



Asian Journal of Government Audit

October 2007

Asian Journal of Government Audit



October 2007

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 areas of State Audit.

The editors invite submission of conceptual, practical and educational articles and other material on State audit and related fields and special reports and news items. Material should be sent to the editorial office, care of the Comptroller & Auditor General of India, 10 Bahadur Shah Zafar Marg, New Delhi – 110002

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Editorial

Dear friends,

I am happy to release the 29th issue of our Journal which comes in the back drop of the 38th meeting of the Governing Board of ASOSAI which was held in September 2007 in Kuwait. Details of the decision taken are available in the ASOSAI news. We today have the 44th member of ASOSAI, SAI-Armenia joining our fraternity. At this Governing Board meeting the crucial issue of annual membership for the current year 2007 as well as the formula for 2008 and 2009 was also decided. The ASOSAI Governing Board also nominated SAIs-China and India as our nominees on the INTOSAI Governing Board for the period 2007 to 2013.

We have also made significant progress in capacity building with various workshops and also the commencement of the 8th ASOSAI Research Project. Significant training efforts was also reported by many SAI during this period.

This is an important year for the SAI fraternity as the XIX INCOSAI was held in Mexico from 4-10 November, 2007. There were two important themes: i) "Management, accountability and audit of public debt" and ii) "Performance Assessment Systems Based on Universally Accepted key Indicators", on which we would be reporting extensively in our next issue.

Our journal has become an effective tool for dissemination and the success is due to valuable contribution from all our members. I look forward to receiving inputs and articles from all ASOSAI members for all the subsequent issues.

K P Lakshmana Rao

Asian Journal

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INTOSAI News

14th Annual Meeting of the INTOSAI Working Group on the Audit of Privatisation, Economic Regulation and Public Private Partnerships

The fourteenth meeting of the INTOSAI Working Group on the Audit of Privatisation, chaired by the UK National Audit Office and hosted by the Cour des Comptes of Morocco, took place in Marrakech on 16 - 18 October 2007. A welcome reception opened the meeting on the evening of 16 October followed by a formal dinner on 17 October hosted by Dr El Midaoui, the First President of the Cour des Comptes.

This programme included:

- Presentations on experiences in the audit of privatisations, economic regulation and public/private partnerships.
- “Break-out” sessions for delegates to discuss key themes and feed back to the Working Group.
- Discussion around the Working Group’s future priorities and products.
- Discussion around the Working Group’s report to XIX INCOSAI in November 2007.

XIX INCOSAI

The INTOSAI Congress, the XIX INCOSAI, was held in Mexico City, Mexico from **November 5 to 10, 2007**. The 56th meeting of the Governing Board of INTOSAI took place on 4 November 2007. The two themes of the congress were “Management, accountability and audit of public debt” and “Performance evaluation systems based on universally accepted key indicators”. The venue of the INCOSAI was Nikko Hotel. The broad outline of the programmes was as follows:

Professional Programme

| | |
|------------------------------|---|
| 4 November 2007 Sunday | IDI Advisory Committee Meeting Finance and Administration Committee meeting Capacity building committee meeting |
| 5 November 2007 Monday | 56 th meeting of the INTOSAI Governing Board Opening Ceremony |
| 6 November 2007 Tuesday | 1 st General Plenary session Discussion on Theme -1 |
| 7 November 2007 Wednesday | Discussion on Theme-II Commonwealth Meeting |
| 8 November 2007 Thursday | Social programme |
| 9 November 2007 Friday | Closing plenary session theme-I and II UN Panel meeting |
| 10 November 2007 Saturday | 2 nd General Plenary session 57 th meeting of the INTOSAI Governing Board |

Social Programme

| | |
|--|---|
| 5 th November 2007 Monday, Evening | Opening Ceremony, Photograph and Cocktail |
| 7 th November 2007 Wednesday, Evening | Cocktail and visit to Bellas Artes Palace |
| 8 th November 2007 Thursday, Full day | Visit to Archeological Ruins of Teotihuacán |
| 10 th November 2007 Saturday, Evening | Closing Gala Dinner |

ASOSAI News

38th meeting of the Governing Board of ASOSAI

The 38th meeting of the Governing Board of ASOSAI was held in Kuwait from 3rd to 5th September 2007. 10 heads of SAIs and 40 other delegates attended the meeting besides two representatives from IDI.



Some of the major decisions taken by the board were in respect of annual contribution of ASOSAI, representation of ASOSAI in the Governing Board of ASOSAI besides this SAI-Japan being the administrator of the training programmes of ASOSAI read the report on the training activities.

Regarding the annual contribution it was decided that the currency for ASOSAI transaction would remain US Dollars and for the year 2007 the annual contribution would remain at the 2006 level. As far as the contributions for 2008 and 2009 is concerned the exchange rate for conversion of Euro to US Dollars as indicated by the Federal

Bank of the host country of the Secretary General as on 31st December 2007 would be adopted which would govern the payment for 2008 and 2009 in US Dollars by member SAIs, subject to all other provisions of the ASOSAI Charter and Rules and Regulations. It was also decided that all other issues related to this subject would be discussed in the next ASOSAI Assembly scheduled in 2009.

Board also decided that SAIs of China and India will represent ASOSAI in the Governing Board of INTOSAI for the period 2007-13.

Financial Audit and Fraud Awareness Workshop

The Financial Audit and Fraud Awareness Workshop of ADB-IDI-ASOSAI Cooperation Program was designed by an instructors' team.

An instructors' team meeting was held in cooperation with the INTOSAI Development Initiative (IDI), in Phnom Penh, Cambodia, from November 26 to December 10, 2006, with administrative support of the National Audit Authority of Cambodia. The course materials were developed by improving course materials of the past regional workshops implemented, based on subsequent development in the related fields.

The team's design work was assisted by Mr. Francisco B. Escarda, former Assistant Commissioner of Commission on Audit, as a Subject Matter Expert (SME). The course materials were then further enhanced by the above training specialists at their respective SAIs, and during a three-day pre-workshop meeting in Kuala Lumpur, Malaysia.

The workshop was delivered in Kuala Lumpur, Malaysia from May 7 to 23, 2007 for 28 participants from 6 SAIs, with financial support by Asian Development Bank (ADB). The National Audit Department of Malaysia rendered administrative support to the workshop. The instructors' team revised the materials after the delivery, considering their own delivery experience and feedback from participants during the workshop. The

materials contained in this CD-ROM are the final version and therefore somewhat different from the ones presented during the workshop.

8th ASOSAI Research Project

The 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 members were also requested to convey their willingness to join the research team and preferences for the topic of research. For the Environmental Audit Guidelines SAIs of Afghanistan, Australia, China, Thailand, India, Iran, Saudi Arabia, Malaysia, Pakistan and Maldives conveyed their willingness. SAls of Afghanistan, Iran and Maldives did not inform about their nominees for the research team, whereas SAI of Thailand has communicated regret. SAI-Australia conveyed that they would review draft material and provide examples from their own experience in environmental auditing but would not be participate in the meetings of the research team. The remaining five SAIs namely China, India, Malaysia, Pakistan and Saudi Arabia nominated their officers for the research team.

To start the project a start meeting was hosted by the Comptroller & Auditor General of India in New Delhi from 1-3 August 2007. All the research team members were invited to attend the meeting which was very important as this meeting was organized to chalk out the strategy and plan the road map to finalize the project. Out of the six members of the research team only 4 could attend the meeting except the nominees from Pakistan, who could not attend the meeting. During the meeting apart from the research team members from the ASOSAI, SAI-India also invited a subject meter expert from the Central Pollution Control Board

who made a power point presentation and provided some valuable inputs for the research team.



The research team in their approach to the subject realized that the regulations for the governing the environment and Audit of the environment were different in different ASOSAI nations and mostly at nascent stage with regard to audit of environment. The research team as a result viewed that "Guidance on conducting environment audit in ASOSAI region would be a more practical topic for the research paper than "Environmental Audit Guidelines". The team also took into consideration the various guidance notes on environmental related topics issued by the INTOSAI working group on Environmental Audit but the team planned their approach which would specifically address the concerns of the ASOSAI member nations. During the three days meeting the research team discussed the Environment Audit, Scope of Environment audit, Audit Approach, Audit Criteria, Audit Methodology and Audit Reporting besides the road map which is placed in your folders.

Members are aware that the draft guidelines of the project would be submitted before the 11th ASOSAI Assembly in 2009, the research team has less than two years with them. In these two years the research team has planned five meetings with last meeting scheduled in March 2009. The next meeting of the project is planned in January 2008 wherein the environmental audit concerns in the ASOSAI member nations would be assessed.

Roadmap for the 8th ASOSAI Research Project

| # | Activity | Time frame | Responsibility |
|----------|--|-------------------|--------------------------------------|
| 1. | Assessing environmental concerns in all ASOSAI member nations | By January 2008 | All members, Coordinated by China |
| 2. | Assessment of the practices prevalent for various ASOSAI member nations with regard to conduct of environment audit | By January 2008 | All members, Coordinated by Pakistan |
| 3. | Deciding the scope of environmental audit | By January 2008 | All members, Coordinated by Malaysia |
| 4. | Attempt to create a checklist to facilitate audit in each of the areas decided in the scope | By February 2009 | All members |
| 5. | List of all audits conducted by SAIs in these cope areas with a brief gist of the significant findings with good practices | By February 2009 | All members Coordinated by India |
| 6. | Sharing of the draft report to all members for suggestions | By May 2009 | All members |
| 7. | Presentation of the report to the ASOSAI Secretariat and ASOSAI Working Group on Environment Audit | By May 2009 | All members |

18th ASOSAI sponsored training workshop

The ASOSAI sponsored workshop on “Financial Audit” is scheduled in Lahore, Pakistan in 3-14 December 2007. The preparatory instructors meeting aimed at course design was held in Indonesia in September 2007.

