International
Journal
of Government Auditing

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

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

The *Journal* is distributed to INTOSAI members and other interested parties at no cost. It is also available electronically at *http://www.intosaijournal.org* or *http://www.intosai.org* and by contacting the *Journal* at *spel@gao.gov*.

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contents

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Sharing Technology Experiences

Editorial

The INTOSAI community today finds itself in the midst of an age when innovation and developments in computer and communication technology are happening at a rapid pace. As traditional processes and systems become more dynamic, networked, and virtual, there are more opportunities to use technology to improve efficiency, increase collaboration, and reduce costs than ever before. INTOSAI and other audit organizations are already taking advantage of some of these technologies. For example, at XX INCOSAI, many of INTOSAI's committees, subcommittees, working groups, and task forces distributed their information electronically on CDs and USB memory sticks, thereby reducing the paper used for printing and the weight of materials that attendees would have to carry on their flights to their home countries. In addition, at VIII EUROSAI this year in Lisbon, official documents were distributed solely through a Web site. Laptop computers were made available to attendees so they could access the documents during the meetings.

Another interesting example of technology is the INTOSAI Collaboration Tool—an Internet-based workbench for the INTOSAI community's internal communications. As the SAI of India wrote in this journal last year, the INTOSAI Collaboration Tool is designed to facilitate decision-making processes between annual board meetings and the triennial congresses. Available in INTOSAI's five official languages, this tool integrates documents, e-mail, calendars, and real-time communication tools to help INTOSAI member SAIs collaborate, communicate, and manage content. The Collaboration Tool has more than 680 users from 133 countries. More than 60 workspaces have been created for INTOSAI working groups; the INTOSAI General Secretariat; the INTOSAI Development Initiative; and the *International Journal of Government Auditing*.

The technologies INTOSAI is using are not limited to computers or the Internet. For example, INTOSAI's Global Financial Crisis Task Force held two of its four meetings via teleconference. Task Force members reported that these phone conferences were an effective way to hold meetings; moreover, the teleconferences saved participants time and money by eliminating the need to travel great distances for a meeting.

INTOSAI is also rich with examples of how individual member SAIs are using new technologies. For example, a news item from the State Audit Office of Vietnam (appearing on page 8 of this issue) describes how they signed a memorandum of understanding with the SAI of Alberta, Canada, via videoconference. In addition, the U.S. Government Accountability Office (GAO) is using technology in a number of ways to work more efficiently. GAO is streamlining workflow by developing appropriate electronic tools and processes. Staff have laptops and software that enable them to work securely from any remote location outside the office just as if they were in the office. Collaboration tools like videoconferencing, teleconferencing, an internal wiki, and document management software enable GAO's staff—whether they are in the same location or not—to collaborate, while maintaining individual accountability. GAO is also using video and audio podcasts, mobile Web site technology, and social media tools, including Twitter and YouTube, to share its work more effectively.

These are just some of the ways that INTOSAI and its members are using technology to enhance collaboration, knowledge sharing, and efficient operations. As INTOSAI looks to the future and prepares for the XXI INCOSAI in Beijing, we want to ask you to share with the *Journal* your stories about how technology has improved your audit work or enhanced the way you participate in or manage INTOSAI initiatives. We also want to hear about those situations in which you have experienced challenges in your use of technology, especially in countries or regions where issues such as cost or infrastructure can be limitations. We believe it is an important part of the Journal's knowledge-sharing mission to share these experiences across the INTOSAI community. By publishing your articles and case studies in future issues, we hope to inspire further innovation as well as solutions to the challenges. Please send your articles and case studies to *intosaijournal@gao.gov*.

NEWS IN *brief*

Azerbaijan

Recent Activities of the Chamber of Accounts

The Chamber of Accounts of the Republic of Azerbaijan approved and presented its 2010 report on its activities to the Parliament.

In accordance with decisions of its board, the Chamber of Accounts recently adopted the following regulatory and legal acts designed to ensure the quality of its audits and enhance their effectiveness:

■ regulations to verify compliance with regulatory and legal acts in entities audited by the Chamber of Accounts,

■ management regulations to ensure the quality of the Chamber of Accounts' audits,

■ rules to control implementation of board regulations on the results of the Chamber of Accounts' audits,

■ regulations for conducting joint and parallel audits with other SAIs, and

■ regulations for obtaining evidence during audits.

For additional information, contact the Chamber of Accounts:

E-mail: *office@ach.gov.az*
Web site: *www.ach.gov.az*

Iraq

Board of Supreme Audit Celebrates Its 84th Anniversary

On March 9, 2011, the Board of Supreme Audit (BSA) celebrated its 84th anniversary. In his opening speech, Dr. Abdul Basit T. Said, President of the BSA, congratulated his staff and outlined the formidable challenges the BSA is currently facing. Despite these challenges, the BSA is ready to carry out its duties with impartiality and professionalism.

