries and signed the mutual cooperation agreement.



The visit of The President of SAC & the accompanied delegation to SAB

2- SAB 7th Research Competition at all SAB sectors level and it included the following four topics:

- SAB role in assuring the desired services achievement by government projects.
- SAB role in controlling real estates owned by the State.
- SAB role in controlling Kuwait Stock Market and the effect of this role on the State economy. As in other countries, there should be established a securities market

commission to enhance trust in the securities market. In addition to SAI's role in performing such control.

- Group research topic: extend of projects accounts that are implemented and managed by companies subject to the State based on B.O.T, companies Licensed to utilize or manage a State public utility or companies that have franchise to benefit from a natural resource compliance with SAB control.

Research Competition Results:

Research topic	Name	
Second topic	Mrs. Maryam A. Al-Rowayeh	First place
	Mr. Faisal A. Al-Tbayekh	Encouragement award (joint)
	Mrs. Mariam M. Al-Dhamer	Encouragement award (joint)
Third topic	Mr. Mutaab F. Al-Mutairi	First place (joint)
	Mr. Mahmood T. Al-Zomor	First place (joint)
	Mrs. Mariam Kh. Al-Salal	Encouragement award (joint)
	Mrs. Nosaiba H. Al-Mudhaf	Encouragement award (joint)
Group research	Mrs. Amani M. Al-Mubarak	First place (joint)
	Mrs. Suad S. Bin Salama	First place (joint)
	Engineer Mr. Rasheed A. Abdulsalam	First place (joint)
	Engineer Mr. Nawaf Sh. Al-Thufeiri	First place (joint)
	Mr. Abdulatheem S. Al-Janainy	Second place (joint)
	Mr. Ja'far Z. Abdulkhaleq	Second place (joint)
	Mr. Bader Kh. Al-Mutairi	Second place (joint)
	Mrs. Abrar A. Alsabt	Encouragement award (joint)
	Mrs. Tahani A. Al-Damkhi	Encouragement award (joint)
	Mrs. Latefa M. Al-Masha'an	Encouragement award (joint)

3- The State Audit Bureau of Kuwait website and e-mail

Website : www.sabq8.org

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: President@sabq8.org

SUMMARY
of the Second International Research Conference on
Financial Control and New IT Technologies
(Russian Federation)

In February 2007, the Second International Research Conference on Financial Control and New IT Technologies took place in Suzdal city, Russian Federation.

The Heads and the representatives of the SAIs of Azerbaijan, Kazakhstan, Kyrgyzstan and the Russian Federation, which are members of ASOSAI, as well as the SAIs of Armenia, Belarus, Moldova, Tajikistan, Uzbekistan and Ukraine participated in the Conference.

The EUROSAI Working Group on IT Technologies was represented by the delegation of the SAI of Netherlands.

Representatives of the public and municipal authorities, audit institutions of the Russian Federation's entities, management of the leading foreign and Russian IT companies also took part in the Conference.

The main objectives of the conference were the following:

- To identify the main trends of further development of the external financial audit as well as the new tasks for information systems which support the activity of the audit institutions;
- To share experience in developing information systems and its introduction into practice by the external financial audit bodies.

S.V.Stepashin, the Chairman of the Accounts Chamber of the Russian Federation, presented the lead report at the plenary session "Problems of the further financial audit development and the role of new IT technologies in their solution". It was stated in the report that external financial audit institutions would be adequate to the ambitious challenges of the society only in case of using advanced control methods as well as the latest IT achievements.

The main subjects for discussion on the conference were the following:

1. The issues of shaping and integration of the information resources for the purposes of financial control.
2. The present status and prospects of introduction of the IT technologies into activities of audit institutions: national and international experience.

The participants of the Conference noted the dynamical development of the IT and telecommunication technologies in the field of public management, as well as to the increasing role of international cooperation in the field of application and sharing of IT experience in the public financial audit.

The following issues were discussed at the Conference:

- Prospects of further development of the information systems in public authorities;
- Shaping of the integrated all-Russian informational space for the public financial control;
- Development of the IT technologies required for the external budget audit;
- Complex introduction of the IT technologies into practice of the external audit institutions;
- The use of IT technologies for the realization of the monitoring process of the national projects;
- The further development of the cooperation among SAIs of different countries in the field of IT and telecommunications technologies.

The common conclusion was that the active introduction of the modern IT and telecommunication technologies with comprehensive state support is the major factor of increasing the efficiency of SAIs activities.

A significant part of the reports was devoted to the issues of implementation of the forecasting and analytical methods of financial audit as consequence of increased attention of the participants to the expert and analytical activity of audit institutions.

As a result of the discussions the participants worked out the following recommendations, which state the necessity of the following measures:

- Legislative support of the processes of informational interaction between public and local authorities as well as between the audit institutions at all levels of the budgeting system;
- Establishment of the system of the national standards for state and municipal financial control with the use of computer IT systems;

- Development of the methods and practical technologies for realization of the financial control and public audit with the usage of electronic data processing facilities;

- Working out the concept of the external financial control based on continuous audit techniques and investigating the possibilities of constructing IT systems of continuous monitoring and budgetary audit processes in the entities and municipal formations of the Russian Federation;

- Continuation of the development of the IT audit as well as the audit conducted by the federal and regional audit institutions of the Russian Federation;

- Further implementation of the IT audit into the SAI's practice.

- Continuation of the research and organizational work on creation of the integrated all-Russian information space for the public audit.

The participants acknowledged the expediency of holding the Third International Research Conference in the Russian Federation in 2009 on the issues of using new IT technologies in the system of financial control and participation of ever-growing number of countries in the conference with the purpose of sharing their experience and to consider the world tendencies and trends of the development and application of the IT technologies by the audit institutions.



State Audit Bureau, Qatar – A country profile

Introduction

The State Audit Bureau (SAB) was established under Law(5) of 1973. The functioning of the SAB has since been guided through various laws of the State passed from time to time and Emiri decree, the most notable being the Law(4) of 1995 and the Emiri Decree (5) of 2002. The SAB is headed by a President who is appointed by HH the Emir and the audit reports of the SAB are submitted to the Emir. The SAB enjoys substantial financial and administrative independence from the executive.



View of Corniche, Doha

Mandate

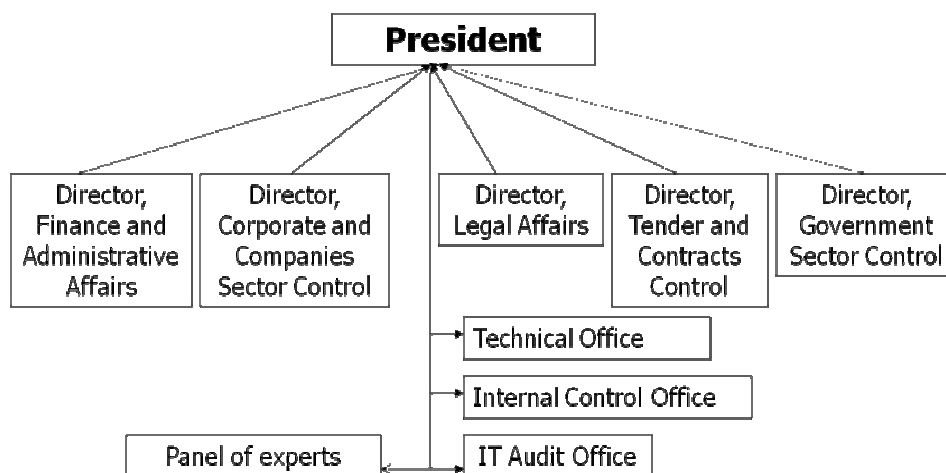
The SAB has audit jurisdiction over Government Departments and Ministries; Government Companies and Corporations; Independent Agencies of Government like the Supreme Education Council, the Public Works Authority etc; and Financial institutions like Supreme Council of Investment, Doha Securities Market etc

The SAB conducts financial audit, compliance audit and performance audit. At present there is no explicit mandate for performance audit and an amendment to the Law is being taken up to address this issue. The SAB in addition to regular audits, has the following unique responsibilities:

- A member of the SAB attends tender committee meetings of audited agencies as an observer
- Conduct pre-audit of contracts of public works authorities
- Review adequacy/correctness of disciplinary action taken by audited agencies against their employees for financial contraventions

Organisation Structure

The President is aided by five directors in discharge of his mandate, out of which three directors are in-charge of audit functions and the Director, Finance and Administration and Director, Legal perform audit support functions. An organisation chart is given below:



Strategic Plan

SAB adopted a strategic plan for the period 2005-2010 with four strategic goals. A summary of the vision, mission, values and strategic goals contained in the strategic plan is elaborated in the ensuing paragraphs.

Vision

To help the State promote good governance and achieve sustainable development

Mission

SAB is an independent body, responsible directly to The Amir, established to help the State enhance transparency, ensure accountability, fight corruption and to support the economic, efficient and effective receipt and use of public resources through audits to be conducted as per Laws and best international practices.

Values

- Independence – SAB work is not influenced by external pressure.
- Integrity – SAB takes an objective, honest, fact based, fair and balanced approach to all activities.
- Professionalism – SAB work is conducted in a professional and systematic manner and utmost confidentiality of information acquired during work is



Mr. Salah Ghanam Al-Ali assumed office as President, SAB in 2006

maintained. SAB continuously encourages its employees to acquire professional qualifications.

- Credibility – SAB wants its work to be viewed by The Amir and the State as credible. SAB produces high-quality reports and other products that are timely, accurate, useful, clear and candid.
- Cooperation – SAB does not wish to be seen simply as a fault finding agency and wants to be seen by the audited agencies as a partner in improving performance and achieving their objectives.

Strategic Goals

- Goal 1: Audit Practices

Upgrade audit practices with a view to attain international standards through training, updating of manuals, encouraging professionalism, strengthening reporting and follow-up of audit, establishing specialized audits, streamlining audit support activities and improving public interface.

- Goal 2: Audit Resources

Optimize the use of audit resources so as to provide value for money for audit work by identifying key sectors and areas for audit, establishing database of audited agencies and past audit reports and developing audit risk assessment model.

- Goal 3: Information Technology

Enhance use of Information Technology so as to achieve efficiency and effectiveness in work practices by automating in-house functions, undertaking audit of IT systems and increasing use of IT in normal audits.

- Goal 4: International Relations

Increase international exposure to achieve greater recognition of the role of SAB in the international auditing fraternity by participating in the working group of INTOSAI, participating in training programs and hosting meetings/ workshops.