New heads of SAI

Azerbaijan



Heydar Khanish oglu Asadov, The Chairman of the Chamber of Accounts of the Republic of Azerbaijan was Born 24 October 1959. He Graduated from Baku Community College of Trade with major in Accounting in 1978. While being student he worked as a laborer, accountant, chief accountant, and chief inspector during the period 1978-1984. in the year 1983 graduated from Accounting faculty of State Economics Institute and in 1987 successfully defended his Candidate's dissertation at Moscow State University named after M.V. Lomonosov and gained scientific degree – Candidate of Science. He attained Doctorate studies in Marmara University (Turkey) during the period 1992-1995. He held the post of Present Deputy Minister of Finance 1995 and from 1996-2007 worked as General Director of State Head Treasury of the Ministry of Finance, Deputy Minister of Finance of the Republic of Azerbaijan before taking over as the Chairman of the Chamber of Accounts of the Republic of Azerbaijan from 17 April 2007.

He has authored of 3 monographs and more than 30 scientific works. He is married and has three children

Georgia

Mr. Levan Choladze was appointed as the Chairman of the Chamber of Control of Georgia on May 11, 2007 by the Parliament. Mr. Choladze has held various important portfolios before being elevated to the present position. He has a vast professional experience. Before taking over as the Chairman of the Chamber of Control of Georgia he was deputy Minister of Foreign Affairs from December 2005 to May 2007. Besides this he has worked as National Security Advisor to the President of Georgia, Secretary of the National Security Council, Director of the State and Public Security Department. Head of Defence Minister's Office, Deputy Director of Defence Policy and International Relations Department, Head of International Legal Division, Ministry of Defence and General Prosecutor Office of Georgia.

Mr. Choladze is co author of Georgian organic law on National Security Council. Since 2004 he has been chairing working groups on elaboration of National Security Concept of Georgia and National Anticorruption Strategy of Georgia.

Kyrgyzstan

Mr. Iskander Gaipkulov was born on 5 March 1966. He graduated from the Financial Economic College in 1981 and the Kazakh State Academy of Management in 1993.

Mr. Iskander Gaipkulov has held very important charges during the period from 1984-2002 such as inspector in the Financial department of Aravan region of Osh oblast, Service in Soviet Army, Chief Inspector in the Financial department of Osh oblast, Chief Inspector in the State Tax Inspection on Osh oblast, Head of Department in the State Tax Inspection on Jalalabat oblast, Deputy Head and later on as head of the State Tax Inspection on Osh city, Head of the State Tax Inspection on Aravan region. Besides the above he also discharged his duties as the Deputy Head of Administration, the Administration of the President of the Kyrgyz Republic, Head of the State Administration of the Batken region.

From 2002-2005, he worked in the secretariat of the special representative of the President of the Kyrgyz Republic for foreign investment attraction on southern region and as an expert, Public association "Investment round table. He was also appointed as an expert representative in the Ministry of Economic Development Industry and Trade of Kyrgyz Republic and Advisor to the Minister. He was as a deputy in the Jogorku Kenesh (Parliament) of the Kyrgyz Republic from 2005-07 before being appointed as the Chairman of the Accounts Chamber of the Kyrgyz Republic on 25th May 2007.

Mr. Iskander Gaipkulov is married and has 4 children.

Pakistan



Mr. Tanvir Ali Agha became the 16th Auditor General of Pakistan on 20th July, 2007. As the head of the Supreme Audit Institution of Pakistan, Mr. Agha is entrusted with the responsibility of overseeing the financial operations of the Federal and Provincial governments on behalf of the legislature. He is constitutionally mandated to report to the legislature on the fiscal transparency and results of operations in the public sector.

Mr. Tanwir Ali Agha joined the Pakistan Audit and Accounts Service in 1972. He managed and supervised key slots in the Ministry of Finance for more than two decades. The positions held by Mr. Agha include the Economic Minister to the Embassy of Pakistan, Washington D.C. USA, Executive Director on the Board of the World Bank Washington D.C., Special Secretary Ministry of Finance and Secretary Ministry of Finance.

Training in Member SAIs

Malaysia

SEMINAR ON INTERNAL AUDITING

The National Audit Department of Malaysia organised a Seminar on Internal Auditing on 29 May 2007. The seminar with the theme 'Enhancing Accountability and Integrity through Quality Internal Audit' was held at the National Audit Academy. The seminar was officiated by Tan Sri Dato' Setia Ambrin bin Buang, Auditor-General of Malaysia and was attended by 300 Internal Audit officers from the Federal and State Statutory Bodies, Local Authorities, Islamic Religious Council and Government Linked Companies. The purpose of the Seminar was to enhance the roles and functions of the Internal Audit Unit to the organisation in ensuring good governance.

Two panel discussions were held to exchange views on the theme of the Seminar as well as the theme titled "Internal Audit in Public Sector: Issues and Challenges". A paper on the effectiveness of Internal Audit – TM Berhad Experience was presented by Mr. Hashim Mohammed, Principal Internal Auditor, Telekom Malaysia Berhad. The seminar recognized that the audit activities of the internal and the external audit serve as a nerve to public sector good governance through objective and independent assessment. The role of the internal and external audit in the public service system is complimentary. The Internal Audit Unit (IAU) could assist the external audit by making follow-ups on audit issues raised by the National Audit Department through various channels such as Post Cabinet Meeting, Financial Management and Account Committee, Integrity Committee and Audit Committee.

The internal auditor's role of oversight, insight and foresight provide support on good governance. Oversight is whether the government entities carried out what it is supposed to implement, comply to laws and regulations and also to detect/prevent fraud and corruption. The insight role assists the decision makers by giving independent assessment on the policies, programs, operations and the impact of government activities. Foresight means the auditors identify new trend and challenges, risks and opportunities arise as a result of science and technology, changes in auditing environment and economy as well as the increasing expectation from the stakeholders and public.

The most important factor that affects the effectiveness of the Internal Audit Unit is the quality of its human resource. The internal auditors must have the relevant knowledge and attitude in order to carry out their roles as strategic partners. They can play their role effectively if the management recognized the value and the importance of the Unit. As long as their presence is being regarded as internal hindrance or detachment, potential of the Internal Audit will not be fully realised.

The establishment of Audit Committee is integral element of public accountability and governance. Their role are to provide assurance to the management that the organization has the appropriate policies, systems and controls in place to safeguard the organisation's asset and to accurately report financial information to their users. Hence, the Audit Committee should implement its responsibility without fear or favour. An effective Audit Committee would enhance the integrity and effectiveness of an audit.

Tax Auditing Secondment Programme

The National Audit Department of Malaysia hosted the Tax Auditing Secondment Programme for six officers from the Audit Board of Republic

Indonesia and 7 officers from Income Tax Branch of the NAD from 16 July to 15 August 2007. The secondment programme was conducted to achieve the following objectives:

- Obtain comprehensive understanding on the nature of audit of tax revenue;
- Obtain a sufficient skill and capability to set an audit strategy of tax revenue including risk analysis;
- Obtain a sufficient skill and capability to conduct the whole audit process including audit planning, audit fieldwork and audit reporting; and
- Obtain suitable techniques and methods for audit of tax revenue.

In addition, they were able to exchange ideas and experience on the subject matter besides establishing professional networking among themselves. Their five-week stay in Malaysia gave the participants an opportunity to understand the Malaysian culture.

The programme was officially closed by Mr. Hamdan bin Ahmad, Director of Federal Audit Sector, on the 14th June 2007. The ceremony was attended by 6 delegates from the Audit Board of the Republic of Indonesia led by Mr. Agusti Agung Rai. Certificates of Attendance were also presented to all participants during the ceremony.

Pakistan

An international course on “Financial Audit in IT Environment” was conducted in Audit & Accounts Training Institute Lahore from 26th February to 9th March, 2007. In Addition to ten officers of Pakistan audit Department, Four officials from SAI Saudi Arabia also participated in the course. The course was delivered by the two ASOSAI training specialists of SAI Pakistan as well as the officers at AATI, Lahore. Mr. Tariq Badshah an expert from IT Dvision Islamabad was also invited to deliver an extension lecture to the course participants. The course contents were prepared mainly from the ASOSAI course materials. In addition to that some updates and changes were made in the course materials to make it more relevant to public sector auditing in IT environment. In the course delivery the participative learning environment was created using the experiential learning model for adult learning.

The participants were also taken on local tours for sightseeing to Wahga border, Shahi Mosque & Lahore Fort and on various shopping areas in the city,. The workshop helped in strengthening the friendly bilateral relationship between both SAIs of Pakistan and Saudi Arabia.

Saudi Arabia

General Auditing Bureau(GAB) participated in the 15th Meeting of the Training and Development committee for SAIs employees of GCC Countries. The meeting was held in the General secretariat of GCC countries in Riyadh, Kingdom of Saudi Arabia during the period from 26 to 27 of June 2007.

Besides this the representatives from GAB participated in the

- 11th meeting of the INTOSAI Working Group on Environmental Audit. The meeting was held during the period 25-29 of June, 2007 in Orsha, Tanzania.

- 1st Meeting of the 8th Research Preparation Team on “Guidelines of Environmental Audit”. The meeting was held in New Delhi, India, during the period from 1 to 4 of August, 2007.