During the celebration, awards were distributed to audit offices and departments in recognition of their outstanding performance.

For additional information, contact the BSA:

E-mail: *bsa@bsairaq.net*
Web site: *www.bsairaq.net*

Korea

New Chairman of the Board of Audit and Inspection

On March 11, 2011, Dr. Kun Yang began his 4-year term as Chairman of the Board of Audit and Inspection of Korea (BAI). In this capacity, he also serves as the ASOSAI Secretary General, succeeding Hwangsik Kim, who left office in September 2010 when he was appointed Prime Minister of Korea.

Kun Yang

Dr. Yang has had a distinguished career, serving as professor of law for almost 40 years at Hanyang University and other universities. He was Dean of the College of Law at Hanyang University from 1999 to 2002 and has also led prominent academic societies, such as the Korean Public Law Association from 2004–2005.

Prior to his appointment as BAI Chairman, Dr. Yang served as Chairman of the Anti-Corruption and Civil Rights Commission of Korea from

2008–2009. He was also on various advisory committees, serving as Policy Advisor to the Ministry of Unification and Commissioner of the Supreme Prosecutors' Office Reform Commission.

He has authored many books on constitutional law and the sociology of law as well as numerous law review articles.

Dr. Yang holds Bachelor and Doctor of Law degrees from the College of Law at Seoul National University. He also obtained a Master of Comparative Jurisprudence degree from the University of Texas at Austin in 1976 and was a visiting scholar at the University of California at Berkeley in the United States.

For further information, contact the Board of Audit and Inspection of Korea:

> E-mail: *koreasai@koreasai.go.kr*
> Web site: *http://english.bai.go.kr*

Kuwait

Recent Activities of the State Audit Bureau

In the spirit of mutual cooperation and sharing experiences with other member SAIs, the State Audit Bureau of Kuwait (SAB) hosted the Auditor General of the Mongolian Republic and an accompanying delegation in March 2011. The purpose of the visit was to learn about the SAB's role, its relationship with state entities, its training activities at home and abroad, and the mission and tasks of its information technology (IT) department. During April 24–May 1, 2011, the SAB held a training program on financial, performance, and IT audits in which some auditors from the Mongolian SAI participated.

The SAB participated in the third ARABOSAI/ EUROSAI conference and the ARABOSAI Governing

Board meeting, both of which were held in Abu Dhabi, United Arab Emirates, March 29–30, 2011. During the meetings, the SAB delegation had an exhibition in the hotel lobby that introduced the achievements, publications, and activities of the SAB to the delegates.

To enhance the professional awareness of SAB staff and their commitment to strategic planning, the SAB organized an awareness campaign entitled "Together towards Excellence" from May 22 to June 9, 2011. The campaign included a workshop, seminars, forums, and a professional excellence competition.

For additional information, contact the SAB:

> Email: *president@sabq8.org*, *training@sabq8.org*
> Web site: *www.sabq8.org*

Malaysia and Indonesia

Technical Meeting on Parallel Study on Mangrove Management

More than 40 audit officials from the National Audit Department of Malaysia and the Audit Board of the Republic of Indonesia (BPK) met on Langkawi Island, in the Malaysian state of Kedah, February 23–27, 2011, to share their audit findings and discuss the report framework of the parallel study on mangrove management in the Straits of Malacca. The audit findings related to policy and regulation, conservation programs, impact on the environment, and monitoring and enforcement issues.

This was the second parallel audit study the SAIs had carried out under a memorandum of understanding (MOU); the first study dealt with forest management. Dr. Hadi Poernomo,

Chairman, led the BPK delegation, which also included the Consulate General of the Republic of Indonesia (Penang). Apart from the technical meeting, the Auditor General of Malaysia, Tan Sri Dato' Setia Ambrin Buang, and Dr. Poernomo discussed several matters, including the status of ongoing and future activities under the MOU as well as the possibility of establishing a coalition of Association of Southeast Asian Nation (ASEAN) SAIs. In addition to the work involved, the technical meeting also offered participants a chance to network and absorb the beauty of Langkawi Island. The technical meeting closed with the exchange of agreements between the SAIs. The next meeting will be held in October 2011 in Manado, the capital of the Indonesian province of North Sulawesi.

Tan Sri Dato' Setia Ambrin Buang (left), Auditor General of Malaysia, and Dr. Hadi Poernomo (right), Chairman of the Audit Board of the Republic of Indonesia, led the February 2011 technical meeting on their SAIs' parallel study on mangrove management.