Delegation from State Audit Bureau, Kuwait visited SAB, Qatar in May 2007

Our achievements in the last few years

The last two years have seen landmark changes taking place in the SAB and some significant strides made are as follows:

- An IT Audit Office was setup and IT audits were conducted for the first time
- “Teammate” audit planning and documentation software was successfully used in a pilot audit and it would be extended to other audit assignments this year
- SAB hosted the first pilot IT audit project with multinational audit team as part of the ARABOSAI IT Audit Capacity Building Program
- Performance audit of two government companies and the public works authority was conducted by engaging an international audit firm from UK. The auditors of SAB also worked as members of the audit team and this greatly enhanced their learning
- Two firms specialising in Pavement Management Services were hired from Australia and Denmark to test the quality of road design, materials used in laying roads and the quality of construction
- Auditors were trained in the offices of big four audit firms in Qatar and with an international audit firm in UK
- SAB joined the INTOSAI IT Audit Committee and attended two meetings of the committee
- SAB, Qatar has been selected as the host for the meeting of Working Group on Environment Audit in 2008 and the INTOSAI IT Audit Committee Meeting in 2009.

Conclusion

“The key to realizing a dream is not to focus on success but significance – and then even small steps and little victories along your path will take on greater meaning” quipped Oprah Winfrey. Without being complacent, SAB is cherishing its many little achievements of the last few years and is confident of realising its vision of being an instrument in promoting good governance and sustainable development.

Articles

Initiation of Management Representation Letter

Janak Raj Gautam
Assistant Auditor General
Office of the Auditor General, Nepal

Introduction

Representation by management submitted before an auditor is the single most important and reliable source of audit evidence, and thus have a significant implication to formulate the opinion and in evaluating the documentation of financial information and transactions. Naturally, the auditor should obtain a letter of representation from management that may also be used as a guiding tool for the modification and execution of audit program while in auditing. However, representation should be obtained from management invariably in writing on matters that seem material in the group of financial information. But representation by management cannot be a substitute for other audit evidence. Therefore, management representation letter is the statement that management submits before the auditor during the course of audit pertinent matters relating to the financial statements. The purpose of this letter is clearly to establish homogeneous standards and provide guidance on the use of management representation as audit evidence, a reference for verification, documentation pertaining to representation and action to be taken if management refuses to provide appropriate representation. Throughout audit, an auditor obtains representation from management in response to the enquiries.

As an auditing standard

The Nepal standards on auditing (NSA) regarding the Management Representation (NSA-11) has been issued by the Institute of Chartered Accountants of Nepal (ICAN) on July 16, 2004 to be operative and mandatory effective from that date. At present internationally, the development of international standards on auditing, Management Representation (ISA-580) is being prepared on close cooperation of IFAC's IAASB and INTOSAI with aim of including public sector considerations where INTOSAI experts are also involved. It follows that the final version of management representation was expected to be published in September, 2006 and the Practice note of the same standards is expected in May, 2007. The sub committee is also developing practice notes that an auditor in the public sector may need to apply in auditing. When they both are in a finalized version, then it would be better to make adherence with the standards and conforming to the management representation letter during the course

of government audit. It is to be noted that a project named as Public Audit Reform and Capacity Building was launched in this office in 2004 on the consultation of KPMG. The consultant has also submitted a report recommending the use of management representation letter appreciating that it is basically a management-committed evidence. One of the guiding principles of modern management is “think globally and act locally”. Therefore, it is significant to know the global trend about international standards on auditing and local circumstances to actually do in related field. As a consequence, the Auditor General of Nepal, for the first time, from audit of the fiscal year 2005-06, decided to make application of management representation letter in an auditing situation. In the same way the specimen of the letter of representation was sent to all the ministries attaching with the annual audit program in the audit of the fiscal year 2005-06.

Contents of the specimen

The auditor should also determine representation by management as audit evidence that the auditor should exercise his professional judgment in determining the matters on which he wishes to obtain representation in writing. Matters, which might be in the statutory audit, are contained in the format of the letter of representation. Even though, the representation from management will vary from one organization to another and from one year to next year because of various functional nature and time period of fiscal year. In the specimen of the letter as determined by the office of the Auditor General, it has been mentioned that management should acknowledge the roles of auditor. It is management responsibility that they have submitted the management representation letter with the books of accounts in the statutory formats and the other side auditor’s accountability is to express an opinion after examination of those books of accounts. The letters should contain the following items in general addressing to auditor by the management ordinarily be signed on the same date as date of the auditor’s report: -

- 1) There have been no irregularities involving management or employees who have a significant role in economic transactions and internal control system or that could have a material effect in the financial statements.
- 2) We have made available to the auditors all books of account and supporting documents and confirming the completeness of the information provided regarding the transactions.
- 3) The financial statements are free of material misstatements, based on facts and no wrong and misleading information have been disclosed along with financial statements and explanatory disclosures.

- 4) We have properly recorded and disclosed the related evidences, order and decision made with adequate information of economic transactions presented in the financial statements.
- 5) No other transactions have been in operation besides disclosed in the financial statements.
- 6) Management provides an assurance that the audit evidences do not conflict with the representation letter and all the financial transactions are in adherence to the prevailing rules, systems, standards and regulations as framed by the government.
- 7) The ownership of the properties, inventories, equipments, and office's premises disclosed in the financial statements are undebatable and not holding on behalf of any other person.
- 8) Events and transactions occurring after the date of the fiscal year have not been shown in the financial statements.
- 9) There is a commitment that if any objections appeared during the course of audit then immediately and properly an action be taken to the concerned responsible incumbent to make the financial transactions in compliance, healthy, true and fair.
- 10) Regarding the financial transactions, no books of accounts and documents have been taken away by any other authority or by any court for investigation and examination on any issues due to the cause of irregularity on any economic transactions. If so happens, we would have made available such information along with this letter.

Duties and responsibilities of auditor

The letter provides further guidance to the auditor which can be used as audit evidence to express true and fair opinion considering the following procedures for the management: -

1. The auditor should obtain appropriate representation from management. Conversely, if management refuses to provide the same, the auditor should take action to the management.
2. If the representation from management is contradicted with other audit evidence, the auditor should investigate the circumstances, its reliability and reasons of differences.
3. The auditor would ordinarily include management's representation in audit working paper as evidence in the summary form of a written representation and also of oral discussion with management.
4. If management refuses to provide the written representation because of management own uncertainty on the particular matter or because of refuses to supply the organizational information, such refusal may constitute a limitation on scope

of audit. As a consequence thus becomes an expression of qualified opinion in the auditor's report.

5. Auditor should seek the corroborative audit evidence for supporting the representation by management.
6. An auditor should evaluate whether it appears to be reasonable and consistent with auditor evidence already submitted before them.

Management Responsibility

Acknowledgement by management of its responsibility for financial information that the auditor should examine the appropriate on presentation of economic information in the financial statements that is essential to be on that very documentation. In sum up, the management responsibilities, according to the representation letter, are as follows: -

1. The auditor should obtain evidence that management acknowledges the responsibility for the financial statement in accordance with the relevant financial reporting framework.
2. If management refuses to provide a representation that the auditor considers necessary, this constitutes a limitation on scope of audit in which management should be responsive.
3. The members of management who have primary responsibility in the operational and financial aspects based on their knowledge and belief would ordinarily express the letter. It should also be committed that there have been no irregularities involving management or employees who have a significant role in accounting and internal control system or that could have a material effect in the financial statement.
4. The letters should be appropriately dated and signed by primarily the responsible officer as defined in the financial administration rule, 1999 and chief of the finance that takes care for managing the records and involving in the complying process.

Conclusion

Eventually, the purpose of determining to use management representation letter in practice is the concurrent need in auditing. Therefore, the office of the Auditor General also felt that this is a useful evidence for the confirmation of financial statements to government auditing having an assurance from the side of management. Regarding the background, development, contents and responsibilities, the office of the Auditor General for the first time requested to all the government ministries, departments, offices and organizations to be audited on the whole that they shall submit the

management representation letter in the prescribed form. This is the policy started by office of the Auditor General that all the entities to be audited shall submit the letter before the audit team during the course of audit. What is more that a written management representation is a better audit evidence because the documentation comprises a lot of information regarding performance, internal control, evidences, completeness of accounts, authentication and timely reporting. Likewise, the auditor should obtain written representation from management on acknowledgement of its responsibility, disclosing the frauds known to management, presenting the assessment of risk and the reasons of not corrected the transactions observed by auditors. Under these circumstances, the auditor should consider the reliability of management representation. Government audit prior to this had not considered about such type of representation. Hoping that, the practical use of such type of letter may be studied for its proper reform after analysis in the ensuing years.

The Role of Audit in Promoting Governmental Accountabilities

**By: Hamed Momeni,
Supreme Audit Court of Iran**

In the backdrop of the institutionalization of democracy, demands are being made for greater accountability in public operations. This has raised people's expectations of a legislative audit institution to be able to identify waste, misuse, inefficiencies in the delivery of services, lack of propriety and corruption and that it should be able to suggest ways to minimize the harm done and maximize the outputs. Accountability is one of the core foundations for good governance which means the obligation to render an account for a responsibility conferred. A country's democracy can survive only if accountability is functioning well.

Accountability to whom?

The authority or resources used in the public sector is conferred by Parliament to which the executive government is accountable. Because it provides financial authority and powers, the Legislature has the right and responsibility to hold government and its entities accountable for the management of the financial affairs, the use of resources entrusted to them and the result achieved.

As a result, parliament determines public sector accountability arrangements. Parliament also determines the nature and extent of audit arrangements that exist as part of the accountability of the Executive to Parliament. The legislatures have traditionally been charged with one basic authority, the power of the purse. This power implies that legislatures not only appropriate money for various services but they also have to ensure that the moneys appropriated by them has been spent according to Legislative intent, in an economic and efficient manner, and that it has produced the intended results.

Audit as a tool

Accountability implies the existence of a body of oversight charged with the responsibility of reviewing the content of information provided and reporting on that to the general public.

Auditing is a function that serves accountability as it adds credibility to the assertions of the person or entity rendering account and it provides valuable insights and information to the person or entity conferring the responsibility. Enhancing the value of information prepared by others is an activity unique to auditing. As information agents, auditors both enhance the value of existing

information and provide new information for accountability and decision – making.

State audit is an agent of Parliament. The reform its functions must be determined so that they allow for provision of assurances as Parliament may require. It makes an important contribution to the proves of accountability by providing independent information, assurance and advice to Parliament about the accounts presented by the Executive.

State audit is, therefore, to provide information to the legislature as promptly and accurately as possible to enable them to know how the programs, functions and activities of the government are being conducted. Therefore, any SAI that provides high quality audit services clearly has the potential to assist its Legislature and other governing bodies in holding government accountable for its stewardship of public resources.

In fact, the crisis of accountability includes mismanagement and the solution to accountability includes formal, public reports from which interested parties can obtain such information on performance, potential for performance, compliance with laws and regulations, and other relevant items. When adequate, timely and relevant information is achieved, accountability problems will decline, and perceptions of management will better correspond with actual management performance.

Limiting the functions of the state audit is in effect, limiting the assurance required by Parliament, or limiting the ability of Parliament to use its agent to enquire into matters on its behalf. The extent to which the Legislature utilizes an audit report depends on the efficiency of the accountability cycle, amongst other things.