Internal and External Training courses provided from some GAB Employees:

H.E. Mr. Osama Jafar Faquih, President of General Auditing Bureau, agreed on the participation of some of GAB employee in some Internal and External Training Courses and training programs as follow:

1. Two of GAB personnel participated in an one month environmental audit training program organized by the International Training Center in India.
2. Two GAB personnel participated in an one month training program: “Audit of Energy Sector”, which was organized by the International Training Center in India.
3. Three of GAB personnel participated in the “International Training in Performance Audit”. This five weeks program was organized by Training Institute for Accounting and Auditing in Pakistan.
4. Four of GAB personnel participated in the training program “Financial Auditing in Information Technology environment”. This program was organized by Training Institute for Accounting and Auditing in Pakistan for two weeks.
5. Personnel from GAB participated in the ASOSAI Workshop titled: “Comparison and Analysis of Human Resources Development and Management of Efforts to Cope with Emerging

audit Issues”, held in Japan during the period from 13 to 21 of November, 2006 with the cooperation of (JICA).

6. A personnel from GAB participated in the ASOSAI Workshop titled: “Managing Audit Results” in India, during the period from 12 to 16 of February, 2007.
7. Personnel from GAB participated in the training program: “Auditing Systems”. The program was organized by Korean SAI, during the period from 25 to 30 of June 2007 in Seoul, Korea.
8. Two of GAB personnel participated in the training program: “Modern Trends in Evaluating the Institutional Performance in the Public government Sectors”, organized by State Audit Bureau of Kuwait during the period from 21 to 25 April 2007.

Developments in Member SAIs

Australia

Defence Top 30 Project

Following a recommendation from one of Australia's Parliamentary Committees, the Joint Committee of Public Accounts and Audit, the Australian National Audit Office (ANAO) is seeking funding for an annual review of the Top 30 Major Defence Capital Equipment Projects. The ANAO is working cooperatively with Australia's Defence Materiel Organisation to develop an appropriate report for the Parliament. The ANAO considers that continuous monitoring of the Top 30 Projects, as well as looking back at individual projects, could deliver significant benefits to Defence, the Parliament and the Community. The proposed report would give visibility to the Top 30 major Defence projects at one time, in terms of performance against capability, schedule and cost. It would also allow for the identification of systematic issues which contribute to better performance or which impede performance.

India

Indo China joint seminar on Revenue Audit held at Changchun, China from 11th to 14th September 2007

The Indo China seminar on Revenue Audit was held at Changchun, China from 11th to 14th September 2007. The Indian team was lead by Ms. Mohua Chatterjee (Deputy Auditor General), and the other team members were Mr. K. P. Sashidharan (Principal Director) and Mrs. Sudha Krishnan, Principal Director.



The programme commenced with an inaugural session at which the Deputy Auditor General of China and Director General of International Relations were present.

The Indian team presented two papers at the seminar. The first paper was on “International Taxation” and the second was on “Tax Administration Reforms and compliance risk management: A comparative study with specific reference to India.” The two papers presented by the Chinese delegation were on “Exploring the progress of auditing over tax revenue” and “Auditing over the administration of tax collection in the IT context.”

The paper on “International taxation” discussed issues relating to the increasing importance of international taxation, and underlying principles and concepts such as Double Taxation Avoidance Agreements, attribution of income to Permanent Establishment, withholding tax and transfer pricing. The contribution of SAI India in audit of international

taxation was presented as also the challenges being faced currently in auditing this area.

The second paper from the Indian side described broadly issues relating to tax administration such as organizational structures, management approaches, procedures and practices adopted by different countries. It also discussed the theoretical framework of compliance risk management. Major tax reform initiatives in India were highlighted as also the role of audit as an instrument of compliance risk management. The first paper presented by the Chinese delegation explored the progress of audit of tax revenue in China. The paper gave an introduction to the audit of tax revenue in China covering the conceptual and legal status of revenue audit, the system and administration of tax collection, key methodologies used in revenue audit, the future approach of audit, and two case studies of recent audit findings. The paper covered both compliance audit as to whether provisions of laws and regulations had been followed, and systems based audit which examined the loopholes or lacuna in the statutory provisions, and made recommendations to improve the tax system.

The second paper from the Chinese side discussed certain audit findings by the use of IT tools. These included issues such as tax authorities adjusting the actual collection of tax payment to suit their targets, and using computerised techniques to correlate different tax databases to identify non filers, entities not paying tax, unauthorised levels of exemptions, or non imposition of penalties. The paper also discussed the cost of collection in China and stated that audit of the expenditure incurred by tax authorities was now a focus area for the CNAO.

TRAINING PROGRAMME ON ENVIRONMENTAL AUDITING IN BHUTAN

On the basis of the Memorandum of Understanding between the Supreme Audit Institutions of India and Bhutan, the 7th Indo-Bhutan Training programme on “Environmental Auditing” was organized at Thimpu, Bhutan from July 9 to July 13, 2007. SAI India had deputed Mr. K. P. Sasidharan, Principal Director, as Leader and Ms. Namita Prasad, Dy. Director as Member of the team for this training programme. The programme was attended by 33 officers from the SAI, Bhutan.

The Resource persons called on the Auditor General Mr. Dasho Ugen Chewang and the senior officers of SAI, Bhutan and had detailed discussions on tailoring the training programme to the specific requirements of the kingdom. The Auditor General explained that the Kingdom of Bhutan has presently 72.5% of its land under the forest. His Majesty, the King of Bhutan had given emphasis on preservation of biodiversity and environmental protection by issuing a special decree ensuring minimum 60% of the total land under forest in all times to come despite accelerated development process. The Auditor General cited Article 5 of the draft constitution of Bhutan which lays down the special concern of the kingdom regarding environmental protection and preservation of biological diversity. He thanked SAI, India for helping Royal Authority of Audit to train its officers for the last 6 years by deputing suitable resource persons for training in different emerging domains of audit. Considering the significance and sensitivity of the subject, he emphasized the need for effective EA training and added that he would establish a separate Environment Audit Wing in the Royal Audit Authority of Bhutan with trained EA professionals.

SAI India had designed a five days’ courseware on Environmental Auditing by incorporating the EA framework, methodology, techniques

and criteria developed by the INTOSAI Working Group on Environmental Auditing, contents from IDI training programme on EA and synthesizing with SAI India's experience in the field of EA. The courseware followed a three tier approach starting from the macro level audit of international environmental accords including policy formulation, strategic planning, constitutional and legislative frame work, acts, rules; enforcement and regulatory system and institutions for overseeing and monitoring; and audit of programmes, projects, schemes and activities from initial stage of formulation to implementation at the national, states, urban and local bodies levels. In order to customize the EA training to the specific needs of the Kingdom of Bhutan, the resource persons had studied the Audit Act of Bhutan 2006, the draft constitution of the Kingdom of Bhutan, Environment Assessment Act of 2000, other environmental regulations, sectoral guidelines for new and existing industries, environment codes of practice, environmental assessment reports of the existing industries issued by the National Environment Commission as well as the Tiger Action Plan for the Kingdom of Bhutan, 2006-15.

The five days courseware included introduction to environmental issues, evolution of EA consequent to INCOSAI conference, constitution of INTOSAI Working Group on Environmental Auditing and its 9 research papers on the subject. Participants were exposed to global environmental issues, international conferences, 9 major international environmental accords and audit of environmental accords with audit checklist. Intensive discussions were encouraged on concepts of sustainable development, environmental auditing framework, methodology, techniques, technical criteria along with five different categories of EA reports that can be attempted by SAIs applying Regularity (Compliance and Financial) Audit and Performance Auditing framework substantiating with adequate illustrations. Separate technical sessions on Biodiversity, Air, Noise, Water pollution, Waste

Management, Environmental Impact Assessment, Environmental Management Systems were conducted with various case studies on each of these topics. Emerging environmental auditing issues which are of special concern to Bhutan like issues arising out of dams, e waste and mining, specific environment risks posed by the cement, auto workshops, wood pulp and food processing industries were discussed focusing on how to audit them, involving overwhelming participation among participants sharing their experience and clarifying doubts.

The training programme concluded on the 13th of July with a formal closing ceremony, presided over by the Deputy Minister of National Environment Commission in Bhutan Dasho Nado Rinchen. Other dignitaries present on the occasion included the Auditor General, chief of World Wide Fund, Bhutan, the Chief Conservator of Forests and diplomats from the Indian Embassy.

Iraq

Board of Supreme Audit (BSA) in Republic of Iraq News for publishing in the Asian Journal of Government Auditing.

Members of the Board of Supreme Audit (BSA) celebrated its 80th anniversary on 9 March 2007. The celebration was attended by the President of the Board Dr. Abdul Basit T. Saeed, vice president Mr. Mahmoud R. Ibrahim and Director Generals of the Board.

The Board was established on 9 March 1927. During the past eighty years of its life span, the board passed through stages of development and it was known for its active contribution in the fields of training and research in international gatherings.

The training field witnessed a clear development through the participation of the board staff in many training courses inside and

outside Iraq in Cooperation with a number of international organizations and training institutions.

On the international aspect, the Board has witnessed a progress in its relations through openness towards the world whether by expanding cooperation with international organizations concerned with financial audit (ARABOSAI, ASOSAI, INTOSAI) or through bilateral relations other world SAIs.

The translation department at the Board has translated the July 2006 issue of International Journal of Governmental Auditing, issued by INTOSAI, to Arabic.

Russia

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 as follows:

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.