For additional information, contact the National Audit Department of Malaysia:

> E-mail: *jbaudit@audit.gov.my*, *ag@audit.gov.my*
> Web site: *www.audit.gov.my*

Mali

End-of-Term Report Issued by Office of the Auditor General

In March 2011, Sidi Sosso Diarra completed his 7-year appointment as head of the Office of the Auditor General (OAG) of Mali and issued an end-of-term report summarizing the accomplishments and challenges faced by his then newly-formed office. Mr. Diarra was the first Auditor General of the OAG, which was established in 2004.

The OAG, while not an official member of INTOSAI, was granted independence in selecting audit engagements, carrying out its work, and communicating the results of its audits to the President of the Republic, the Prime Minister, and the Speaker of the National Assembly. It has a staff of 100 and carries out both financial and performance audits. The OAG has established partnerships with other domestic and international members of the accountability community. In particular, it has established a bilateral relationship with the Office of the Auditor General of Canada to strengthen its professional and operational activities.

A complete version of the end-of-term report is available in French on the OAG's Web site.

For additional information contact the OAG of Mali:

E-mail: *ddoumbia@bvg-mali.org*
Web site: *www.bvg-mali.org*

Netherlands

Passion for Public Accountability Initiative and Web Site Launched

The Netherlands Court of Audit (NCA) recently initiated a broad initiative on developments in the field of information and accountability called "Passion for Public Accountability." The initiative aims to use the information revolution to improve accountability. In the past, information reached an audience in a logical, chronological way: it was created, used, managed, and finally disposed of or archived. Nowadays, things are much more complex. From the moment information is created, it is immediately used, reused, altered, and stored by a wide range of actors. The number of people having access to information increases every day.

This causes dilemmas for governments. In the Netherlands, the NCA has noticed that the growing body of information available to the Dutch Parliament does not necessarily enable it to be better informed or prepared for debate. On the contrary, the Parliament still continuously seeks validated information that can be used to solve complex policy issues.

As transparency and accountability are major values for the NCA, it is striving to adapt to the information revolution and develop solutions to its challenges. Through the Passion for Public Accountability initiative, the NCA wants to connect a wide range of actors to form a community of professionals interested in public accountability. Members of this community can share examples of improved accountability through using information in different ways and learn from and be inspired by each other's experiences.

The NCA launched this initiative at a March 17, 2011, meeting attended by representatives of the NCA, the Dutch government, local authorities, and the private sector. On the same day, a Web site in Dutch (*www.passievoorpubliekeverantwoording.nl*) was launched to offer an online platform that will serve as the main meeting place for this community. For example, one scientist who specializes in democratic information deficits writes a regular blog. Another scientist explores the question of whether good information and accountability increase the public's trust in the government. Various community members search the Internet for news and innovations in public accountability and post their findings. In addition, a LinkedIn group for public accountability professionals has been created. To date, the individuals invited to become part of the community have responded very positively to this initiative.

The NCA would like to invite SAI colleagues to send international examples of ways in which accountability has been enhanced by using information in new ways to the NCA e-mail listed below.

For additional information, contact the NCA:

E-mail: *internationalaffairs@rekenkamer.nl*
Web site: *www.rekenkamer.nl*

Romania

Recent Activities of the Court of Accounts

As part of its efforts to harmonize its operations with international best practices in capacity building, the Romanian Court of Accounts (RCA) has recently issued its human resources strategy for 2011–2014, which was developed jointly with an international consultant as part of a World Bank–financed project. The RCA's previously issued strategies for institutional development, communication, and information technology have been posted to the RCA Web site in Romanian and English.

A guide on assessing internal control systems in public entities has been made available to all external auditors as a brochure and has also been posted on the RCA Web site. A Romanian

translation of INTOSAI Guidance on Good Governance (INTOSAI GOV) was included in the guide.

To raise awareness of the International Standards of Supreme Audit Institutions (ISSAI) and INTOSAI GOVs, RCA's audit standards were published in May 2011, together with the Romanian translation of the first three levels of ISSAIs and INTOSAI GOVs, and also posted on the RCA Web site.

The RCA signed a cooperation agreement with the Internal Audit Association that was modeled on the memorandum of understanding between INTOSAI and the Institute of Internal Auditors. The agreement acknowledges each organization's standards and outlines the process for ongoing collaboration.

Official Visit from the SAI of Slovakia

Nicolae Văcăroiu (left), the President of the Romanian Court of Accounts, greets Jan Jasovsky (right), the President of the Slovak SAI, during his official visit to Romania.