In the developed world, SAIs have moved towards more proactive involvement in better accountability and more effective operations of government. The shift has been described as moving from a role of observer to a more proactive role as an improver. Many SAIs have contributed to governmental reform initiatives as auditor, in the early stages of reforms, as advisor, to improve management in timely fashion, or as researcher of best practices. There is also a potential for state audit to comment on policy choices besides examining how policies are implemented.

The accountability cycle usually involves four steps:

- audit and reporting by the Legislative auditor.
- hearing by the Legislature.
- Recommendations of the Legislature to the Executive.
- the response of the Executive.

The efficiency of the cycle depends on the timeliness with which all four steps are completed.

Conclusion

In conclusion, it must be said with a fair degree of confidence that the overall performance of the audit systems leaves a good deal to be desired and if the Legislatures are serious in providing an efficient and accountable government to their people, they will have to learn how to use audit to their advantage. Good auditing in many countries is seen as a major contributor to the evolution of public sector reform. An outdated audit agency has to grow in several ways in order to be effective.

A popular quote in management literature is “what gets measured gets done” put another way, the focus of evaluation creates incentives for management. The quote is particularly relevant in considering adjustment needed in the external audit domain to facilitate a result-oriented government. Audits that promote an honest, accountable and productive government can be described as constructive audits; they encourage government to manage and be accountable for results and be concerned about managing revenues and expenditures in an effective manner.

The full range of functions of an effective supreme audit institution as a key element of accountability is well seen in the Lima Declaration as they should seek the proper and effective use of public funds, the development of sound financial management, the proper execution of administrative activities and communication of information to the public through the publication of objective reports.

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The Role of Audit Profession Ethics in the State Audit Bureau

SAI-Kuwait

As SAB is keen to perform its control mission neutrally, efficiently and transparently through providing means and methods that guarantee SAB auditors high standard performance, SAB prepared the General Audit Manual. All SAB sectors are required to comply with the said manual while performing their missions according to each sector mission and based on SAB establishment law No. (30) for the year 1964 and its amendments. SAB President decision No. (73) for the year 2005 issued on August 14th 2005, states that the General Audit Manual shall be effective on October 1st 2005.

Due to the importance of the availability of specialized manuals and guidelines that cover all audit fields assigned to SAB, the top management endeavors its best efforts to prepare specialized manuals and guidelines on audits performed on investment sector, oil and gas, performance, high technology acquisitions and Government contracts claims.

SAB President decision No. 102/2005 issued on October 2nd ,2005, states that all SAB audit sectors are required to comply with these manuals and guidelines according to their specialties while performing SAB audit missions based on their functions in correspondence with SAB establishment law provisions.

With the issuance of such manuals and guidelines, audit tools are defined and clarified to SAB auditors to perform their missions according to a specified and explicit methodology that help and guide them while performing their audit missions, increase trust level in the performed work, provide an effective basis that helps in strengthening the relations between SAB and other bodies subject to its control and increase reliance level on SAB reports and control findings to provide assurance that missions and audit different phases are performed professionally and with the required quality degree based on the legislative requirements, professional standards and SAB policies.

Auditor compliance with methods and means that are legally and professionally specified while performing his/her works is considered important. Auditors should also comply with the professional regulations or what is called "professional ethics", that includes comprehensive principles and values to manage daily work performed by auditors. SAI auditors' independency, authority and responsibilities place great ethical requirements on auditors because profession ethics are considered an added value that supports control standards.

Based on SAB top management desire to develop and improve control work quality and SAB second strategic plan for the years 2006-2010 with the motto "Improve SAB Institutional Performance Quality" and to enhance the trust of the National Assembly, State officials, society and those who are concerned with SAB report and control findings, SAB prepared audit profession ethics guidelines that includes roles and regulations set for SAB auditors to comply with.

Audit profession ethics guidelines aims to achieve two goals:

- 1- Develop a proper behavior and manners pattern expected from SAB audit staff as a minimum requirement to continue performing their professional work.
- 2- Inform all who are interested in the profession affairs with the content and standards of audit profession ethics guidelines that control audit profession staff to increase the profession, its staff and missions status in the view of the others, to maintain the high trust in SAB reports and work findings and to enable SAB staff to perform their missions efficiently with a distinguished quality.

The audit profession ethics guidelines are already developed and it includes a preface, statement on the importance of issuing the guidelines, the relation between the profession ethics and control standards and the three following chapters:

First chapter: clarifies the basic requirements for audit profession ethics by maintaining independence, integrity, objectivity, transparency, profession secrecy, credibility, professional competency and skills, significant work documentation, interest conflict elimination, applying professional care and impartiality. The chapter includes detailed explanation and provided examples on each mentioned item.

Second chapter: clarifies professional behavior and principals general bases through emphasizing on the importance of cooperation, social tradition and customs respect, colleagues relationship, regulations to deal with media, restrictions on activities that comply with profession work, membership in public service societies or political trends, modesty, good looking and behavior, faithfulness, integrity, time respect, punctuality and trust.

Third chapter: this chapter is related to penalties. It stipulates that auditor ignorance or unawareness of his/her professional duties shall not exempt him from his/her responsibilities. Faults committed by the auditor, that do not require questioning, should be committed in goodwill or for any other motive that is not related to the work he/she performs. Any violation of such guidelines provisions shall be considered a violation to audit profession ethics and regulations and a failure to perform duties stated in SAB establishment law. Penalties

stated in bylaws and regulations, and rules related to SAB staff penalties and questioning included in SAB President decision no. (4) for the year 2005, shall be applied on all violators.

SAB President Issued decision no. (9) for the year 2007, on January 29th 2007, that stipulates the application of audit profession ethics guidelines on SAB staff performing audit missions from the date of issuance.

Based on the above, SAB is keen to provide basis to perform its control missions with the maximum transparency and efficiency and according to the applied professional ethics.

Five Key Elements of Performance Audit

Ma Jin
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In recent years, performance audit were paid more attention in China. Audit institutions at each level increased the proportion of performance audit in their work. To produce performance audit successfully and achieve acceptable effects, we should grasp the following five elements.

1. Paying more attention to the choice of performance audit projects.

The choice of appropriate projects is the key to achieve the success of performance audit. So, the audit project should not be confirmed until after repeated filtration and demonstration. If the audit project was arranged only by experience and habit, there would be lots of confusions caused by misunderstanding of situation during the implementation of audit. During the filtration of the projects, the following principles should be followed. The first one is significance principle, which is whether the project chosen is paid attention by the Communist Party of China (CPC), People's Congress and government, whether it is concerned by the public, whether it will affect the local economic social development and environment protection and whether the scale of investment is huge. The second one is effect principle which means the project chosen should match the overall situation of social economy development tightly and also the social environment should be considered. The third one is feasibility principle, which means whether the project chosen is within the capability of audit institutions and auditors and whether the audit environment is suitable. The last one is appreciation principle, which is whether the project chosen can be improved and whether the settlement of the problem is beneficial to the development of economy and society in phase.

2. Highlighting the key area of work and looking for the breakpoint of performance audit.

According to the current situation, the carrying out of performance audit should be explored from the following aspects. Firstly, audit and audit investigation on the basic construction projects which were invested by the governmental capital should be strengthened. Secondly, audit and audit investigation on environmental protection capital should be strengthened. Thirdly, audit and audit investigation on fiscal specific capital, which concerns the interests of the public, should be strengthened. Lastly performance evaluation should be conducted on the projects which are chosen properly. Meanwhile, performance audit should be pushed

forward gradually according to the ability following the principle of from small to big, from shallow to deep and from simple to complex.

3. Special audit investigation and statistic analysis should be looked as main methods of performance audit.

The methods of performance should not be limited to audit the account statement, but also finding out the fact, collecting the evidence, analysis and evaluation. So, special audit investigation and statistic analysis are also the most popular and effective methods for performance audit currently. By strengthening analysis and research, audit recommendations will be raised specific to the outstanding issues existing in macroscopical management, which is propitious to exert the constructive function of audit supervision. During the investigation, the auditors can choose investigate methods for example local investigation, telephone investigation or printing investigation sheet according to factual situation. Based on the investment material obtained, auditors can do some statistics, analysis and evaluation. Because of the flexibility of audit methods, complexity of auditees and diversity of collecting channels of performance audit evidence, auditors have to choose the proper methods and technology, meanwhile, increase the objectivity of audit evidence, so as to guarantee the objectivity and equity of audit results.

4. Performance audit standard should be grasped correctly.

Currently, there is not a widely recognized performance audit standard which is suitable for all situations, so the standard can be relative and flexible. But it does not mean there are not standards to use for reference. Synoptically, there are policy standards, technical standards and economic standards. The main policy standards are laws and rules of the country, relevant policies and principles, which are important standards and primary guideline. Technical standards include international standards, domestic standards, industry standards, local standards and enterprise standards. Economic standards is the situation how the economic goal is fulfilled, for example whether the object in feasibility report is achieved, whether the economic goal or annual assignment made by governing departments are fulfilled, and whether the best result in history or best result at local even in other region were achieved. Besides, it also includes the opinions from experts and comments from the public. The audit standard should be reliable, objective, helpful, understandable and comparable. It must be supported by evidence and authorized by the public. Assuming subjectively is not acceptable.

5. Paying more attention to writing excellent audit reports.

Performance audit report is the primary representation of performance audit production. The objective of performance audit

report is to maximize the efficiency of performance audit, to increase the satisfaction of users of audit production, to strive to promote the improvement of auditees radically, to promote the establishment of relevant policies, even to influence the establishment and implementation of overall policies and guidelines. All of these require that auditors should strengthen comprehensive analysis and conclusion of problems disclosed during audit in performance audit reports, try to reflect forward-looking and prevalent issues, analyze correctly the main factors which cause the nonstandard, wasteful and inefficient use and management of fiscal funds, bring forward macroscopical, authoritative and exercisable countermeasures and recommendations which can promote the improvement of management and using efficiency of fiscal funds at higher level. To guarantee the successful carrying out of audit conclusions, the performance audit report should be discussed from multi-aspects and multi-levels to try to achieve common awareness.

Trail of Tigers in Tiger Reserves of India

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SAI-India

Background

In wake of recent reports in media and alarm regarding the decline in the number of tigers in the Tiger Reserves across India the “Project Tiger” called for an independent appraisal and presentation of a Stand Alone Report to the Parliament. The Comptroller and Auditor General of India conducted a performance audit of the Project Tiger, the first of its kind through the SAI-India’s Environment audit wing led by the Principal Director of Audit, Scientific Departments. Consequently in August 2006, the Comptroller and Auditor General of India tabled in Indian Parliament a report on the Conservation and Protection of Tigers in 24 Tiger Reserves across India.