Saudi Arabia

Participation of General Auditing Bureau (GAB) in the International and Regional occasions:

1. H.E Mr. Osama Jafar Faquih, President of the General Auditing Bureau, led a delegation to attend the occasion of establishing the Turkish court of Audit, and to participate in the Environmental Audit Symposium, during the period from 28/5/2007 to 1/6/2007 in the Turkish Republic.
2. H.E. Mr. Osama Jafar Faquih, President of General auditing Bureau of the Kingdom of Saudi Arabia, led the delegation to attend the UN/INTOSAI Forum on “Values and Benefits of government Auditing in a Globalized Environment”. This forum has been organized by INTOSAI jointly with the UN Economic and Social Affairs in Vienna during the period from 28 to 30 March, 2007.
3. H.E. Mr. Osama Jafar Faquih, President of General Auditing Bureau, and chairman of INTOSAI finance and Administration committee chaired the 4th committee Meeting held in Oslo, Norway, during the period from 26 to 27 March, 2007.
4. H.E. Mr. Osama Jafar Faquih, President of General Auditing Bureau, visited USA, GAO on 1st of May, 2007. This visit was a response to an invitation extended by Comptroller General of GAO. During this visit, the President of GAB and his counterpart reviewed the aspects of cooperation between the

two SAIs in the field of Accounting, financial audit and Performance Audit. In the end, the President of General Auditing Bureau extended similar invitation to Comptroller General of GAO to visit the General Auditing Bureau in Saudi Arabia.

5. H.E. Mr. Osama Jafar Faquih, President of General Auditing Bureau, led a delegation to attend the 9th General Assembly and the 38th Meeting of ARABOSAI Governing Board held in Yemen during the period from 23 to 31 of May, 2007.

6. H.E. Mr. Osama Jafar Faquih, President of General Auditing Bureau, headed a delegation consisting of a representatives from Ministry of Interior, Ministry of Foreign Affairs, Ministry of Justice, Ministry of communication and Information technology, Board of Investigation and control, and The general Organization for Technical Education and Vocational Training to participate in the 7th Global forum on Reinventing Government: Building Trust in government. The event was under the sponsorship of UN economic and Social Affairs. The Forum was held in Vienna, Austria, during the period from 26 to 29 June 2007.

Internal Activities:

1. H.E. Mr. Osama Jafar Faquih, President of General Auditing Bureau headed the 7th annual Meeting of Departments' Heads on GAB Headquarter on April 18, 2007. A number of topics concerning audit work in GAB were discussed in this meeting. The meeting ended with a number of recommendations and decisions which aim to promote the performance efficiency of GAB. Finally, a number of committees were formed to follow up the implementation of these recommendations.

2. H.E Mr. Osama Jafar Faquih, the President of General Auditing Bureau, opened the 4th conference titled: "Implementation of Unified Policy for Internal Audit Units in Government Sector and Public Associations" to the support ways of cooperation for achieving the goals of performance audit and comprehensive audit. This conference was held during the period from 2 to 3 of June, 2007 on the Institute Public Administration, Riyadh. The level of participants was of the Heads of Financial Departments in the government Sector, companies and Organizations.

3. GAB organized a training program titled: "Evaluating and Analyzing Financial Performance" in Riyadh for participants from SAIs of GCC Countries during the period from 19 to 23 of may 2007

Visit of the President of SAI-Bangladesh to the GAB

In the frame of supporting the cooperating and exchanging experiences with other SAIs with other friendly countries, the Comptroller and Auditor General of Bangladesh Mr. Asif Ali paid an official visit to GAB on July 17, 2007. During this visit, a number of interrelated issues have been discussed in their capacity as members of ASOSAI. These issues included the development of Auditing Methods and the promotion of human resources level in both SAIs.

Articles

ENVIRONMENTAL AUDITING: SAI INDIA'S EXPERIENCE

By - K. P. Sasidharan*

Introduction

Under Article 151 of the constitution of India and specific provisions of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, the Supreme Audit Institution of India is entrusted with full mandate of conducting government auditing with regularity (financial and compliance) as well as performance audit frameworks. As this mandate is equally applicable to Environmental Auditing (EA), SAI, India has been integrating sustainable development concerns and EA concepts in different streams of its audit and, in certain cases, where deemed appropriate, has also been producing independent environmental audit reports on projects, programmes and activities. The guidelines, study papers and other research products on how to conduct systematically EAs, disseminated by the INTOSAI Working Group on Environmental Auditing since 1998 have further facilitated and intensified its efforts not only towards capacity building but also bringing out qualitatively more focused EA reports in recent years.

INTOSAI WGEA 'Guidance on Conducting Audits of Activities with and Environmental Perspective' classifies EAs into the following 5 specific types: "audits of government monitoring of compliance with environmental laws; audits of the performance of government environmental programmes; audits of environmental impact of other government programmes; audit of environmental management systems; and evaluations of proposed environmental policies and programmes". This article dwells upon some of the SAI India's EA reports in recent years and tries to identify different types of EAs conducted by SAI India in diverse spectra of its audit domains, applying the three well recognized government audit frameworks – Financial Audits, Compliance Audits and Performance Audits. Besides providing a bird's eye view of various EA reports, the paper also overviews three of SAI India's EA reports; (i) "Performance Audit of Conservation and Protection of Tigers in Tiger Reserves" (Report No: 18 of 2006); (ii) Report of the CAG on Government of Maharashtra for 2006– 'Performance Audit of Floods in Maharashtra – preparedness and response'; and (iii) "Environmental Management of Mumbai Port Trust" (Report 3 of 2007) as illustrative examples of SAI India's significant efforts in conducting full fledged EA reports with

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Performance Audit framework, applying internationally accepted guidelines and benchmarked best practices.

Types of SAI India's EA Reports

Of the five specific categories of EAs, SAI India has, by now, produced reports identifiable in all the five distinct categories applying the government audit frameworks, though INTOSAI guidelines might not have been fully applied in preparation of some of those reports for obvious reasons. SAI India has not only conducted audit of air, noise, water, waste management, biodiversity, Environmental Impact Assessments, Environmental Management Systems and audit of execution of projects and programmes resulting into policy review by the executive by now, but also endeavoured to tread along new critical domains of environmental audit relating to flora, fauna, rehabilitation and relief issues, urban planning, agricultural activities, energy audit, and even on disaster planning and preparedness. The following discussion is an attempt to touch upon some of those significant EAs conducted in multi spectra domains of audit.

Reviewing the CAG's central and state reports during 2001 to 2006, about 187 EA reports/paras could be identified on varied subjects ranging from performance audit of Ganga Action Plan, 2000, compliance audits of applicable environmental regulations on air, water, solid waste management, hospital waste management, biodiversity etc. Some of the reports such as Ganga Action Plan were deliberated in depth by the PAC and recommendations offered for better management of the projects. These reports also provided in some cases, key inferences, valuable database and analysis for failure and non achievement of objectives with a view to help the executive making appropriate changes in policy formulation and strategy. There are few CAG reports falling in the fourth category of EA, commenting on the environmental impact of non-environmental program or any program or activity till 2006 or so.

Reviewing the SAI India reports of 2006, it is seen that Report No.4 – Union Government (Defence Services) contained performance reports on three naval projects – construction of a naval academy, a naval base and modernization of a navy hospital – where environmental impact had been commented upon. These three projects were not essentially environmental projects, but audit had commented environmental impact on coastal ecosystems, destruction of flora, fauna and degradation of beaches. Report No.5 of 2006 – Railways included performance appraisal of medical and health services highlighting non-maintenance of the prescribed standards for drinking water and food products and non-conformity in case of bio-medical waste management in railway

hospitals. The Report recommended creation of facilities such as autoclave/incinerator for treatment of biomedical waste. Report No.2 of 2006 on Department of Atomic Energy commented on non-installation of incinerator system even after a lapse of nine years; causing environmental hazard by inefficient nuclear waste management. Performance Audit Report No.18 of 2006 on 'Conservation and Protection of Tigers in Tiger Reserves' is entirely a performance audit of an environmental project and hence undoubtedly an EA report. This report is discussed subsequently in detail in the later part of the report.

A review of CAG's latest State Reports prepared in 2006 revealed that Accountant General of West Bengal had undertaken EA of arsenic alleviation programme as part of Receipt, Works and Local Bodies Audit. Accountant General of Himachal Pradesh had reviewed government commercial and trading activities and commented on air, water, soil pollution and non-existence / malfunctioning of sewage treatment plant (STP) and effluents treatment plant (ETP), afforestation and deficiency in EMS of State PSUs. State Report (Commercial & Receipt Audit) contained a report on EMS in a State PSU. State report of Tamilnadu had an EA report on water supply to Chennai city. State Report (Commercial & Receipt Audit) of Andhra Pradesh dealt with environmental safeguards in thermal power station of Power Generation Corporation Limited. Report of Goa for 2006 also contained a performance review on water supply and sanitation programme.

These reports were prepared by following internationally accepted INTOSAI performance audit guidelines and methodology. EA reports of SAI India cut across different streams of SAI India's audits – Defence, Railway, Central Government Departments and State Governments. Some of these reports were on non-environmental projects, but their environmental impacts were commented upon unlike in earlier performance reports and therefore, these reports became EA reports too. Methodology, audit criteria, evidence gathering and analytical techniques used for bringing the audit conclusions were based on internationally accepted performance audit framework. These performance reports are well structured with defined audit scope, objectives, conclusions based on data analysis, supported by relevant and adequate audit evidence, accompanied by recommendations.