At the invitation of Nicolae Văcăroiu, President of the RCA, a Slovak delegation led by Jan Jasovsky, President of the SAI of Slovakia, visited

Romania in April 2011. This meeting followed up on Mr. Văcăroiu's official visit to Slovakia in the autumn of 2010. During the initial meeting at the RCA headquarters, the two presidents discussed their bilateral institutional cooperation in the context of both their existing agreement and the INTOSAI and EUROSAI context.

The meeting continued with presentations by RCA specialists on the following themes:

■ the RCA's scope, organization, management, and activities (with a focus on optimizing the functioning of the SAI during the current financial and economic crisis),

■ drafting the control and audit plan and its activities orientation (identifying important social themes for auditing),

■ assuring audit quality,

■ publishing audit results (a public information strategy),

■ cooperating with entities charged with conducting criminal procedures,

■ experiences in implementing the RCA's recommendations, and

■ developing a human resources strategy.

The Slovak delegation traveled to Pitesti to meet with the Mayor and exchange information with the representatives of the Chamber of Accounts of Argeş county and the Regional Office of Kosice to establish a permanent cooperation contact.

For additional information, contact the Romanian Court of Accounts:

E-mail : *international.romania@rcc.ro*
Web site : *www.curteadeconturi.ro*

South Africa

SAI Celebrates 100 Years

The Office of the Auditor-General of South Africa (AGSA) proudly marked a centenary milestone on May 12, 2011. The SAI has planned a year-long program of celebration for the various stakeholders of the organization. The initial celebration of the official birthday was a humbling experience for the SAI as it reflected on some recent highlights.

Notably, the AGSA hosted the XX INCOSAI (International Congress of Supreme Audit Institutions) in November

The representatives of the Romanian Court of Accounts and SAI of the Slovak Republic during their joint meetings in Romania.

2010. The attendees' overwhelmingly positive ratings of the event confirmed that the AGSA's goal of placing particular emphasis on the technical content while sharing South Africa's diverse cultures, rich history, and wide array of natural splendors had indeed been achieved.

The AGSA was also honored to receive some recent awards, particularly the Jörg Kandutsch Award at the XX INCOSAI in recognition of its contributions to INTOSAI. The AGSA also received a local award for its contribution to training and capacity-building of young and emerging auditing and accounting professionals. In terms of its strategic focus, the AGSA supports a number of training programs to increase the supply of financial professionals, helping to address the skills shortage in South Africa.

With its celebrations, the AGSA intends to seize the opportunity to build on achievements to date and consolidate efforts toward achieving its mandate of strengthening democracy and building public confidence through auditing.

For additional information, contact the AGSA:

E-mail: *agsa@agsa.co.za*
Web site: *www.agsa.co.za*

Switzerland

Swiss Federal Audit Office Publishes Its 2010 Annual Report

The Swiss Federal Audit Office (SFAO), the SAI of the Swiss Confederation, annually informs the Finance Delegation and the Federal Council about the scope and focus of its audit work, as well as its key findings. The SFAO's audit work supports Parliament in its oversight activities and the Federal Council in its supervision of the administration. The SFAO audits all levels of budget execution.

The 2010 annual report gives an overview of the breadth of the SFAO's audit work and its findings for the year just ended and is available on the SFAO Web site at *www.efk.admin.ch*. The Web site also contains reports on individual evaluations and audits, such as emissions testing for road vehicles, agricultural research, the tariff system for medical services, and the quality of data for equalizing resources and compensating burdens.

During 2010, the SFAO submitted a written report to the Finance Delegation on its audits of financial supervision and financial statements for 2009 and 2010. The SFAO noted weaknesses in internal control systems and deficiencies in project management identified in the course of its audits. Regarding the procurement of goods and services, it called for compliance with the provisions of procurement law and public invitations to tender.

The SFAO also audits federal social welfare institutions, other institutions and foundations, and international organizations.

For additional information, contact the SFAO:

E-mail: *info@efk.admin.ch*
Web site: *www.efk.admin.ch*

Vietnam

Action Plan to Implement State Audit Office Development Strategy

For 16 years, the State Audit Office of Vietnam (SAV) has been reinforcing its role in the development path for the country. SAV audit results have been increasingly used in managing, governing, approving, and deciding financial and budget issues as well as in legal policymaking. The SAV developed a state audit development strategy to further professionalism and enhance the SAV's performance effectiveness in parallel with the development trends of SAIs around the world. The strategy has been approved by the Standing Committee of the National Assembly.

With support from the United Nations Department for International Development and the United Kingdom's National Audit Office, the SAV constructed an action plan to implement the strategy.

Terence Nombembe (left), Auditor-General of South Africa, and his staff celebrate the 100th birthday of the SAI.

On December 6, 2010, Dr. Vuong Dinh Hue—the Auditor General of the SAV—approved the action plan.