Introduction

Recognizing the need to protect tigers, Indian Government initiated several measures aimed at conservation and protection of the species. Significant among them were Project Tiger (PT), a centrally sponsored scheme launched in April 1973 and India Eco-Development project (Oct 1997-June 2004) to conserve biodiversity through eco-development sponsored by external agencies. Besides, efforts were made to prevent illegal wildlife trade to ensure a viable population of tigers in India. Project Tiger Directorate (PTD) under aegis of the Ministry of Environment and Forests (MoEF), provides technical guidance, budgetary support, coordination, monitoring and evaluation of projects, along with four regional wildlife offices headed by Regional Deputy Directors, under the direct administrative control of the wildlife Division of MoEF, while the management and implementation of the projects rested with the respective State Governments.

The Audit Objectives:

The audit objectives were primarily focused on an analysis of the government’s efforts for protection of tigers, conservation of tiger reserves, adequacy of resource allocation, judicious utilization of resources to achieve targets set in plan documents, to reduce effectively biotic disturbance from the tiger habitats caused by human settlements and other land uses and existence of an effective monitoring system to ensure a viable population of tigers in India.

Audit methodology:

The audit methodology followed, included

- Interactions with officers of the MoEF, NGO activists, wildlife experts, forest officials etc,
- A pilot study was conducted at Bandhavgarh Tiger Reserve (Madhya Pradesh) by way of interviews, questionnaires, review of records etc.
- Audit guidelines were prepared, proformae were designed to gather information and issues were identified which on approval by the CAG of India were circulated to the field offices to give a structured approach and ensure uniformity in reporting.
- Pre-Audit workshops were conducted and audit teams were briefed to obtain desired results.
- An entry conference with the MoEF was conducted to ensure cooperation and smooth flow of relevant records for audit.
- Six audit teams of Principal Director of Audit (PDA), Scientific Department (SD) at Centre in Project Tiger Directorate (PTD), Ministry of Environment and Forests (MoEF) and four Regional Deputy Directors (RDD) offices and 17 State audit teams conducted coordinated audit.
- Midterm appraisals were conducted at various regional offices in Kolkata, Delhi and Chennai to exchange experiences, audit findings and constraints, between members of various audit teams.
- A draft performance audit report was consolidated by a core audit team of Environment audit wing after
- An exit conference was held to get the Ministry's perspective on audit findings and recommendations.

Key Findings

Planning for tiger reserves

Management Plans (MP) of nine Tiger Reserve (TRs) was not available at the Project Tiger Directorate and there was no evidence to indicate that these had indeed been prepared. Without ensuring availability of approved and valid MPs, Annual Plan of Operations (APOs) of Manas, Nameri, Pakhui, Pench, Periyar, Bandhavgarh, Kalakad and Valmiki TRs for the period 2000-06, Melghat TR for 2000-04 and Bandipur, Bhadra, Indravati, Sariska, Satpura, Nagarjunasagar TRs for 2005-06 were processed and central assistance was released. The actual release of assistance was not based on either MP or APO. Besides in reserves where MPs existed, there were wide deviations between MPs and corresponding APOs. In the preparation of MPs due care was not taken and they were based on very old statistics, physical and financial milestones were not clearly laid down.

The Plan outlays were prepared by the PTD without obtaining inputs from TRs and there was no system to ensure that the resources were allocated as per the identified needs and the approved prioritisation of various activities/needs of the TRs. Inbuilt procedure in the system for accountability and involvement in the implementation of the schemes by the various TRs was missing.

Financial Management

Central Government had provided US\$ 58 million as financial assistance to the Tiger reserves till 31 March 2005 since the commencement of the project in 1973. In addition, an India Eco Development Project (IEDP) was conceived in October 1997 with the assistance of World Bank and Global Environment Facility (GEF). IEDP was implemented in five tiger reserves and two national parks. The cost of the project was USD 67 Million.

Audit analysed the fund allocation across tiger reserves against area covered and number of tigers. In both cases wide divergences were noticed. During 1997-2005, the average allocation across the country worked out to US\$ 135.60/km² but the actual allocation varied from US\$ 15.60 to US\$ 633.3/km². Similarly the annual average allocation among the various tiger reserves in the country during the period 1997-2005 per tiger was US\$ 3243 but the actual allocation varied between US\$ 830 to US\$ 26,805.

There were delays ranging from 1 to 9 months in the release of Central Assistance to the reserves in Assam, Orissa, Rajasthan, Maharashtra, Karnataka. Late release of funds often led to low utilization by the reserves. Out of US\$ 21.24 million released to 28 tiger reserves over 2002-05, US\$ 18.42 million was only utilized as of March 2005. Audit observed that US\$ 309,756 only was spent even as of March 2006 from US\$ 1.13 million provided to Tadoba Andhari in Maharashtra for relocation in 2002-03. This depicts low commitment of the States towards conservation measures in the TRs.

Biotic Pressure

Tiger population breeds well and grow rapidly in habitats without incompatible human uses. They cannot co-exist with people particularly in a situation where both human impacts and live stock grazing is continuously on the increase. The long-term survival of the tiger therefore depended on how secure and inviolate are the Protected Areas (PAs) they live in. The advisors from International Union for Conservation of Nature (IUCN) had suggested in 1972 that the best method of protection of the tiger was to have a large area of at least 2000 km² with similar contiguous areas to ensure a viable population of about 300 tigers in each such area. Considering the difficulty to locate such a large area in the Indian context, Special Task Force

(STF) decided in 1972 to create tiger reserves with an average area (of core and buffer) of 1500 km² with at least 300 km² as core area.

In 15 TRs the average area was less than 720 km² i.e. less than half the prescribed area. In six TRs even the core area was less than the prescribed 300 km². In 14 TRs there were human settlements. Human settlement existed even in core areas of Palamau, Rathambore, Sariska, Kalakad, Panna and Pench (Mah) TRs. Five TRs, viz., Pench (Mah), Pakhui, Panna, Satpura and Nameri TRs were created without ensuring existence of any buffer zones. Though government approved the proposal for creation of six new TRs in the IX Plan to reduce the disturbance to the tigers, only four were created. Thus, 28 tiger reserves were created so far under Project Tiger.

The need for the establishment of a network of corridors was recommended in a review report conducted by Steering Committee way back in 1985. All the identified areas around TRs and corridors were to be declared as ecologically fragile under Environment Protection Act, 1986. Slow progress/non-existence of corridor would isolate a habitat. Since the habitat is small, it will have small population of top carnivores like tiger. Smaller population promote inbreeding and therefore, remained vulnerable on a long run due to inadequate genetic diversity. During 2000-05 out of the 19 cases of tiger mortality reported in Madhya Pradesh 13 were from the Kanha TR. Though all these deaths were treated as natural the report on their deaths indicated that most of them died due to quarrelling among themselves. This indicated that absence of corridors isolate habitat and the prey base and sex ratio was not sustainable to ensure tiger conservation in long run.

The TRs Viz Indravati, Kanha, Pench, Palamau, Bandhavgarh, Panna, Simlipal, Ranthambore Sariska and Kalakad Mundunthurai were created during 1973-95. The final notification declaring these reserves as Protected Areas was not issued even as of March 2006. In the case of TRs at Bandipur and Namdapha notification for inclusion of additional areas to the TRs were not issued. Similarly in the case of the TRs at Indravati, Ranthambore, Sariska and Buxa, the boundary demarcation was not completed. This depicts lack of commitment and seriousness of the concerned State Governments while denying legal backing to the boundaries of the reserves. Encroachments were widespread in several Tiger Reserves affecting the quality of conservation adversely. Land pertaining to tiger reserves was encroached either by communities or by private companies and the States had not been able to remove the encroachments with the result the protected areas were subjected to increasing biotic pressures. Encroachment in reserve areas intensified the biotic pressure on them and undermined tiger conservation efforts. Out of the 64,951 families residing in the TRs 17,650 families were in the core area and the remaining 47,301 families were in the buffer zone of the TRs. The fund allocation of US\$ 2.56 million in X plan against the requirement of

US\$ 2692.93 million was wholly disproportionate to the seriousness and magnitude of the problem.

Due to the undesirable activities such as mining, Electricity Boards, Tourism, and Irrigation Departments there were heavy biotic pressures in Nagarjunsagar, Periyar, Ranthambore, Sariska, Corbett, Panna and Kalakad TRs. Besides, Nagarjunsagar, Valmiki, Melghat, Bhadra and Periyar TRs were also facing biotic pressure due to permitted activities such as highway and roads and places of worships. Since the TRs are eco-typical repositories of vulnerable gene pool, Tourism guidelines reiterated the need to ensure no compromise or trade-off in wildlife interests was made. In many Tiger Reserves ceiling on the number of visitors entering at any time in a given part of the TR was not fixed and tourist carrying capacity was not worked out. Revenue earned from tourism was not used to augment available resources for conservation in many Tiger Reserves.

Conservation of tigers in the TRs

Conservation efforts include efforts at habitat restoration and improvement works. This involves water management, grasslands development, weeding out lantana, soil conservation works, habitat manipulation, management of wetlands and unique habitats, etc.

Site-specific plan for availability of water for wildlife and water gap need to be worked out for implementing development of water holes in protected area. In various Tiger Reserves there were several deficiencies in the management of water bodies. This included pollution/ contamination of water bodies, non-completion of targeted waterworks, and inadequacy of funds for water works. Grasslands in reserves are essential for sustaining the prey population of the predators, notably tigers. Herbivores in TRs contribute more than 70 percent of tiger diet and are an important determinant for presence of tiger. The guidelines of MOEF (June 2001) also provides for estimation of herbivores annually. Test check in audit revealed lack of adequate planning and paucity of necessary funds for the proper maintenance of grasslands in tiger reserves, adversely affected the food availability for the herbivores. The Forest Department did not arrive at correct prey predator ratio to know about viable population of tigers. In absence of regular estimation of prey base, the tiger reserves could not ensure the adequacy of availability of food chain for sustenance of tigers in the reserves.

Research and Development initiatives in Project Tiger

The basic need conceived was to collect information about inter-relationship between predators, their prey and their habitat, the effect of habitat manipulation and biotic influence on reproduction, dispersal, and population dynamics of the prey-animals for each

vegetation type and the information derived were to be used to guide the management practices. The scientific staff was required to keep a permanent record of pathological observations. Every case of unnatural death was to be utilized for collection of samples to be used for laboratory investigation of pathogens. Lack of requisite labs or research officers adversely impacted the research activities even after three decades of launch of project Tiger.

Protection measures in the Tiger Reserves

Nine tiger reserves were not equipped with adequate means of communication to counter illegal activities. Arms and ammunition were inadequate in 12 tiger reserves in others discrepancies / shortages in ammunitions was noticed. While funds were not allocated for creation of strike force/ intelligence network in some reserves, in others they were not created though funds were available. No special anti-poaching drive or any stringent action except to register the forest offence cases in the offence register was taken. Many tiger reserves were affected/ damaged by forest fire during 2000-05 due to improper maintenance of fire lines/ towers, inadequate fire lines and non-supply of fire fighting equipment.