In so far as financial audit relating to certification of accounts of PSUs, autonomous bodies and other organizations is concerned, Institute of Chartered Accountants of India, is yet to bring out environmental accounting standards and till such time auditors can only use existing standards for factoring environmental costs including contingent costs, environmental impact on assets, liabilities including

contingent liabilities and disclosure. Certified Management Accountant (CMA) guideline categorizes environmental costs as regulatory, upfront, back end, voluntary, contingent, image and relationship costs. Unless and until mandatory accounting standards are introduced, environmental audit of Balance Sheets, Profit and Loss Accounts of companies, Income and Expenditure accounts of other bodies and organizations could be done to a limited extent only. However, CAG's Report 11 of 2006 commented on non-provision of liability for removal of unauthorized hutments at Indira Gandhi International (IGI) Airport by Municipal Corporation of Delhi. Significant findings of statutory auditors included comment on Brahmaputra Valley Fertilizer Corporation Ltd., stating that the company did not recognize possible impairment loss in respect of unviable Ammonia – I Plant. Audit comments on Central Coal Fields Ltd. included non-provision of sunk cost of dropped project, prospecting, boring and development expenses of project not implemented since 1992-93.

In 2006 SAI India conducted audit of project tiger, an all India review and audit of floods in Maharashtra commenting on the disaster management and preparedness of the government. In 2007 SAI India has also attempted EA of the fifth category – audit of environment management system of a port, first of its kind on ports by any SAI so far. These three reports are discussed in detail in the subsequent paragraphs.

Performance Report on Conservation and Protection of Tigers in Tiger Reserves

This report encompassed significant activities of the Project Tiger – wild life management, protection measures, and specific ecodevelopment activities undertaken in 28 Tiger Reserves created in 17 states between 1973-74 and 1999-2000. The audit was conducted starting with scrutiny of the concerned documents relating to policy and planning in the ministry at the apex level and subsequently followed by simultaneous parallel audit of implementation of the project in the concerned states in close coordination with different audit teams working in the states. This all India review demanded collection of enormous volume of data, facts, figures, and relevant audit evidence from all concerned authorities. The pivotal aim of the audit was analysis of root causes for decline in tiger population in the country and identification of systemic deficiencies with a view to bringing out acceptable recommendations for the government for taking appropriate detective, corrective and preventive measures to achieve the project objectives.

Audit objectives were clearly laid down to assess whether the efforts made by the government had ensured a viable tiger population in

India. Besides evaluating the adequacy of planning, allocation, prioritization and utilization of resources, audit also examined and commented on effectiveness of measures taken to reduce the biotic disturbance from the tiger habitats caused by human settlements along with effectiveness of monitoring, evaluation and follow up mechanism.

Audit findings included wide gap between the financial projections made in the management plans and the annual plans of operations and the actual release of funds for the project along with diversion of allocated funds by the states. There was non compliance of stipulated requirements in creating reserves. Inadequacies in relocation of project affected families and not providing adequate funds for resettlement of them added ecological stress and biotic pressure on the tiger population, adversely impacting the tiger habitats. Irregularities in implementation of ecodevelopment component of the project, non utilization of allocated funds for village development, absence of laboratories and lack of research officers for research, absence of measures to combat poaching combined with deployment of aged field staff and inadequate monitoring systems resulted in depletion of tiger population over the years. The over all tiger population in the country declined from 3623 to 2906 during the period.

Report recommended that all tiger reserves should have a well formulated management plan specifying medium and long term targets, accompanied by annual plans of operations with appropriate allocation of resources. Necessity of streamlining financial allocations was emphasized by audit along with prioritization of allocation based on risk perception. Relocation of human settlements from the core and buffer areas of the reserves by implementation of comprehensive resettlement programmes supported by credible financial package needed urgent attention from the government. Stringent action for eviction of poachers was suggested. Necessity of regulating tourist interventions, efforts to improve communication and intelligence network, effective patrolling, posting of adequate competent manpower, streamlining the census taking procedures and strengthening the monitoring mechanism at the centre and the state levels were also emphasized in the report.

Performance Audit of Floods in Maharashtra – Preparedness and Response

Maharashtra state faced unprecedented torrential rainfall in 2005 flooding all the four regions of the state, claiming around 1100 human lives and 27000 cattle lives. Similar disaster repeated in 2006 killing 400 human beings, resulting in relief and rehabilitation measures by the government. Audit reviewed implementation of the disaster management plan and commented on varied deficiencies in the system

such as delay in desiltation works in Mithi river, nonfunctioning of the disaster warning system, inadequacies in distribution of relief assistance and diversion of funds. Disaster management audit was done for the first time by SAI India. Report examined the magnitude of the calamity, pre-disaster management, post disaster management, relief and rehabilitation measures, financial management, monitoring and reporting mechanism, and analyzed the lessons learnt along with sensitivity to error signals. Recommendations were accepted by the government.

Environmental Management by Mumbai Port Trust

It is a pioneering effort for SAI, India to conduct a performance audit on environmental management of a port. The audit was primarily aimed at assessing the extent of compliance of applicable, mandatory legislative requirements, performance of the port against the stipulated conditions, obligations and commitments along with effectiveness of implementation of the specified environment protection measures. As there was no comprehensive EA reports on ports available on the World Wide Web as a benchmark, SAI India referred to best practices pertaining to environmental management for port as suggested by American Association of Port Authorities' (AAPA) Handbook along with mandatory and relevant regulations for identifying port environmental management practices and thereby deriving irrefutable audit criteria. Audit focused also on the adequacy and effectiveness of implementation of Environmental Management Programmes.

The scope of the audit was clearly defined indicating the period of audit coverage, stating the audit focus as management of air quality monitoring, water quality monitoring and waste disposal. Audit objectives were unambiguously stated to assess whether the port has an appropriate Environmental Management Plan, whether it carries out Environmental Management Audit, Environmental Impact Assessment and takes the requisite mitigation measures systematically at regular intervals. Audit looked at the adequacy and effectiveness of monitoring and controlling mechanism for prevention of air, noise, water pollution and waste management by the port authorities and the role of the regulatory authorities in ensuring adequacy of compliance.

Audit criteria were derived from the applicable, mandatory legislative enactments regulating the activities of ports such as Major Port Trust Act, 1963; The Indian Ports Act 1908; Water (Prevention and Control of Pollution) Act, 1974; Air (Prevention and Control of Pollution) Act, 1981; Environmental Protection Act, 1986; Hazardous Waste (Management and Handling) Rules, 1989; along with other obligations and commitments

undertaken while obtaining clearance for various activities and projects by the port from time to time.

Audit findings included absence of Environmental Management Plan, deficient Environmental Management System and absence of Environmental Management Audit. Audit assessed the performance of the port and highlighted the systemic deficiencies in monitoring prevention of air, water and noise pollution and hazardous waste management, leading to ecological stress and damage to the environment. As environmental impact assessments were not carried out regularly, prompt mitigation measures were not taken by the port. Audit also noticed diversion of funds earmarked for environmental protection measures. Audit scrutiny brought out ecological stress on harbour by illegal harvesting of mangroves and non development of tree cover as stipulated. Inadequacies in waste management led to accumulation of hazardous waste like oil sludge at marine oil terminal. Noise levels arising out of ship repairing activities was not monitored or controlled. Oil industry safety norms were not adhered to. It was also found that harmful marine invasive species were introduced through Ballast Water. Hazardous waste generated out of ship breaking activities was not controlled and managed properly. It was also found that the provisions of Batteries (Management and Handling) Rules, 2001 were not complied with in disposal of batteries. The port has been operating since its operation without obtaining consent to operate from the pollution control regulatory authorities,

After evaluating environmental compliance against mandatory legislative and regulatory requirements and assessing the performance of important activities of the port, SAI India suggested corrective and preventive actions wherever deemed fit. Considering the sensitivity of the port's geographical location in the thickly populated financial capital of the country, the report emphasized the necessity of the port to attend to its environmental responsibilities through concerted action plan with particular focus on adherence to environmental legislative requirements and implementation of a comprehensive Environmental Management Plan.

Conclusion

In compliance with commitments to international accords, Government of India has taken significant steps towards integrating sustainable development concepts in policy formulation, strategic planning, design of programmes, projects and schemes cutting across economic, social and environmental sectors. Adoption of Clean Development Mechanism prescribes technological solutions to environmental problems in economic sectors like transport, energy,

agriculture and industry. In social sectors like poverty eradication, human resource development, urban governance and service arena, sustainable development concepts are increasingly being embedded. In so far as environmental resources are concerned, though legal and regulatory frameworks have been created to protect environment and reduce impact on air, water, land, forestry, biodiversity, and marine ecosystem, it is the responsibility of government auditors to increasingly use EA for reporting sustainable development status to the stakeholders especially the parliament while auditing economic, social and environmental sectors.

As auditing and accounting are inextricably interlinked, the important pre-requisite for effective environmental auditing is sound environmental accounting. Environmental issues and sustainable development concerns may get finally integrated into environmental accounting: firstly, at macro level, while calculating GDP, consumption of the nation's natural resources, both renewable and non-renewable are not presently and green GDP not derived; secondly, at micro level, in financial accounting, firms and organizations need to estimate and report environmental liabilities including contingent liabilities and environmental costs including contingent costs; thirdly, in internal reporting and decision making process, management accounting can use data on costs of possible alternative inputs for raw-materials, utilities like water, electricity with reference to emission and discharge of pollutants and conservation of non-renewable resources, choice of technology in processing, preventive and remedial measures to be taken for compliance with mandatory environmental regulations.

In the internal reporting within an organization, data on environmental costs and liabilities can be used for better decision making in areas like use of inputs, choice of technology for processing and handling of byproducts. These can in turn help decision making relating to usage of alternative raw materials, consumption of utilities like water and power, choice of processing technology based on environmental cost of treating emission into air, discharge into water, adverse environmental aspect and impact on flora fauna and human beings, treatment of byproducts, conservation of non-renewable resources etc. can be looked into systematically for achieving competitive advantage and image building. Substantial amount of work needs to be done in these areas for evolving an acceptable System of Environmental Economic Accounting (SEEA) which may finally provide a solid foundation for conducting more effective and purposeful environmental auditing.