The action plan is divided into specific topics with determined outputs, including requirements, targets, activities, priorities, necessary resources to realize the strategy, risks involved in implementation, methods to reduce risk, timelines, and activities in the next 5 years (up to 2015) in addition to a clear vision of what needs to be done in 2016 to 2020. The action plan focuses on five areas: development and completion of the legal framework for the SAV organization and operations; development of the organizational structure and management of human resources; strategic audit planning, modernization of the audit methodology, and management of audit activities; development and enhancement of the use of information technology; and development and improvement of external relations and communications.

State Audit Standards

On November 9, 2010, Dr. Vuong Dinh Hue, the Auditor General of Vietnam, signed the decision that replaces the state audit standards from 1999 with a new set of standards. The 2010 state audit standards took effect 45 days after they were signed.

The 1999 state audit standards were an important foundation for drawing up principles of professional competence and implementing audits. However, based on requirements in the 2005 state audit law and the recent state audit development strategy, the SAV began revising the state audit standards in 2007. The SAV expects the new standards to be more in line with international practices and actual practices in Vietnam.

The 2010 state audit standards include general, field work, and reporting standards.

Memorandum of Understanding with Canada Signed via Videoconference

On March 8, 2011, Dr. Vuong Dinh Hue, Auditor General of Vietnam, and Mr. Merwan Sher, the Auditor General of Alberta, Canada, signed a memorandum of understanding (MOU) via videoconference. The MOU encourages cooperation in developing the professional competence and skills of staff members conducting performance and forensic audits. This was the first time that the SAV had taken the initiative to sign an MOU with a foreign audit office via videoconference.

Under the MOU, both parties will aim to promote cooperation in the following major areas: studying and exchanging experience on professional methodologies, standards, practices, and implementation procedures in the fields of performance and forensic audits; organizing study visits between the parties to exchange research outcomes, information, books, manuals, training materials on audit methodologies and techniques, and reports on audit results; conducting training activities, conferences, seminars, and working sessions related to performance and forensic auditing; and cooperating on other issues of mutual interest.

At the video conference, the Auditor General of Vietnam affirmed that many essential cooperative opportunities had opened up since the 2008 visit of the Canadian delegation led by Fred Dunn, former Auditor General of Alberta, which helped the SAV create favorable conditions for modernizing audit methods and techniques. SAV especially appreciated the Canadian initiative to assign specialists who arranged short-term training courses in Vietnam for 29 participants in April 2010 and 31 participants in March 2011. In addition, the SAV nominated four auditors in February 2009 and 2010 to study and participate in performance audits in Alberta and will send two more SAV auditors to Canada in 2011.

Mr. Sher, the Auditor General of Alberta, affirmed his appreciation for the outcomes that the SAV has achieved since its inception, including its membership in INTOSAI and ASOSAI. He also indicated that his office and the Canadian Comprehensive Auditing Foundation are pleased to be SAV's coordinating and supporting partners.

For more information, contact the SAV:

> E-mail: *vietnamsai@hn.vnn.vn*
> Web site: *www.kiemtoannn.gov.vn*

Representatives of the Vietnamese SAI participated in a videoconference with the Office of the Auditor General of Alberta, Canada, during which a memorandum of understanding between the two entities was signed.

Establishing Judgments about Materiality in Government Audits: Experiences of Chinese Local Government Auditors

by Yining Zhou, School of Commerce and Management, Southern Cross University, Australia, and Gangying Zhou (retired), Huazhou City Audit Office, Guangdong, China

Materiality is a basic auditing concept that the Financial Accounting Standards Board (FASB) defines as "the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."[1] The China National Audit Office introduced the concept of materiality into Chinese government auditing in 2003, defining it as the "magnitude of an omission or misstatement of information in auditees' financial statements. And this magnitude possibly influences the judgment and decision of financial statement users."[2]

Materiality plays a critical role in identifying the information available to auditors for analysis. Auditors often set materiality levels for detecting errors and irregularities, typically requiring adjustments to financial statements only for material items.

Materiality models and practical guidelines have been developed for corporate auditing. However, research and professional guidelines on government materiality judgments are relatively scarce in English or Chinese literature.

Corporate materiality models tend to emphasize quantitative factors. For example, one popular model for determining corporate audit materiality, known as the "rule of thumb," takes a base (such as revenues, expenditures, or assets) and multiplies it by a percentage to set materiality thresholds.[3] In our experience, government auditors tend to focus more on qualitative factors, perhaps because they, on behalf of the nation and public interest, are under far more pressure for accountability than are corporate auditors responsible only to individual companies and relevant shareholders. As DeZoort et al. note, a "higher level of accountability pressure may contribute to auditors' emphasis on qualitative materiality judgment."[4] However, some government auditors, ignoring the differences between government and corporate audits, take the rule of thumb or another corporate materiality model as their guideline. Arguing the need to review and develop guidelines on U.S. government audit materiality, Ramand

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[1]Financial Accounting Standards Board, *Original Pronouncements as Amended. Statement of Financial Accounting Concepts No. 2: Qualitative Characteristics of Accounting Information* (May 1980).