Out of 173 deaths of tigers during 1999-2004, 83 were due to poaching, 60 deaths were due to natural causes, 13 due to electrocution, 7 due to poisoning and 10 due to infighting. Loss of tiger life due to poaching, poisoning, and electrocution worked out to 103, which accounts for more than 60 percent of the tiger deaths. The accuracy of the data is doubtful, as an independent survey had reported 200 tiger deaths during the same period of which 121 were due to poaching. Statistics indicate that the tiger deaths due to poaching far outweigh deaths from natural causes. An annual average poaching figure of 22 tigers over a period of 6 years was alarming. Poaching cases in states indicate lack of intelligence network and monitoring failure at the field level.

The basic prerequisites to curb poaching - a good intelligence network, constant vigil, special drives and strict penal action against the accused were mostly absent. Wildlife staff in some of the states was not even provided a status on par with police or law enforcement officials. The will to combat wildlife crime was missing.

Deployment of staff

The average age recommended by WII for frontline forest staff is 18-35 years. The average age of the forest guard posted in the reserves was 43 years and that of a forester was 47 years. At Palamau, Ranthambore, Simlipal and Pench (Maharashtra) TRs, the average age of a forest guard was in the range of 50 to 53 years. The forester's age was above 50 years in Kanha, Palamau, Ranthambore, Simlipal,

Sariska, Indravati, Dudhwa, Pench, Tadoba Andhari, Satpura and Bandhavgarh TRs. Patrolling is an integral part of protection and conservation of wildlife in the reserves. The average area covered by a forest guard was 14.94 sq.km, against the norm of 2.5 to 3.5 sq.km recommended by WII. Yet, even basic norms were not followed. The mechanism for regular deployment at the points prone to illegal trade in wildlife such as airport, seaport, land border, and check posts were very poor and inadequate. As 90 percent of the products of flora and fauna of wild origin are prone to smuggling out of India, the matter of monitoring of exit points was to be addressed on priority basis.

Lack of Monitoring and Evaluation

Tiger estimation was not done annually in most of the tiger reserves. Monthly reports relating to mortality of tigers, co-predators and other wild animals in prescribed format in case of 11 Tiger Reserves were not submitted. Even post-mortems of tigers that had died, which is mandatory, was not carried out in some cases. Reasons for decrease in number of tigers were neither investigated nor analysed even though reports indicated decline in tiger population, e.g., population at Sariska declined to 15 in 2004 and that at Periyar and Valmiki to 29 and 11 in 2002 and 2005 respectively. PTD did not heed the warning signals.

Impact of measures for conservation and protection of tigers

Despite conservation and protection measures the overall tiger population in the country declined from 3623 to 2906. The net increase in tiger population in 15 tiger reserves over 18 years (1984 – 2002) is only 20 (1121 to 1141). Of the 15 Tiger Reserves created between 1973 and 1984, 8 tiger reserves (Periyar, Melghat, Ranthambore, Sariska, Indravati, Palamau, Sunderbans, and Manas) had not registered any increase in the tiger population over a period 1984-2002. Though the prime objective of the Project Tiger was to attain a viable population of the tigers in the country, yet acceptable norms for sustaining a viable population were yet to be framed.

Recommendations

All tiger reserves should have a well-formulated management plan to ensure that long and medium term targets are not lost sight of. The annual plans of operations should be based on the management plans to ensure judicious allocation of resources. While enabling a planned approach to tiger conservation, it would provide a measure for achievement of targets against efforts made. PTD should establish formal criteria for allocation of funds by prioritizing the tiger reserves based on their threat perception. Simultaneously, the

Government should make a firm commitment to relocate the local families/villages from the core and buffer areas of the tiger reserves and draw a comprehensive resettlement plan to this effect, adequately supported by a credible financial package.

Stringent steps need to be taken to evict the unauthorized encroachers. The Government should frame a comprehensive tourism management policy for the tiger reserves clearly spelling out the roles of the PTD and the State authorities as implementers. Tourism should be regulated such that human impact on conservation efforts of ecologically sensitive areas is minimized.

Efforts should be made to improve communication and intelligence network, for creation of strike force, provision of adequate arms and ammunition. NWCB should be set up early for overall support in combating wildlife crime.

For effective patrolling of the reserves, number of camps/ chowkis and forest guards and foresters in the camps should be augmented. The staff deployed should be physically fit, capable of carrying out patrolling duties and adequately trained. Vulnerable exit points should invariably be covered by the RDDs. Besides efforts need to be made at improving the co-ordination among the various agencies involved in control of illegal wildlife trade.

Monitoring mechanisms at the Centre and State levels need to be strengthened. Census/ estimation of tigers should be done regularly. Techniques of tiger estimation need to be refined so that the reliability of census data is enhanced.

Executive's Response

The contributory factors for the shrinkage in the tiger population were the biotic disturbance in the form of human settlements and other land uses and infrastructure in the Tiger Reserves in addition to non-compliance of its conservation directives by States. The situation is being remedied with the creation of National Tiger Conservation Authority (NTCA) with statutory provisions for addressing tiger conservation in Tiger Reserves.

The proposal for National Wildlife Crime Control Bureau (NWCCB) is being recast as per the advice of the Union Ministry for Law and Justice. While claiming that it closely liaisons with WII and the States for implementing the actions indicated in NWAP(National Wildlife Action Plan, PTD admitted that its directives and advisories very often were not honoured by States and the situation is being redressed by the creation of a NTCA to enable effective implementation for tiger conservation apart from addressing violation of directives.

A bill had been introduced in Parliament for amending the Wildlife (Protection) Act 1972 to insert a Chapter for according statutory authority to PTD and to have a say in the planning process of the States and to redress difficulties in these issues. The process of improving the norms for providing funds to Tiger Reserves and once the system was streamlined, the depiction of financial allocation to tiger reserves and their phasing would be more meaningful and NTCA by virtue of its statutory provisions would address these issues through rules.



THE ROLE OF BPK IN ATTAINING THE OBJECTIVES OF INDONESIA'S SOCIAL SYSTEM REFORM¹

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1. Tasks and Roles of BPK

The 1945 Constitution gives a very high standing to BPK in the Indonesian state administration system as one of the state institutions. BPK has the tasks to maintain the transparency and accountability of all aspects of state finance including auditing state revenues, their origins, amounts and sources as well as auditing accounts where state funds are deposited and how they are spent. As it will be discussed later, the state finance in Indonesia does not only comprise the State Budget (APBN) and the Local Government Budget (APBD), but also the activities of State-Owned Enterprises (BUMN) and Local Government-Owned Enterprises (BUMD), foundations, pension funds as well as publicly listed companies. The state finance further includes assistance or subsidies to private social organizations.

At present, the objective of BPK's audits is to address the lack of good governance in the state finance management carried over from the New Order regime. An improvement in state finance management has been reflected in the package consisting of three laws on state finance of 2003-2004³. The poor management of state finance during the New Order regime also contributed to the economic crisis occurring in Indonesia in 1997-98. The lack of fiscal transparency and accountability and poor governance of BUMN and BUMD are among the factors hampering the recovery of Indonesia's economic activities over the last 10 years.

Transparency and accountability of state finance are required to achieve the four goals in Indonesia's social system reform, particularly

¹ Speech of The Chairman in Commemoration of the 60th Anniversary of BPK, January 8, 2007

² Chairman of the Audit Board period 2004-2009 and Professor of Monetary Economics in Faculty of Economics, University of Indonesia.

³ The Three Laws on the State Finance are: (i) Law No. 17 of 2003 on State Finance; (ii) Law No. 1 of 2004 on State Treasury and (iii) Law No. 15 of 2004 on Audit on the Management and Accountability of State Finance.

after the collapse of the New Order regime. The first goal of the reform is to replace the authoritarian political system with democracy. Democracy does not only mean eliminating the active role of Indonesian Armed Forces/National Police (TNI/POLRI) in politics, but also guaranteeing the freedom of expression, freedom of assembly and organizing honest and fair elections periodically. Democracy also demands transparency and accountability in state finance so that the People, through the House of Representatives (DPR/DPRD) can exercise their budgetary right. The second goal of the reform is to abolish the centralized government system by granting broad autonomy to local governments. The complexity of Indonesia's social system needs fiscal transparency and accountability as a unifying agent in maintaining the unity of the Republic of Indonesia, in order to eliminate suspicion or social jealousy among groups and regions.

The third goal of the reform is to replace the economic system that primarily depends on centralized planning and excessive government interference with a system that increasingly applies the market mechanism and is ready to enter global competition. Centralized planning and excessive government interference in the past resulted in distortion and inefficiency as well as corruption, collusion and nepotism (KKN). Reversely, market mechanism can run effectively and efficiently only if the economic actors, including the state, exercise transparency and accountability. Liberalization, deregulation and privatization by the New Order regime had done nothing but transferring monopoly right from the state to a few cronies of certain officials who did not have any capital, skills or experience. While in other countries liberalism successfully improves the efficiency and productivity of the national economy, in Indonesia it produced inefficiency that lead to the economic crisis in 1997-98.

Fiscal transparency and accountability enables the Government to understand its financial position at any time and to manage its cash flow properly. The crisis in 1997-98 occurred, among other things, because the Government had no information on and control off its own financial position that was scattered in various agencies and BUMNs/BUMDs and many individual bank accounts of state officials. Fiscal transparency and accountability are required to convince investors to buy Government Bonds (SUN). People would be reluctant to pay taxes and investors would not be convinced to buy SUN if there is no fiscal transparency and accountability.

The fourth goal is to improve the governance of the national business sector, especially BUMN/BUMD, enabling it to compete in the global market. Economic transparency and accountability, including in state finance, is a prerequisite for national economy to compete in the global market. Without accurate and transparent information on state finance, it is impossible for the Government to sell bonds or notes on the national and international financial markets for covering the budget deficit. The government has become

increasingly dependent on the sale of bonds in commercial markets for covering the deficits in its budget since 1998. Back then, SUN used to be marketed on the domestic commercial market to increase the capital of national banks which were technically bankrupt after the crisis. The sale of SUN on international commercial markets started in 2004. The poor governance of BUMN and BUMD limits their access to the global market. At this time, Indonesia's BUMNs and BUMDs are still unable to compete with Singapore's BUMN.

2. Regain of independence and autonomy of BPK

As was the case in other state institutions during the authoritarian regime in the past, BPK used to be under the control of the Government. During that time, the Government controlled BPK by limiting the objects of its audits, controlling its organization, budget and personnel as well as monitoring the selection of auditing methods and the contents of its audit reports. The Tax Law issued by the New Order regime prevented BPK from auditing state tax revenues. Such control in the past made BPK as a "rubber stamp" for the legitimization of the Government's actions. To avoid disruption of 'national stability', BPK's audit reports were tailored to suit the government's interests. The public sector during the authoritarian regime was not transparent as indicated by a great number of non-budgetary funds, a large number of companies and foundations linked to the Government, which were not recorded in the State Budget (APBN), without any permit from the Ministry of Finance and beyond the acknowledgment of DPR/DPRD and the People.