References:

1. Guidance on Conducting Audits of Activities with an Environmental Perspective: INTOSAI Working Group on Environmental Auditing.
2. Environmental Management Handbook for Ports by the American Association of Port Authorities (AAPA).
3. Environmental Accounting Reporting and Auditing by the Institute of Chartered Accountants of India.
4. CMA Management Accounting Guidelines: Tools and Techniques of Environmental Accounting for Business Decisions.
5. Environmental Audit and Regularity Auditing by INTOSAI WGEA.
6. Reports of the CAG of India Referred to in the Article.

Problems of risk assessment in Group Financial Statements

TanweerAhmed¹

1. The proposed International Standard on Auditing 6002² (Revised and Redrafted) March 2006 -The Audit of Group Financial Statements, in paragraphs 20 and 21 provides:

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|-----|--|
| 20. | <i>The group auditor shall determine the work to be performed by the group auditor or the other auditors on the financial information of the components (see paragraphs 22-24). This determination is based on the significance of the component, the identified significance risk, and the group auditor's evaluation of the design of group-wide controls and determination of whether they have been implemented.</i> |
| 21. | <i>If the nature, timing and extent of the work to be performed on the financial information of the components are based on an expectation that group-wide controls are operating effectively, the group auditor shall test, or request another auditor to test, the operating effectiveness of those controls.</i> |

2. In Pakistan the SAI is required to certify the consolidated financial statements of the federal and the provincial governments. In case of the federal government in Pakistan the financial information, leading to preparation of financial statements and pertaining to budgets, payments, and accounting, is generated at

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² In this paper this Standard has been referred to as "revised ISA 600"

- ❖ 120 District Accounts Offices
- ❖ 4 Provincial accounts offices -aggregation of federal transactions taking place in the province
- ❖ 1 Central consolidation office
- ❖ 11 Self-accounting departments
- ❖ over 50,000 cost centers, and
- ❖ a large number of project accounting offices

3. In case of the financial statements of the Provincial Governments, similar arrangement obtain except that the number of districts and other sub-components is lower and that the Provincial accounts offices perform the consolidation function as well.

4. This short paper outlines the problems of Risk Assessment for the financial audit of country-wide financial statements involving various components, agencies, departments, and field offices responsible for payments & accounting. The underlying assumption is that the existing guidelines on financial auditing, both in the private and public sectors, essentially deal with individual entities and do not provide specific guidance in dealing with group financial statements. The timing of the release of the revised exposure draft of the ISA 600 is quite opportune in that the Financial Audit Guidelines Subcommittee of the INTOSAI Professional Standards Committee is developing financial audit guidelines for the public sector.

5. This paper identifies the problems of risk assessment likely to be faced by group auditors who use the generally accepted Risk Model³ given in the financial auditing literature.

The Risk Model

6. There are three essential elements of the generally accepted audit risk model. They are the inherent risk, the control risk and the detect risk which together form the overall audit risk (OAR). In certain cases the risk from other procedures is also added to the equation that is stated as

$$\text{OAR} = \text{IR} \times \text{CR} \times \text{DR} \times \text{OPR}$$

7. This model is generally used to assess the extent of substantive audit testing i.e. the DR which is called the Detect Risk. In order to arrive at a value for the DR, the auditor is expected to know the values of the other four variables. OAR is a planning **decision that reflects the**

³ Developed in the later half of the 20th century, this risk model is used in the financial auditing manuals in vogue in Canada, the US, the UK and other countries including Pakistan. The INTOSAI's training literature on financial auditing also uses the same model.

assurance required from all auditing procedures⁴, hence it can be known.

8. Similarly, the value of the risk from other procedures (OPR) is also estimated and is known. It needs to be noted though that in view of the paragraph 25 of the revised ISA 600 the hitherto accepted values of the OPR may require some re-consideration. Paragraph 25 reads, "For components not selected for audit, the group auditor shall perform analytical procedures at the group level". Performance of procedures at the group level, when compared to the procedures performed at the component level, is likely to provide a reduced level of assurance to the auditor.

9. The critical variables in the above equation are the Inherent Risk (IR) and the Control Risk (CR), and the current literature on financial auditing does not provide practical guidance for determining the values of IR and CR in an environment where the SAIs are required to express opinions on the financial statements that are the result of operations of a number of components and agencies. The following paragraphs elaborate.

Assessment of the Inherent Risk

10. The assessment of Inherent Risk, i.e. material errors will occur and the Internal Controls will fail to check all of them, is based on the past experience of the auditors and the general guidance is available in the literature⁵. But there are also suggestions in the literature to the effect that the overall assessment is not necessarily an average of the various individual assessments. For a particular component and specific financial audit objective or related compliance with authority objective, one of the factors may be much more significant than other factors. Where does such a suggestion lead the auditor to when he is dealing with multiple components and numerous entities? The situation becomes more complex in view of paragraphs 30-32 of the revised ISA 600, under which the group auditor will be expected to assign weightages to, for instance, different agencies, components, branches, and cost centers, for determining the extent of work.

11. The nature of activities performed by different agencies is a major determinant of the inherent risk. For instance, the risk of material errors

⁴ Under the existing best practices, the auditors plan their audits on levels of assurance ranging between 99% to 95%. Hence the values of the OAR in the equation $OAR=IR \times CR \times DR \times OPR$ range between 0.01 to 0.05.

⁵ Generally it is recommended that the Inherent Risk in the public sector operations may be assessed at 20 to 25%.

occurring in a disaster relief operation will always be higher than the risk of material errors taking place in a more stable operation like payment of salaries to school teachers. The activities and operations that a government performs are so varied that it becomes a very complex venture to prescribe a common risk denominator for all the activities and operations. Since it is expected of the group auditor to measure the level of the inherent risk of material errors occurring in the group-wide operations, there is a need to develop a regime under which the subgroups, branches, agencies, and departments are categorized according to the nature of their operations. Once such a categorization for the group's constituents is available, there would be a requirement to assign weights to various categories on the basis of the relative significance of each category. Given the differences in the constituents of the likely groups like governments and large public sector enterprises, and taking into account the robustness and integrity of financial systems in different countries, each group auditor may as well be required to innovate even when a group-wide risk assessment regime has been developed. Presently the financial auditing literature does not provide any guidance in this regard.

12. Without a specific methodology for assigning weights to risk assessments of various components and without a Consolidated Risk Assessment regime, the very idea of a centrally led audit certification approach for Group Financial Statements becomes impractical, particularly so in a countrywide financial management information system.

Assessment of the Control Risk

13. The other critical variable in the above equation, when used for system-based approach to auditing, is the Control Risk (CR). Generally there are two aspects of the Control Risk which are considered by auditors in their assessments of control environment. First relates to determining whether the legislative framework comprising rules and regulations prescribes a reliable internal control environment in the audit entity. The second aspect relates to verifying whether the controls were effectively working during the period under audit.

14. In order to meet the requirements of the first aspect of the control risk, the auditor is expected to familiarize with the audit entity, document its internal controls through devices like Internal Control Questionnaires (ICQ), and develop an overall assessment of the control environment. In case of the Federal Government in Pakistan, the authorization, payment, and accounting controls are exercised at multiple points. With a view to developing an overall assessment of the

control environment the federal government auditor is required to document the internal controls in the executive departments which are the cost centers, the district payment & accounting nodes, the provincial headquarters' compilation stations, and the overall consolidation office. Such an exercise, among others, poses the following questions, to answer which the current auditing literature does not provide any guidance:

- ❖ Should the control environment in all the cost centers be documented or only the controlling offices be taken into account? The ICQs generally refer to accounting elements and audit objectives, without making any reference to entities.
- ❖ If the controls in one significant subcomponent are not reliable, how and to what extent should it affect the auditor's view of the *overall* control environment?
- ❖ What would be the relative weightages of, for example, authorization and accounting controls? That is to say, how would the auditor's assessment be affected if the authorization controls are working and the accounting controls fail more often than not?
- ❖ If a Government is treated as a single entity, what aggregation and consolidation mechanism should be used to develop an over all assessment of the group-wide control environment to meet the requirements of the ISA 315?

15. The second aspect of the control. risk assessment relates to verifying through compliance testing whether the controls were operational and effective during the period under audit. In a government wide accounting environment this becomes a daunting task and the current auditing literature does not address this issue. A feel of the possible problems in this area can be had from the following questions:

- ❖ If the compliance testing shows that in a significant component the payment and accounting controls can be relied on to the extent of 85%, but the authorization and aggregation controls in a large number of not-so-significant components are very weak, what should be the auditor's group-wide assessment of such a control environment?
- ❖ If out of a total of 120 equally significant components, the consolidation and aggregation controls in .39 are excellent, fairly reliable in 28 and very weak in the remaining, how should the group auditor assess the overall risk in the accounting and compilation of financial statements? And will the overall assessment of risk in such a case, leading to determining the

extent of audit work, be equally applicable to all the subcomponents of the group?

- ❖ What should be the relative importance of financial significance viz the nature of the business handled by the component?⁶
- ❖ If an agency's field units do not exercise adequate controls, but there is an excellent control environment prevailing at the Controlling office level, what should be the effect of this information on the auditor's overall assessment of the control setting?
- ❖ In a government wide scenario where a consolidated financial statement is prepared for the entire government, if the controls in the Ministries of Finance, Public Works, Education, and Interior are reliable, but the control environment in other Ministries is indifferent, how should the auditor proceed in forming his overall assessment?
- ❖ Suppose, in the Sub-Offices of the Central Aggregation Agency, the controls can be relied upon with the exception of the two, but the general assessment of the control environment in the field disbursement units is poor, how should the auditor proceed?