[2]Chinese National Audit Office, *Chinese Audit Principles and Standards* (2003). The authors are responsible for the translation of this definition.

[3]For example, 0.5 to 1 percent of revenue, 5 percent of profit before tax, or 1 to 2 percent of total assets might be set as materiality thresholds.

[4]T. DeZoort, P. Harrison, and M. Taylor, "Accountability and Auditors' Materiality Judgements: The Effects of Differential Strength on Conservatism, Variability and Effect," *Accounting, Organisation and Society*, vol. 31, no. 1 (2006): pp. 373-390.

and VanDaniker note that "government auditors do not agree on an appropriate base for calculating materiality" and "current practice varies widely."[5]

Given the significant differences between government and corporate audits, it may be unreasonable for government audits to draw directly on existing materiality models developed from corporate settings. Instead, government auditors should develop their own models suitable to their situation. This article explores a materiality method that is grounded on qualitative factors.

A Qualitative Factors Framework for Government Audit Materiality Judgment

The government audit materiality framework we propose comprises the following qualitative factors, conceptualized from our practical experience of government audit and tested by many authentic government audit cases in our office and other local audit offices.

■ *Political Sensitivity.* Accounts or transactions with significant political implications should be taken as material information. Auditors should identify issues of high political sensitivity, especially those relating to laws or policies.

■ *Public Concern.* Areas with significant social effects and of public concern should be regarded as material. For example, our experience indicates that in audits of public schools, tuition fee accounts, which affect many local families with schoolchildren, are material. In many cases, media reporting or disclosure focuses on areas of public concern.

■ *Internal Control Efficiency.* Where internal controls are weak or inefficient, auditees' account data tend to be invalid or unreliable. In these situations, information relevant to the control weaknesses should be considered material. For example, while auditing a city-owned company, we found serious problems in inventory management, where products in storage were allowed to be delivered with only a signature of the director accountant. We identified the inventory account as a material area and eventually discovered that the inventory manager had forged the accountant's signature and stolen a large number of products from the inventory.

■ *Type of Fund.* Type of fund is also a critical factor for judging materiality. For instance, in China, funds designated as "restricted"—such as disaster funds for civil offices to spend for supporting disaster victims and land funds for local land offices to spend for compensating landlords who sell their land to the government—may be spent only for specific purposes. In practice, we regard restricted funds as highly material areas, but in dealing with unrestricted funds we are less stringent. For example, the remainder of an "office fund" (an unrestricted fund for administrative purposes such as meetings, office stationery, and telephone fees) should normally be transferred to the next accounting period. If, however, the remainder is used instead as part of a bonus scheme, we might not regard it as a serious problem.

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[5]K. Raman and R. VanDaniker, "Materiality in Government Auditing," *Journal of Accountancy* (February 1994): pp. 71-76.

■ *Experience/benchmark.* Government auditors sometimes judge material accounts or transactions by referring to their past experience or similar cases.

The following three case studies demonstrate how the qualitative factors framework can be applied and tested in three actual audits carried out by local Chinese auditors.

Case Study One: Local Education Office

In 1999, the Huazhou City Audit Office audited the local education office.[6] The basic education department, which managed all local schools, was considered the most important and powerful of the office's 10 departments. Its decisions and practices often affected the public, especially those families with schoolchildren.

The education office gave this department the right to require schools to pay them administrative and other fees. This conflicted with government policies, which stated that only the education office headquarters had this right.

Futhermore, this department's account did not appear in the education office's general accounts. Only the department kept the ledger details. Previously, government auditors had asked to see the ledger, but the department director had refused to provide it.

The government auditors identified the following qualitative materiality factors in analyzing this situation:

■ *Public Concern:* The practices of this department were of high public concern, directly affecting families with schoolchildren.

■ *Internal Control Efficiency:* The office inappropriately allowed this department to collect fees directly from schools.

■ *Internal Control Efficiency:* The department ledger was not controlled by the education office.

■ *Experience:* The previous refusal to cooperate with government auditors implied that some serious problems were being hidden.

Based on this analysis, the auditor judged the account of this department as material.

Actions and Results. The auditors inquired at local banks and collected details about the department bank accounts and the director's personal bank account. They found that the department director had made a single deposit of a large amount of cash (approximately equal to 10 years of his salary) into his personal account. At the same time, the auditors contacted schools to confirm that this department had directly collected money from them for exam design fees. As this suggested fraud, the auditors referred this matter to local law enforcement officials, who conducted a further investigation. The director later admitted that the large sum of money in his bank account was part of the exam design fees from local schools.