Upon the hard work of the Legislative Drafting Working Committee, Commission XI of the DPR and the Government, Law No. 15 of 2006 on BPK was issued after a one-year discussion, to replace Law No. 5 of 1973. The issuance of this new law has formally reinstated the independence and autonomy of BPK. This Law is a step closer to the desired independence and autonomy of the state audit institution as envisaged by the Lima Declaration issued in the 9th Congress of INTOSAI⁴, the worldwide SAI organization, in Lima, Peru, in October 1977. The independence of BPK is not only related to its organization, which is a separate institutional entity at the same hierarchy with the state. According to the Lima Declaration, the independence of BPK must be reflected in the independence of its personnel, in making decisions and independence in finance and budget. BPK's Independence should also be reflected in its authority to audit every source of state revenue including tax revenue or non-tax revenue. The independent BPK also has the authority to audit the depository or the utilization of state finance. Another important aspect of independence is the freedom to select certain audit methods and to present undistorted audit reports.

⁴ INTOSAI-The International Organization of Supreme Audit Institutions.

Pursuant to Law No. 15 of 2004, BPK is obliged to submit its audit reports to DPR, DPD and DPRD and immediately after submitting them to these institutions, BPK shall publishes them on its website so that they can be accessed publicly. Any matters indicating criminal acts must be reported to the law enforcement agencies (National Police, Attorney General's Office and Corruption Eradication Commission/KPK). In turn, the Government, the Representative Houses and the law enforcement agencies follow up on BPK's audit findings and recommendations. DPR and DPRD as legislative institutions having budgetary rights can make Laws and advise the Government to improve the management system of its cash flow and assets. The People's Legislative Assembly may also refer the criminal aspects to the law enforcement agencies for further investigation.

In addition to reinstating the independence and autonomy of BPK, Law No. 15 of 2006 also renders BPK to be more transparent and accountable. The openness of BPK as mandated by Law No. 15 of 2006 is indicated in four points. The first is presenting the full-version of its audit reports on its website so they can be accessed by the public. The second is, as stipulated in Article 30 of Law No. 15 of 2006, the participation of professionals and academicians as members of BPK's Council of Honor and Ethics. The third is, pursuant to Article 32 of the Law, that Public Accounting Firm is to audit the annual Financial Statements of BPK. The fourth is, as provided in Article 33 of the Law, that the quality control system of BPK is assessed by other SAIs, which are members of INTOSAI. A brief comparison between BPK in the past and at present is summarized in Table 1.

Table 1
Comparison of BPK during the New Order regime
And the Reform Era

	<i>Under Law No. 5 of 1973 during the New Order regime</i>	<i>Since 2005 and Under Law No. 15 of 2004 and Law No. 15 of 2006</i>
1. Representative Office in the region	No regulation	Exist in Provincial Capital
2. Total Chairman, Vice-Chairman and Members	7 persons	9 persons
3. Chairman Election	Appointed by the President based on the proposal of DPR	Elected by and from among BPK Members
4. Independence		
4.1 Organization	Regulated by Menpan	Flexible
4.2. Finance	From State Budget (APBN)	Separate budget in the State Budget (APBN)
4.3 Personnel	Civil Servant	Civil Servant but more flexible
4.4 Audit Report	Consulted with the Government for 'national stability' reason	Announced in BPK website immediately after having submitted to DPR/DPRD
5. Accountability		
5.1 Code of Ethics	Unclear	Binding and its implementation is monitored by a Council of Honor and Ethics whose members include professionals and academics from outside BPK
5.2 Budget Audit of BPK	Conducted by BPK's auditors in charge of auditing state institutions and the audit results were not published	Conducted by Public Accounting Firm and the audit report is published to the public

5.3 Assessment of BPK Performance	None	Conducted by SAIs of other countries members of INTOSAI
5.4 Audit Report	Not open for public	Open for public so that it can be assessed by the general public
6. Audit Object		
6.1 State Revenue	Nearly none	Starting to audit mining contracts, including oil and gas, and Non-tax State Revenues. However, the Tax Law does not give the access for BPK to audit tax revenues
6.2 State Cash Deposit	Nearly none	Starting to audit and in 2005 BPK reported 957 private accounts of state officials containing state money and in 2006 the number reached 1,303 accounts
6.3 State Expenditure	Limited to the Central Government and those originating from the State Budget (APBN) and several provinces that could be reached by the representative offices of BPK.	Comprising all Government levels: Central, Province and Regency/Municipality and including expenditures using non-budgetary funds
6.4 Bank Indonesia (BI), Pertamina and other BUMNs	BI, Pertamina and several other BUMNs were not audit objects of BPK	Audit objects of BPK
7. Timeframe for the preparation, audit and accountability of state budget	No regulation	Regulated clearly in Chapter IV of Law No. 15 of 2004
8. Audit Report	a. Submitted to DPR; b. Alleged criminal violations were reported to the Government; c. Not published for public interests.	a. Submitted to DPR, DPD and DPRD; b. All reports submitted to DPR/DPRD/DPD released in BPK's <i>website</i> for public access; c. Alleged criminal violations are reported to the Police, Attorney General's Office and KPK
9. Follow-up on findings	No regulation	Conducted by state officials, its implementation is monitored and reported to BPK and there is a penalty for any party failing to take follow-up measures.
10. State Indemnity	No regulation	Stipulated by BPK, the procedure is determined by BPK
11. State finance audit standards	Stipulated by BPK, without any consultation with the Government, academicians and professionals	Stipulated by BPK after consultation with Government, academicians and professionals.
12. The Use of Public Accountant to audit the public sector: Government, BUMN and BUMD	Conducted by issuing 'cover letter'	Regulated according to BPK rules. Public accountants are trained in the standards and regulations on state finance auditing and certificates and permits are issued to those who pass the examination.
13. Regulation on state finance audit	No authority	As the authority, BPK can issue regulations on state finance audit
14. Immunity, legal protection aid and security assurance	No regulation	a. BPK Members cannot be prosecuted for performing their duties, obligations and authorities. b. BPK members, auditors and other parties working for and on behalf of BPK obtain legal protection and security assurance from the relevant authority. c. BPK is entitled to legal aid at the state's cost in the event of lawsuit arising out of the performance of its duties and authorities.

What is state finance? In Indonesia, state finance does not only consist of APBN (state budget), but also non-budgetary funds and BUMN/BUMD, foundations or public companies and private organizations receiving subsidy from the state. There are two reasons for the use of such broad definition of state finance. The first is because the practice dating back to the time of struggle for independence, in which military and civil government units had to gather their own funds under the People Total Resistance Fights (PERMESTA) Doctrine, continued to be applied by the New Order regime. The second reason is because the public sector in Indonesia is not only providing public services or '*public goods*'. At the same time, the state also owns business entities producing '*private goods*' or '*mixed goods*', a combination of both⁵. Because the state produces three types of commodities, state finance in Indonesia does not only cover the State Budget (APBN), but also BUMN/BUMD, foundations or other business entities related to the government. Privately owned public services, such as schools, hospitals, orphanages and other social organizations also obtain subsidies from the state.

The beneficiaries of some public goods, such as civil cases or the administration of marriage, divorce and reunion, can be identified. Hence, the price of the public goods can be charged directly to the users. State revenues from such activities are called non-tax state revenues (PNBP). Nowadays, several government agencies have their own regulations to collect fees without referring to the applicable PNBP Law and without permission from the DPR and the Ministry of Finance as the State Treasurer. Such illegal levies are managed by the relevant agencies and expended with no accountability to the DPR as the holder of budgetary right.

3. Reform of BPK

Endeavours have been made for the enhancement of the role of BPK over the last two years, prior to the issuance of Law No. 15 of 2006. This is to achieve the reform objectives as stated in BPK Strategic Plan for 2005-2010. Over the past two years, there are four prominent roles of BPK as described in the three lower layers of the triangle in Diagram 1. The first role is to improve the activities for the

⁵ '*Public goods*' has two characters: (i) non-excludability and (ii) the consumers are not competing to enjoy the same commodity. Examples of these commodities are state security and defense services. Like it or not, people live in the country including terrorists and criminals enjoy the same protection and peace. Allocation price such in market mechanism is not suitable in production or distribution of '*public goods*'. The only way not to enjoy protection and peace in one country is moving to other country. Because it can be identified who enjoys it, consumers of '*private goods*' must pay for goods. '*Private goods*' producer is a portion of private business society that is interested in gaining profit from production and distribution of the commodity. Market mechanism will be functioning effectively and efficiently to regulate the procurement and allocation or distribution of '*private goods*'. Because the market mechanism and price allocation are not functioning in the procurement of '*public goods*', the procurement is taken over by the state and the allocation is held by non-price mechanism.

eradication of KKN. The second is to improve transparency and accountability of state finance. In this case, BPK has improved the quality of its audit and expanded the audit objects that were previously restricted during the New Order regime. The third, BPK assists the Government in implementing the Package of Three Laws on State Finance of 2003-2004. The fourth, within the last two years, BPK has been assisting the Government in conducting institutional reform, including restructuring BUMNs and public service entities, such as schools/universities and hospitals. Such roles are part of BPK's tasks in giving opinions, conclusions and recommendations to be followed up by auditees and the Government.

BPK will gradually improve its capability to conduct performance audit to assess the efficiency, economic value as well as the effectiveness of activities of government agencies. Given such improvements, BPK is expected to be able to contribute the thoughts on long-term trends to be put forward for further considerations by the legislative, executive branch and the public in the decision-making process. Unlike similar agencies in developed countries, BPK is still in the process of attaining sufficient capabilities to conduct performance audit and to be able to contribute such long-term thoughts. The long-term goal of BPK activities is described in the three upper layers (with dashed lines) in Diagram 1.

Diagram 1. The roles of BPK at Present and in the Future



In assisting corruption eradication efforts, in 2005 BPK delivered 10 reports on criminal acts of corruption to DPR and law enforcement agencies. Each report was submitted to DPR and the Chief of the Police Force and 8 reports were submitted to the Attorney General's Office, with the total state loss of Rp2.9 trillion and US\$4.2 million respectively. As a legislative body, DPR has the authority to refer such cases to the law enforcement agencies, to produce Law and to advise the Government to adjust and improve the system to prevent the recurrence of state loss.

Audit findings summary of the state loss indications reported by BPK within the last two years is contained in Table 2. In the future, BPK reports on criminal acts of corruption will increase following the (i) improvement of its capability; (ii) expansion of its audit objects; (iii) expansion of its representative office network; (iv) improvement of its working equipment and enlargement of its telecommunication network; and (v) improvement of cooperation with law enforcement agencies, especially KPK and Indonesia's Financial Transaction Report and Analysis Center (PPATK).