16. The above bullet points are only the tip of the iceberg that represents the control assessment problems in a centralized accounting and payment environment⁷. One view can be that in a government-wide scenario, the certification of financial statements can only be managed through a series of independent audits. And the findings of such independent audits can then be aggregated to form an overall opinion. But the aggregation of results, emanating from audits carried out at different

⁶ Keeping in view the requirements of paragraphs A4 and A5 of the revised ISA 600, guiding principles may be required to be developed for exercising professional judgment in this regard.

⁷ As a matter of fact the timing and logistics of various audits, in a group as large as a federal government, are in themselves serious challenges. The existing literature on financial auditing dovetails the extents of substantive audit work with the risk assessment. The underlying assumption seems to be that when auditors start their engagement in an entity they perform tasks in sequence from familiarization to control assessment to substantive testing and analytical procedures, and that all the tasks can be performed during their single stay at the entity. In a government wide set-up, if substantive auditing procedures are to follow the risk assessment, the auditors may be required to visit the entity offices a number of times because unless the compliance testing of the control environment is complete and the assessments are received and consolidated in the audit headquarters, the extent of audit work can not be determined. In other words in a large group scenario there has to be a gap between the compliance testing and the substantive auditing. This gap alone can be forbidding even if only cost-effectiveness of the audit exercise is kept in view.

levels of confidence, can pose serious theoretical challenges. The alternative can be to develop a *multi-locational audit sampling* regime for centrally-led group audits whose results can be defended on the basis of the statistical theory. Both of these alternatives require deliberations by the Financial Audit Guidelines Subcommittee of the INTOSAI Professional Standards Committee.

17. What can be seen from the above analysis is that, for group audits, the current auditing literature does not provide any guidance for determining the values of the IR and the CR in the equation $OAR = IR \times CR \times DR \times OPR$. Without these values, the assurance required from substantive testing in auditing group financial statements cannot be ascertained. And if the group auditor cannot determine the extent of his substantive testing from the above Risk Model, how can such a model be employed for taking group-wide audit planning decisions? And more importantly how can the group auditor meet the requirements of the revised ISA 600 given in paragraphs 20 and 21.

State financial audit in auditing the Use of Natural Resources and Environmental Protection

(Practical aspects of the Activity of the Accounts Chamber of the Russian Federation)

M.V.Odintsov

Relevance (audit justification and planning)

Nowadays the problems concerning rational and efficient nature management and environmental protection are becoming more and more critical for the global development nowadays. Experts estimate that the total global energy consumption as a whole has practically doubled since 1970, and the demand many grow as twice higher by 2050. Presently, Russia holds the lead in the world in terms of oil and gas extraction, and in this context, the task of the state is to make power consumption more efficient.

State financial audit of rational and efficient use of natural resources and environmental protection management are primarily accomplished in terms of analyzing the use of public funds, formation of public management system in that field, observance of the environmental legislation and efficiency of use of state resources.

Methodology

Public financial control in the field of rational and efficient use of natural resources and environmental protection management is exercised by a specially established auditor unit responsible for control over that federal budget expenditures related to nature management and the agricultural sector.

The tasks of the Accounts chamber of the Russian Federation relating to the issues of the use of natural resources and environmental protection are updated taking into account the basic indices of the country's mid-term social and economic development and the assessment of the status and development problems with using all the forms of public financial control – the preliminary audit, current audit and follow-up audit.

In the course of assessing the efficiency of the use of natural resources and environmental protection, the VFM audit of the use of state resources is the main form of control. Both the generally accepted methods of financial audit and specific methods serve as a methodological base for these audits. Considering the issues of nature management and environmental protection, audits, carried out by the Accounts Chamber of the Russian Federation jointly with control accounts institutions of the constituent entities of the Russian Federation and municipal authorities are the most

preferred forms of control while in case of the use and conservation of transboundary natural resources it is expedient to carry out joint and parallel audits in coordination with supreme audit institutions of foreign countries.

The activity of the Accounts Chamber of the Russian Federation

When considering nature management issues that are of mutual interest both for Russia and foreign countries, priority is given to combined audits, mainly in the form of parallel inspections. This approach enables the most comprehensive engagement of the potential of audit institutions in their work using unified agreed upon audit criteria, and, which is of especial importance; it enables working out harmonized proposals for national Governments. Most audits of this type are carried out under the auspices of the EUROSAI Working Group on Environmental Auditing.

Audits of such type may include the following arrangements:

- Parallel audit of the use of the funds of the federal budget of the Russian Federation and budgets of constituent entities of the Russian Federation allocated for financing reproduction, protection of forests and forest fire extinguishing in the border regions of the Russian Federation and the Republic of Kazakhstan (parallel with the Accounts committee for Control over Execution of the Republican Budget of the Republic of Kazakhstan).
- VFM audit of the use of public funds allocated in 2002-2003 for the implementation of environmental protection measures ensuring the fulfillment of the convention on the Protection of the Marine environment of the Baltic Sea Area (Helsinki convention) in the Kaliningrad Region, Saint-Petersburg and Leningrad Region (within the framework of international parallel audit).
- Parallel audit of transboundary waste movement between the Russian Federation (the Kaliningrad Region) and the Republic of Poland in 2001-2005.
- Parallel audit of the use of catching quotas for water biological resources allocated in 2004-2005 to the Russian Federation and the Kingdom of Norway in accordance with the decisions of the Mixed Russian-Norwegian Fishing committee (in parallel with the Office of the Auditor General of Norway).
- Parallel audit by the Accounts chamber of the Russian Federation, the Accounts chamber of the Azerbaijan Republic and the Accounts Committee for Control over Execution of the Republican Budget of the Republic of Kazakhstan, aimed at auditing the efficiency of the use of water biological resources of the Caspian Sea, as well as of the funds allocated to protection, preservation, reproduction and rational use of the sturgeon resources (Acipenseridae).

Based on the experience of international cooperation between supreme audit institutions, a conclusion can be made that their cooperation becomes closer and closer year after year. This is no surprise, allowing for the expansion of the scope of international financial circulation and exchange of commodities. Whereas it was only information exchange that was carried out earlier, general audit criteria are worked out today, and joint audit programs are developed reflecting unitary tasks and purposes. In this context, of special significance is the activity of the INTOSAI Working group on Environmental Auditing implementing the standardization of joint and parallel audits.

The second important element of the activity of the Accounts chamber of the Russian Federation in the field of public financial control is the practice of carrying out audits jointly with audit institutions of constituent entities of the Russian Federation. This aspect is especially critical in the light of the fact that natural resources are the fundamental of the life and activity of the people living in the appropriate area, as stated in the constitution of the Russian Federation.

The cooperation with public audit authorities of foreign countries and constituent entities of the Russian Federation in the field of nature management and environmental protection is of high priority for the Accounts chamber of the Russian Federation.

The participation of external audit bodies of constituent entities of the Russian Federation in such events is also vital due to the changes in the legislation on local government and in the budgetary financing system concerning the transfer of the state management functions, primarily regulating nature management, to the level of the constituent entities of the Russian Federation and the local government with assignation of the appropriate centralized financing. Reasonable cooperation between external audit institutions of all levels is especially critical in case of estimation of efficiency of implementing major projects, or program arrangements providing for co-financing of expenditures from all levels of budgets. In this case, it is impossible to estimate the efficiency of the use of resources without assessing the overall cumulative activity of all participants.

Experience and recommendation of the Accounts chamber for the Russian Federation

The systematization of the results of nature management and environmental protection audits of the Accounts Chamber and the practice of carrying them out in cooperation with other external audit bodies, including those from foreign countries, allows us to come to the following conclusions.

- It would be expedient to ensure a broad presentation of the outcomes of audits in this field, taking into account the necessity of informing the public on the results of external audit as one of the basic tasks of external audit bodies.

- It is necessary to ensure direct interaction with citizens and civil organizations providing them information on the measures taken and discussing with the general public the most problematic sphere of the public sector of economy requiring additional audits and investigations.
- It is necessary to continue the work associated with eh development, adjustment and approval of international audit standards, including methodical support for environmental audit carried out in the form of inspection, and with the analysis of the mechanisms used by public organizations to investigate the observance of national legislation and international agreements on environmental protection and implementation efficiency of the programs in this field. The last example of harmonizing 4 documents worked out by the INTOSAI Working Group (namely “Auditing Biodiversity: Guidance for Supreme Audit Instructions”, “Cooperation Between SAIs : Tips and Examples for Cooperative Audits”, “Evolution and Trends in environmental Auditing”. and “The World Summit on Sustainable Development: An Audit Guide for Supreme Audit Institutions”) is obviously a positive factor in harmonizing national standards of SAIs.
- We need financial expertise of draft laws and monitoring of the current legislation regulating legal relations in the field of nature management and environmental protection to ensure the efficient use of public resources and public property.
- As to the interaction with control accounts authorities of constituent entities of the Russian Federation and municipal-level audit bodies, it would be advisable to improve the information exchange between them and the Accounts Chamber of the Russian Federation, as well as to develop advanced information technologies in the course of audits and expert analyses.
- It is necessary to further develop cooperation with supreme audit institutions of foreign countries within international organizations, which is vital owing to the fact that the issues of the use of natural resources and environmental protection are specified by many intergovernmental and international documents.. In particular, the following initiatives could be carried out with in the framework of member countries of ASOSAI and other international organizations:
 - parallel audits of the use and preservation of marine biological resources of the Pacific Ocean regulated by international and regional fishing conventions;
 - parallel value-for money audit of the use of public and other funds for utilization and rehabilitation of water resources and for protection of transboundary water facilities of the Amur river shed.