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[6]This case was provided in an oral narrative by auditors in the Huazhou City Audit Office. The authors of this article are responsible for the editing and analysis of this case.

Case Study Two: The Antidrought Team

During a 2007 audit of the local water office, auditors received a confidential report from a staff member on the antidrought team, a department of the water office, alleging that the team captain might be appropriating the national disaster fund as his own personal fund.[7] The auditors decided to conduct a more detailed audit of the antidrought team.

In analyzing this situation, the auditors identified the following qualitative materiality factors:

- *Political Sensitivity:* Anti-drought projects have significant political and social influence, as they directly affect agricultural development and the life of farmers in this city, where farmers constitute 80 percent of the local population.

- *Type of Funds:* Anti-drought funds are disaster funds, a restricted fund in China.

- *Internal Control Efficiency and Experience:* The accountants and captain in the audited entity claimed that all the disaster funds had been spent to purchase anti-drought machines. But auditors noticed that all these funds had been withdrawn in cash from the team bank account. Because buying machinery involves a great deal of money, these transactions are normally carried out using bank transfers rather than cash.

- *Internal Control Efficiency and Experience:* When the auditors conducted a physical inventory, they found that some machines were old and lacked trademarks. Furthermore, some original invoices for the purchased machines were from the retail market, rather than directly from the supplier. (In China, factory invoices are marked as "industrial" and retail invoices are marked as "commercial." In this case, some original invoices were commercial.) From past experience, the auditors knew that commercial invoices are easily obtained and sometimes illegal. For this reason, the audited entity should have obtained industrial invoices as a valid and reliable evidence of purchase.

Based on this analysis, the auditor judged this fund as material.

Actions and Results. The auditors requested further evidence from third parties. Because the machine supplier had declared bankruptcy, the auditors asked the local tax authority to review the machine purchase transactions. They found that the tax account listed lower costs and fewer machines than the team financial statements, strongly suggesting that some funds were being used illegally. Auditors reported this issue to local law enforcement. As further evidence was collected and revealed, the team captain admitted that he illegally appropriated some disaster funds and used them to bribe relevant officials. He also admitted that to deceive the auditors, most machines had been borrowed from other entities several days before the physical inventory and some original invoices had been falsified to hide the crime.

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[7]The Shengyang branch of the China National Audit Office (CNAO) provided this case study, which first appeared on the CNAO Web site, primarily in Chinese. The authors are responsible for the translation, editing, and analysis of this case.

Case Study Three: The Crystal Lamp

During an audit of a public hotel project, government auditors were interested in a special chandelier in the hotel lobby that, according to hotel financial accounts, was valued at about US$150,000 (1 million RMB).[8] After reviewing the initial audit evidence, the auditors identified the following qualitative materiality factors:

- *Internal Control Efficiency:* The purchase of this expensive chandelier should have been open to all local suppliers to ensure a reasonable price. However, the hotel contacted only one supplier when making the purchase and kept the purchase secret from others. The supplier did not provide relevant technical information about the chandelier, such as manuals, certificates, or maintenance brochures. Nor did the hotel require the supplier to provide such information.

- *Experience:* This purchase was made during a time when the hotel faced financial difficulties and lacked cash. It seemed unusual for the hotel to spend this amount of money for a decorative item at such a difficult time.

Based on this analysis, the auditors determined that this purchase was material.

Actions and Results. When the auditors attempted to contact the supplier, they found that the company had been incorporated into a new company. When the auditors reviewed the supplier's account at the new company, they found that the supplier had not manufactured the chandelier but had purchased it from another city for only US$45,000 (0.3 million RMB) and then had sold it to the hotel for US$150,000 (1 million RMB), a difference of US$105,000 (0.7 million RMB) between the market value and the purchase price.

Furthermore, when the auditors invited a financial specialist to assess the chandelier's value, the specialist asserted that it was made of glass, not crystal, indicating fraud. After the government auditors reported this issue to law enforcement, the hotel manager admitted that the supplier had bribed him to make this purchase at the inflated price.

Conclusion

Materiality is contextual. Materiality models focusing on quantitative factors, developed for corporate audit practice, may not be suitable in the government audit context. From our experience and knowledge, we conceptualized five qualitative factors—political sensitivity, public concern, internal control efficiency, type of funds, and experience/benchmark—and tested and applied these qualitative factors in three actual government audit cases. The results suggest the feasibility of these factors, which may not only serve as a reference to government auditors in assessing material information, but also contribute to future government audit standards and guidance with respect to materiality. However, because this qualitative factors framework is grounded in our experience and case studies in the context of Chinese government

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[8]The Changzhou City Audit Office provided this case, which was first written in Chinese on the CNAO Web site. The authors are responsible for the translation, editing, and analysis of this case.

audits, any generalization of our findings should involve research on other countries' government audit work.