TABLE 2
AUDIT FINDINGS SUMMARY OF STATE LOSS INDICATIONS
YEAR 2005 UNTIL THE FIRST SEMESTER OF 2006*

In Million Rupiah
and thousand
Foreign Currency

Foreign Currency												
No	Audit Period	Responsible Group	State/Regional Loss			Recovered and Deposited to State Treasury			Balance of State Loss			
			Case	Value		Case	Value		Case	Value		
1	TA 2005	Central Government Regional Government BUMN	701	Rp	7.713.057,46	104	Rp	2.507.869,90	597	Rp	5.205.187,56	
				US\$	5,526.83		US\$	504.40		US\$	5,022.43	
			2,330	Rp	1.352.224,56	226	Rp	89.187,12	2,104	Rp	1.263.037,44	
			23	Rp	4.761.596,75	0	Rp	0.00	23	Rp	4.761.596,75	
			3,054	Rp	13.826.878,77	330	Rp	2.597.057,02	2,724	Rp	11.229.821,75	
				US\$	5,526.83		US\$	504.40		US\$	5,022.43	
2	Semester I	Central	165	Rp	16.055.783,27	32	Rp	532.051,78	133	Rp	15.523.731,49	
	TA 2006	Government										
		Regional Government	1,530	Rp	1.868.803,01	3	Rp	293,11	1,527	Rp	1.868.509,90	
		BUMN	26	Rp	1.320.940,03	5	Rp	56.287,32	21	Rp	1.264.652,71	
	Total		1,721	Rp	19.245.526,31	40	Rp	588.632,21	1,681	Rp	18.656.894,10	
			4,775	Rp	33.072.405,08	370	Rp	3.185.689,23	4,405	Rp	29.886.715,85	
					US\$	5,526.83		US\$	504.40		US\$	5,022.43

Note: Out of the total amount of the state loss in 2005 in Table 2 (amounting to Rp13.82 trillion and USD5,52 million), only Rp2.9 trillion and USD4.2 million were reported to the law enforcement agencies for containing criminal suspect elements. The remaining amounts are state losses that shall be returned to the state budget by responsible account holders.

BPK has taken seven steps to assist the Government in implementing the Package of Three Laws on State Finance of 2003-2004. The first is assisting the Government in formulating government accounting standards. The second is stipulating the standards of the state finance audit, upon receiving inputs from the Government, academicians and professionals. The third is urging the Government to employ accounting personnel in its structural position of state finance management, at central or regional levels, BUMN or BUMD. The fourth is urging the Government to incorporate non-budgetary funds and quasi fiscal activities into the State Budget. The fifth is assisting the Government in clarifying the roles and responsibilities of state institutions at all levels. The sixth is promoting a transparent and accountable process for the preparation, implementation and reporting of state budget. The seventh is assisting the government in enhancing the transparency and accountability of financial transactions among government agencies, central government and regional governments as well as between the government and BUMN/BUMD, foundations or private organizations obtaining subsidies from the government.

Article 22 of Law No. 15 of 2004 bestows a quasi judicial power to BPK to enforce the settlement of state losses. This provision is also applicable for companies with not less than 51 percent ownership of shares by the government. With such power, BPK will issue a decision regarding the time limit for the settlement of cash or goods shortfalls. The decision is final without any necessity of further legal process before the court. BPK will also monitor the settlement of state losses. In consultation with the government, BPK is still in the process of drafting these procedures.

To improve its performance, BPK has enhanced the employees' discipline and increased compliance with the code of ethics. Auditors anywhere in the world including BPK maintain a good relationship with auditees, maintain trust and self-esteem of auditees and do not spy on them. Any corruption crime and violation of the regulations is discussed openly and reconfirmed with the relevant auditees. A BPK's auditor is not a *whistle blower* since the information is obtained due to the authority given to him/her by BPK. BPK's auditor may not expose its audit findings to whomsoever outside its organization without prevailing procedures and regulations, and may especially not announce his findings to the public.

With the assistance of the Government and DPR, the budget of BPK has been increased to expand its network of representative offices, to recruit more auditors, to modernize the equipment and telecommunication network and to improve the compensation system

and income of its auditors. The growth of personnel numbers and composition, equipment and budget of BPK within the last three years (2004-2006) is described in Table 3.

Table 3
Condition of Personnel, Equipment and Budget of BPK, 2004 – 2006

	2004		2005		2006	
1.Total Number of Representative Offices	7		9		17	
2.Total Number of Employees	2.851		2.991		3.498	
2.1 Central Office	1.682		1.673		1.771	
a. Auditor	1.399		1.357		1.080	
b. Administrative/Technical Staff	283		316		691	
2.2 Representative Office	1.169		1.318		1.727	
a. Auditor	963		1.021		981	
b. Administrative/Technical Staff	206		297		746	
2.3 Educational Level						
a. S-3	1		1		5	
b. S-2	318		386		415	
c. S-1	1.790		1.826		2.264	
d. D-III, D-II and D-I	162		162		164	
e. Senior High School (SMU) and lower	580		616		650	
2.4 Subject						
a. Accounting	1.061		1.255		1.483	
b. Law Sciences	155		185		232	
c. Economics/Public Policy	557		479		480	
d. Technology	36		39		42	
e. Others	462		417		611	
f. Senior High School (SMU)	580		616		650	
3. Working equipment						
a. Computer capacity	Memory (RAM) 128 MB, Processor Pentium IV 2 GHz, HD 40 GB		Memory (RAM) 512 MB Processor Pentium IV 3 GHz, HD 40 GB		Memory (RAM) 512 MB, Processor Pentium IV 3 GHz HD 40 GB	
b. Website capacity	64 Kbps		256 Kbps		1 MB	
c. Total workstations	1.046 units		1.290 units		1.352 units	
d. Total laptops	517 units		650 units		718 units	
e. Type of computer software:						
i. Words/graphic	Available		Available		Available	
ii. Accounting	None		None		None	
iii. Statistics/Econometrics	SPSS*		SPSS*		SPSS*	
iv. Google Earth	Available		Available		Available	
f. Operational vehicle	84 vehicles		103 vehicles		116 vehicles	
4. Total number of library collection	±6,250 titles		±6,500 titles		±7,000 titles	
5. Annual Budget**	Rp234.613,50 million		Rp329.395,75 million		Rp690.131,16 million	
6. Income in average Echelon	Salary	Allowance	Salary	Allowance	Salary	Allowance
a. Echelon I A	6.073.505	2.455.000	7.145.300	2.700.000	7.859.830	3.913.022
b. Echelon IB	6.087.105	1.992.000	7.161.300	2.150.000	7.877.430	3.130.418
c. Echelon II A	4.164.712	1.372.000	4.899.661	1.500.000	5.389.627	2.666.113
d. Echelon III A	2.306.387	772.000	2.713.397	850.000	2.984.737	1.812.857
e. Echelon IV A	1.759.875	531.000	2.070.441	625.000	2.277.485	1.424.445
Non Echelon						
a. Group IV	1.319.906	493.000	1.552.831	600.000	1.708.114	1.210.778
b. Group III	718.686	474.000	958.247	550.000	1.277.663	1.277.663
c. Group II	800.751	400.000	942.060	475.000	1.162.408	1.162.408
d. Group I	680.638	312.500	800.751	400.000	988.047	988.047

Note:

*) Statistical Package for Social Sciences;

**) As from 2005, all budgetary funds of BPK originated from the State Budget (APBN) and no audit fee was changed to auditees.

BPK will gradually increase the number of its auditors from various disciplines so as to be able to expand its audit beyond financial audit. Like other countries, financial audit will progressively be reassigned to Public Accounting Firms (KAP) under the supervision of BPK. Referring to Law No. 15 of 2004, BPK's audits will be focused

more on performance audit, environmental audit and sustainable development or other audits as described in the upper layers of Diagram 1.

The assignment of KAPs in public sector audits has become increasingly pressing due to the expansion of BPK's audit objects spread throughout Indonesia and to cover three government levels: Central, Provincial and District. The expansion of representative office network and addition of auditors and equipment, including telecommunication networks, are not adequate to cover the increasing scope of its audits. BPK will select, certify and monitor KAPs that will be assigned to audit the public sector for and on behalf of BPK. The curriculum, syllabus and modules that must be mastered by KAPs include Government Accounting Standards and State Finance Audit Standard as well as several regulations related to the public sector.

Although there has been an improvement of salary and income of BPK auditors within the last two years, it is not sufficient compared to the risks, performance achievements and income of our colleagues in the Ministries. Unlike Regional Government officials who receive collection fees from Property Taxes, BPK has no incentive from the additional state revenue. Unlike the Customs and Excises and Attorney General's Office staff, BPK has no incentive from the state monies recovered. Unlike other agencies, such as the Supreme Court, BPK has no additional sources of fund, such as from the issuance of business licenses or audit fee and consultation fee, other than APBN. Unlike debt collectors, BPK does not obtain success fee. Unlike consultants, BPK does not receive any fee from its improvement suggestions and recommendations given to improve the performance and governance of the audit objects. Unlike other government officials, including those working for the BPKP, the Law prohibits BPK officers from serving as Directors of BUMNs or private companies in order to earn additional income.

The financial compensation for BPK's auditors shall be made linked to several objective indicators. First, the high risks or the temptations encountered during audits. The risks are getting higher when BPK findings are related to fraud or criminal acts. The risks faced by BPK's auditor include physical threat from auditees. The temptation exists due to the amount of the funds audited. Second, the compensation for BPK auditors should also be linked to the large amount of contributions of its audit results in increasing the state revenues or to the saving or cut in the state expenditures. Third, the income of BPK auditors should be linked to their contribution to the improvement in managing state finance and to the enhancement of the quality of human resources managing state finance. Fourth, the income of BPK auditors should be linked to the value of recommendations given in restructuring the audit objects: government

agencies, BUMNs or public service entities, such Universities and Hospitals.

For example, BPK's audits have contributed to the improvement of state revenues as reflected in the audit results of profit sharing contract with oil and gas companies (KKKS). One of the contributions of BPK's audit to the state cash savings is the state cash-inflow of at least Rp3 trillion based on BPK's audit report in 2005 regarding 957 private bank accounts of state cash amounting to Rp 20.44 trillion. In 2006, BPK reported 1,303 private bank accounts holding state cash amounting to Rp8.54 trillion. The expenditure savings include savings in the subsidies for electricity, fertilizer or fuel. The low compensation and income of BPK's auditors makes it difficult for BPK to recruit qualified auditors. The demand for qualified auditors is increasing in order to be able to conduct audits beyond financial audit.

Additional budget and improvement of working equipment and employee's compensation since 2005 have allowed BPK not to collect audit fees from auditees and hence reduce KKN. Even though BPK will amass additional funds in addition to that from the state budget in the future, disbursement, administration and utilization thereof shall refer to prevailing laws and regulations and must be accounted for. Law No. 15 of 2006 add two members of BPK, expands the audit or scope of work in the future. During the last two years, BPK's audit report has been improved and can be easily accessed by the public. Meanwhile, the capacity of its website has been increased so that the community has easy access to the reports. BPK communication strategy has also been improved so that the people can the comprehend functions and roles of BPK and its benefits for the public interest.