Auditor of the Accounts chamber of the Russian Federation

M.V.Odintsov

Building and using model audit programs of financial audit assignment in young SAIs*

Le Hoai Nam
State Audit of Viet Nam

Financial audit is a crucial assignment of many SAIs, especially, in the young SAIs where performance audit hardly implemented. However, managing a financial audit efficiently and effectively need to have an adequacy audit programs which is detailed the plan for accomplishing the audit objectives, but in fact, most young SAIs have many serious difficulties of building audit programs because of the lack of model audit programs. There are several of reasons for this problem and therefore this paper may be providing some solutions which can be useful for young SAIs.

Audit program and model audit program

Developing audit programs to be used on an audit is an integral part of the audit planning process to obtain reasonable assurance that sufficient, appropriate audit evidences will be collected during the course of the audit. Audit programs are the type of documents, along with supervision and review, provide the primary sources of assurance that audits are carried out as intended, because they must be: (1) reviewed and approved by the director, in consultation (where necessary) with the audit principal, and (2) used to set forth the details of the plan for accomplishing the objectives of the audit and to describe the nature, timing, and extent of all significant work to be performed, and (3) developed for each component of the financial statements.

On the other hand, each audit programs is an extension of the audit plan for a particular entity and needs to support the audit decisions documented therein about specific procedures to be performed. However, there are a majority of audit procedures (a library) that makes many difficulty and confusing for user if audit procedures aren't grouped by, or cross-referenced like the model audit programs, which are carried forward from year to year, contains procedures to address all significant assertions and major audit objectives (but often do not specify which procedures relate to which assertions and objectives). The programs are called "model" audit programs if they can illustrate:

- The linkage between potential errors and substantive procedures;
- Substantive procedures that are most commonly used in practice;
- A directional testing approach.

The use of these programs is to encourage to promote consistency among all offices and member entity and to ensure consistent implementation of the audit approach. However, of course, the audit team should always consider the need to ensure that they continue to be appropriate in the light of the current year's planning and risk assessment procedures, and audit programs need to be tailored to the specific needs of the audit plan, and in particular need to address all specific identified risks.

Structure of model audit programs

Every entity and every accounting system has unique features, and every audit has unique requirements. A generic audit program cannot cover all such circumstances adequately. Therefore, designing the model audit program generally applicable for most audits need:

- The model audit programs should contain only substantive procedures, and not only tests of controls. If efficient, selected tests of controls can be added to the model audit programs by the audit team as part of the process of tailoring the programs to a particular audit.

- For efficiency, the substantive procedures addressing potential errors of completeness, validity, recording, and cut-off should be allocated to various model audit programs. In other words, potential errors that might cause overstatements of assets and expenses should be addressed primarily in the audit programs for those assets and expenses, and potential errors that might cause understatements of liabilities and revenues should be addressed primarily in the audit programs for those liabilities and revenues. The procedures in the various model audit programs are coordinated so that potential errors in all common financial statement captions are addressed in one program or another.

- Each model audit program should also contain procedures that may be appropriate when particular conditions exist.

- The model audit programs should be easily tailored. That is, the audit team should be able to modify the model procedures and/or supplement the program with additional procedures with relative ease when necessary.

- The Model audit programs should link easily to the audit plan for the account balance. This will facilitate linking the nature, timing, and extent of substantive procedures to the work we do in planning for the audit, including assessing risk and deciding whether or not we intend relying on controls for a portion of our audit.

- Each model audit program should provide lists of potential errors that affect the audit area covered by the program but that are not tested directly by procedures in that program.

- Each model audit program, if required, should contain additional guidance on the practical performance of certain basic audit procedures to assist auditors in the field.

The difficulty to SAIs not having model audit programs

In general, young or developing SAIs, which have little experience in carrying out financial audit and have no model audit program, will face to many issues not only in implementing, controlling and managing audit but also building model audit programs.

Implementation audit assignment

Standard audit program or model audit program may be a good starting point for developing audit programs. However, if we have no model audit program, auditors must choose audit procedures based on their experiences

without taking care about its conformity with the assertions of financial management (existence and occurrence, completeness, rights and obligations, valuation and allocation, and presentation and disclosure...). Otherwise, the experience differs from auditor to another auditor, so the audit programs may have some issues:

- Don't have consistency among all audit teams and members of each audit team.

- Don't ensure consistent implementation of the audit approach for all subsidiary of entity, so that it makes more difficulty to synthesize audit reports.

- Would be difficult to cover all potential risks in financial statement.

Controlling audit assignment

Without the model audit programs, audit programs aren't made properly to help the manager of audit supervise the works of staff, specially, the internal and external teams who review documentations to assess audit quality and compliance with auditing and related professional practice standards; applicable laws, rules, and regulations; and the auditor's own quality control policies.

In this case, audit quality mainly based on senior auditors who are take part in audit directly because documentations of auditors usually present insufficiently, they only present and implement procedures depending on not only their experience but also personal view that reduces the independence of auditors. Beside that, the managers also don't have enough tools (a model audit program) to detect which procedures are not applied, so they don't ensure that the best procedures is used and all procedures is used in the best way.

Updating experience and training new staff

Without the model audit program is a serious issue for all new staffs when conduct audit assignment. They have no change to research about the key procedures for each assertion of specific entity, so they only learn to know what to do through the experience and kindness of senior auditors: prior audit documentary; direct guideline of senior auditor...

Beside that, without the model audit program, the experience of auditor will not be updated because there is no clue to synthetic the common procedures in each kind of assertion of specific entity. So, auditors cannot realize the weakness of themselves to change in the next audit, for example, in previous year auditor had detected inexistent loan by checking loan contracts, in the current year auditor still doubt about the inexistent loan although he has checked all loan contracts, but he cannot use the alternative procedures as using confirmation, subsequent payment test...

Building and using model audit programs in young SAIs

For all reasons, building model audit programs is necessary for all SAIs to make audit activity become more effective, efficient and professional. However, for young SAIs, building initial model audit programs must be have the care of leader and the effort of all auditor, in addition, young SAIs must have a timetable for each step to develop, use and update model audit programs:

- Firstly, young SAIs should divide audit entities to some groups which have the same of kind of activity, for example, group of entities only spending money from budget; group of entities collecting fees, charges; group of state companies.... Each group must has the similar of assertion of financial statement to find out main procedures (substantive procedures only) based on the potential risk of this assertions.

- Secondly, developing model audit program for each group audit entities: there are two ways to develop a model audit program. SAIs may be based on the research (internal SAIs or from developed SAIs) to determine content of initial model audit program, then applied this model for some audit assignment to take out weakness to change for next time. In contrast, SAIs may be use finished audit with “gold” quality to make the basic for a model audit program of its group, then continuously research to determine the appropriate procedures for model audit programs.

- Thirdly, using model audit program: model audit program must be tailored for each audit. The process of tailoring a program helps to ensure proper attention to details in achieving the ultimate goals of the audit. Putting together an effective program requires the writer to narrow his or her understanding of audit-related aspects of the audit entity down to a relatively fine level, because the task is to explain to the program users precisely what they are expected to do. This requires that the planning process be something more than a formality, and that the auditor truly understands the uniqueness of the audit entity and the related accounting system and internal controls. A tailoring program must analyze the specific risk factors present in order to decide what procedures are appropriate.

Use of the microcomputer can speed up the building audit program process. If libraries of audit procedures are maintained, even on simple word-processing software, the auditor can simply copy a master file of procedures and use the copy to delete those procedures that he or she does not want to include in the program. It is a simple matter to rearrange the procedures in a logical order, and to modify the language of the procedures included, if necessary.

Once an audit program or set of audit programs has been created for a particular entity, it is no more time-consuming to use the tailored programs in future years than to use model audit programs. Of course, the audit team should always consider the need for modification of audit programs as risks and accounting systems change in subsequent years. Updating the programs is ordinarily a simple process, especially if the tailored programs are maintained on microcomputer file.

- Finally, having model audit program is not a finished process of building audit program. Each SAIs should establish a process of assessing and updating for model audit program though two main ways: research and auditor’s update. (1) About research, SAIs must study incessantly to improve quality of each procedure being the most effective and efficient for specific assertions. (2) About update, the update model audit program should become a criterion for assessment quality of auditor in the end of each year, for example, the level of compliance with model audit program, which procedures are not implemented and the level detail of reason? How many new procedures arise in the real audit? ... This is the motivation for

auditor to update model audit programs for both his works and his potential position.

Conclusion

A model audit program is very important for young SAIs to develop and meet the requirement of controlling and reducing risk of audit. However, building a model audit program is not easy for every SAIs, which needs the consideration not only from leader of SAIs but also from all of auditor.

There are a variety ways to develop model audit programs, each SAIs should choose the way which is the most suitable with its characteristics, but anyway, young SAIs should have a process of continuously research and update for model audit program and use it effective and efficient.

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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

| | | |
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| International Journal of Government Auditing | intosaijournal@gao.gov | http://www.intosaijournal.org |

ASOSAI Calendar 2008

| Month | Dates of meeting | Venue | Event |
|--------------|-----------------------------|------------------|---|
| January | To be finalised | Beijing, China | 2 nd meeting of the 8 th ASOSAI Research Project on Guidelines on Environment Audit |
| February | | | |
| March | | | |
| April | | | |
| May | | | |
| June | | | |
| July | Dates & Venue to be decided | | 3 rd meeting of the 8 th ASOSAI Research Project on Guidelines on Environment Audit |
| August | | | |
| September | | | |
| October | 10-12 | Lahore, Pakistan | 39 th Meeting of the Governing Board of ASOSAI |
| November | | | |
| December | Dates & Venue to be decided | | 4 th meeting of the 8 th ASOSAI Research Project on Guidelines on Environment Audit |