4. Improvement of State Finance System

The performance of the tasks of BPK to audit state finance has been made easier by the issuance of the Package of Three Laws on State Finance of 2003-2004. The package of three laws address the weaknesses of the state finance management system under the New Order regime by amending the types, formats and structures of state financial reports and stipulating a time frame for the preparation of accountability reports. The Laws on State Finance year 2003-2004 apply a double entry system, by using an integrated and computerized accounting system, and decentralize the accounting implementation in a hierarchical manner by each accounting unit both at the central and regional levels. With regard to the time frame for accountability report, the three laws on State Finance require the Government to present Financial Reports by no later than 6 months after the end of a fiscal year and to submit them to BPK for audit.

In its turn, pursuant to Law No. 15 of 2004, BPK is to submit its audit reports on the government's Financial Statements to the House of Representatives (DPR, DPD and DPRD) by no later than 2 months after receiving such reports. Meanwhile, a summary of audit findings is to be submitted to the House of Representatives by no later than three months after the end of the current semester. Among the three representative assemblies, only DPR and DPRD have budgetary right. DPD provides suggestions to DPR. BPK audit reports comprise opinions, findings, conclusions and recommendations.

Several weaknesses of the state finance system under the New Order regime are reflected in the BPK's reports on the audit of Central Government Financial Statement (LKPP) for 2004 and 2005. The first weakness is found in the internal state finance system. During the reign of the New Order regime, there was no Budget Realization Statement (LRA) of the Central Government - prepared based on LRA of Ministries/Government Agencies, Statement of Cash Flow (LAK), and Notes to Financial Statements (CALK) enclosed with the financial statements of state-owned enterprises or foundations related to official. Thus far, there is no consistency between the amount of funds transferred by the central government and the total amount of funds received by regions or by government agencies and public service entities.

The second weakness of the state finance system of the New Order regime is the lack of an integrated 'single treasury account' as designated by Law No. 1 of 2004. Consequently, state cash was deposited in several accounts throughout government agencies, including thousands of personal bank accounts of their officials. Some officials who have passed away more than 10 years ago still have bank deposits containing state money. State money held in bank accounts of state officials has no clear status and is not integrated with the account of the State General Treasurer (BUN). As a consequence of the scattered depositories of state money in several accounts of government agencies and personal bank accounts of government officials, the Government is unable to figure out precisely its financial position and is unable to use the funds to solve its liquidity problem.

The third weakness of the state finance system is the lack of compliance with the prevailing laws and regulations in the state finance sector. This includes government agencies that stipulate, manage and use their own levies. Such conduct is not in compliance with the PNBK Law and is exercised without the acknowledgment of the Ministry of Finance as the state treasurer. The fourth weakness is the absence of a comprehensive description of the amount of Positive Balance of Budget (SAL). LRA reports SAL as of December 31, 2004 amounts to Rp31.56 trillion, while according to the balance sheets it is only Rp25.59 trillion, thus leaving an unexplainable discrepancy of Rp6 trillion.

5. BPK in International Relation

In the international community, BPK has intensified cooperation through ASOSAI (*Asian Organization of Supreme Audit Institutions*), INTOSAI and working group of both organizations. The subjects of cooperation include audits, formulating policies, exchange of information and experiences as well as trainings with overseas colleagues, either through INTOSAI, ASOSAI or other fora. BPK has also obtained foreign assistance to enhance its own capacity: quality of human resources (SDM), modernization of equipment and organizational modification towards independence and autonomy. The cooperation forum with other SAI's auditors has been intensified after the tectonic earthquake followed by tsunami that hit NAD Province and Nias, North Sumatra on December 26, 2004. This earthquake reached 9 Richter scale and occurred due to the Australia-Asia tectonic plate shifts about 150 km to the south of Meulaboh. The tsunami hit many countries along the coastlines of the Indian Ocean reaching Southern Asia, the Arab Peninsula and Africa. This natural disaster caused the loss of 160 thousand lives and huge damages in NAD Province and Nias and concerned global solidarity. At that time, NAD Province was a conflict area because of the rebellion of the Independence Aceh Movement (GAM) that had been going on for nearly thirty years.

To recover domestic and international trust in the distribution of aid to tsunami victims in NAD and Nias, BPK audited aid funds. With the ADB (*Asian Development Bank*) support, BPK has organized an international conference on '*Promoting Financial Accountability in Managing Funds Related to Tsunami, Conflict and Other Disasters*' in Jakarta on 25-27 April 2005. The conference was attended by 142 participants from 6 tsunami-hit countries, 14 donor countries and representatives of 16 international institutions. This conference produced, among others things, an agreement to assist BPK in conducting audits either in the form of technical assistance or coordination of audits. "BPK Advisory Board", with total members of 12 colleagues from 12 SAIs, provided technical assistance and held a meeting in Jakarta in April 2006. Learning from Indonesia, in 2005, INTOSAI established the '*Task Force on Accountability for and Audit of Disaster Related Aid*' chaired by Chairman of SAI of the Netherlands with two vice-chairs, the Chairman of BPK and SAI of South Korea. The lesson from Indonesia is different from other countries, such as Sri Lanka and Kashmir. Indonesia used the momentum of the natural disaster to make peace with GAM through the Helsinki Peace Accord in August 2005.

As in 2004, BPK serves as a Member of the *Steering Committee of the INTOSAI Working Group on Environmental Auditing (WGEA)*. Until the 10th Congress of ASOSAI in Shanghai in September 2006, BPK had been assigned as one of its auditors. Recently, BPK has been included in the short list of candidates for the external auditor of ILO (International Labor Office) based in Geneva, Switzerland, for the period of 2008-2011. On this 60th Anniversary Seminar, BPK has invited colleagues from Australia, Brunei Darussalam, Iran, Malaysia, Russia and Thailand. Australia would share on how a well-developed country promotes a good government governance. From Russia, BPK would like to learn about the role of auditors in a state experiencing transition to democracy. As the first Islamic Republic, Iran is expected to share its experience in managing Islamic financial accounting system with profit sharing principles. Malaysia also has Islamic-based financial center. We also expect that we could improve cooperation with neighboring countries on joint interests such as: forest fire audit, shipping safety in the Malacca Strait and tackling the avian influenza.

As part of the STAR-SDP Project (*State Audit Reform Sector Development Program*) in 2005-2009, BPK is receiving funds from an ADB loan and a grant from the Netherlands Government to improve the quality of human resources, enlargement of networks, modernization of computer systems and organization modification towards autonomy and independence. BPK has also obtained technical assistance to enhance human resources in the form of training and scholarship from the World Bank, USAID, AusAid, India, JICA, Netherlands, Philippines, Sweden or ASOSAI and INTOSAI. The United States of America, Australia and New Zealand have provided BPK's auditors with the opportunity to work for one year in their audit institutions to learn and obtain practical experience. France invited BPK's auditor in some UN assignments in conflict areas such as Congo, Eritrea and Kosovo. Assisted by international trainers, BPK collaborated with law enforcement agencies (the National Police, Attorney General's Office, KPK and PPATK) to organize trainings in investigative audit.

INTERNET / E-mail Addresses of ASOSAI Members

Country	E-mail address	Web Page
Australia	ag1@anao.gov.au	http://www.anao.gov.au
Bangladesh	saibd@citechco.net	http://www.cagbd.org
China	cnao@audit.gov.cn	http://www.audit.gov.cn
Cyprus	cao@cytanet.com.cy	http://www.audit.gov.cy
India	ir@cag.gov.in	http://www.cag.gov.in
Indonesia	ketua@bpk.go.id	http://www.bepeka.go.id
Israel	sco@mevaker.gov.il	http://www.mevaker.gov.il
Japan	liaison@jbaudit.go.jp	http://www.jbaudit.go.jp/engl/
Jordan	audit.b@amra.nic.gov.jo	http://www.audit-bureau.gov.jo
Korea	koreasai@koreasai.go.kr , bai_kor@hotmail.com	http://www.bai.go.kr , http://www.koreasai.go.kr
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Nepal	oagnep@ntc.net.np	http://www.oagnepal.com
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Papua New Guinea	agois@dg.com.pg	
Philippines	gemcarague@coa.gov.ph	http://www.coa.gov.ph
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Saudi Arabia	gab@zajil.net	http://www.gab.gov.sa
Sri Lanka	oaggov@sltnek.lk	
Thailand	jaruvan@oag.go.th , int_rcla@oag.go.th	http://www.oag.go.th
Turkey	int.relations@sayistay.gov.tr	http://www.sayistay.gov.tr
U.A.E.	saiuae@emirates.net.ae	http://www.saiuae.gov.ae
Yemen	coca@y.net.ye	

Electronic communication between Supreme Audit Institutions is increasing rapidly. In view of this, a list of e-mail and World Web Site Addresses of ASOSAI members (as available with us) have been compiled and shown in the above table. It is requested that addresses of those SAIs that do not in appear in the table may please be intimated to the Editor for incorporating in the future issues of the Journal. Please, also let us know in case there are any modifications to the addresses listed above.

Other Important e-mail/webpage addresses

INTOSAI	intosai@rechnungshof.gv.at	http://www.intosai.org
ASOSAI	asosai@cag.delhi.nic.in	http://www.asosai.org
EUROSAI	eurosai@tsai.es	http://www.eurosai-it.org
OLACEFS	comarl@contraloria.gob.pa	http://www.org.pa/
SPASAI	steveb@oga.govt.nz	http://www.spasai.org
IDI	idi@idi.no	http://www.idi.no
INTOSAI Standing Committee on IT Audit (ISCITA)	ir@cag.gov.in	http://www.intosaiitaudit.org/
Working Group on Environmental Auditing	environmental.auditing@oag-bvg.gc.ca	http://www.environmental-auditing.org
Working Group on Privatisation	PWG@nao.gsi.gov.uk , martin.sinclair@nao.gsi.gov.uk	http://www.nao.gov.uk/intosai/wgap/home.htm
International Journal of Government Auditing	intosaijournal@gao.gov	http://www.intosaijournal.org

ASOSAI Calendar 2007

Month	Dates of meeting	Venue	Event
January			
February	12-28	BANGKOK, Thailand	ADB-IDI-ASOSAI Cooperation Program: 1st Workshop for Mekong and South Asian Region
February	12-16	ICISA, NOIDA, India	ASOSAI Seminar on “Managing Audit Results”
March	21-29	OSLO (Norway)	(IDI: Global Needs Assessment Planning Meeting)
April			
May		Malaysia	ADB-IDI-ASOSAI Cooperation Program: 2nd Workshop for Mekong and South Asian Region
June	11-22	Indonesia	Instructor’s Design Meeting of ASOSAI Workshop on Financial Audit
July		Kyrgyz	ADB-IDI-ASOSAI Cooperation Program: 2nd Workshop for East and Central Asian Region
August			
September	3-5	Kuwait	38 th GB of ASOSAI
October			
November			
December	to be decided	Pakistan	ASOSAI Workshop on Financial Audit
(to be determined)		TOKYO (Japan)	JICA-sponsored ASOSAI Seminar