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10th ARABOSAI Conference Held in Saudi Arabia

by Helen H. Hsing, U.S. Government Accountability Office

Under the patronage of His Majesty the Custodian of the Two Holy Mosques, King Abdullah bin Abdulaziz, the General Auditing Bureau (GAB), the SAI of Saudi Arabia, hosted the 10th Conference of the Arab Organization of Supreme Audit Institutions (ARABOSAI) October 26–27, 2010. All the 22 SAIs of countries belonging to the Arab League are full members of ARABOSAI, which was founded in 1976.

Conference participants included the heads and representatives of 22 ARABOSAI members: Algeria, Bahrain, Comoros Islands, Djbouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen. Observers included representatives of the Secretaries General of the Arab League of States and the Gulf Cooperation Council; the Auditor General of Austria, who serves as the INTOSAI Secretary General; the Auditor General of Norway and his staff, representing the INTOSAI Development Initiative (IDI); a representative of the World Bank; and a representative of this *Journal*.

At the opening session, after a reading from the Holy Quran, Osama Jafar Faquih, President of the GAB and second Vice-Chairman of the ARABOSAI Executive Council, welcomed all participants on behalf of His Majesty King Abdullah and wished them a pleasant stay in the Kingdom of Saudi Arabia and a successful conference. He also thanked His Majesty the King for honoring the conference by his kind patronage and his fellow ARABOSAI members for attending. Mr. Faquih underscored the role of SAIs in achieving comprehensive and constructive auditing and the importance of cooperation and coordination in ensuring rational management of available financial, economic, and natural resources and increasing their value and return for the national economy.

Abdullah Abdullah Al-Sanafi, President of Yemen's Central Organization for Control and Auditing and Chairman of the ARABOSAI Executive Council, expressed pride in ARABOSAI's progress in designing and implementing its research and training activities and adopting its first strategic plan for 2010–2014.

Faiza Kefi, First President of Tunisia's Court of Accounts and ARABOSAI Secretary General, highlighted the importance of ARABOSAI's participation in the framework of INTOSAI and activities of other regional organizations to achieve greater visibility at regional and international levels. She underscored the importance of INTOSAI's proposed communication strategy for SAIs, which was later offered for adoption at the XX INCOSAI in South Africa in November 2010. She also recognized ARABOSAI's active participation in several INTOSAI committees and working groups, including the Finance and Administration Committee (chaired by Saudi Arabia), the Capacity Building Committee (chaired by Morocco), and the Working Group on the Fight against Corruption and Money Laundering (chaired by Egypt).

Josef Moser, the INTOSAI General Secretary, and Jørgen Kosmo, the Norwegian Auditor General and Chairman of the IDI Board, also participated in the opening ceremony. Dr. Moser thanked ARABOSAI for its contributions to the various activities of INTOSAI and recognized Mr. Faquih's contributions to the Finance and Administration Committee and to building cooperation with donors. He also recognized the contributions of Dr. Ahmed El Midaoui, President of the Moroccan Court of Audit, as chair of the Capacity Building Committee. Dr. Moser underscored the importance of the INTOSAI strategic plan and previewed the main topics that would be discussed at the upcoming INCOSAI. Mr. Kosmo conveyed his appreciation for the current cooperation between IDI and ARABOSAI, citing in particular progress in implementing a joint program on strategic planning. He also advised the assembly of the additional missions that have been entrusted to IDI since it was selected as the General Secretariat for the INTOSAI-donor cooperation initiative.

Subtheme 1: Enhancing SAI Independence

The SAI of Iraq chaired subtheme 1, with the SAIs of Egypt as rapporteur and Saudi Arabia as subject coordinator. Eleven country papers were submitted by the SAIs of Algeria, Egypt, Iraq, Jordan, Kuwait, Lebanon, Morocco, Palestine, Qatar, Saudi Arabia, and Yemen.

The SAI of Egypt presented a summary report on SAI independence; how SAI independence can be enhanced from the legal, professional, financial, and administrative perspectives; and the experiences of 10 SAIs.

After an in-depth discussion of the topic and country papers, the members issued eight recommendations that were later approved and adopted by the ARABOSAI General Assembly. These included recommendations aimed at preserving the independence that SAIs have achieved to date and helping SAIs achieve more independence. Such measures could entail strengthening the independence of the heads of SAIs in relation to their terms of appointment, privileges, legal immunity, and dismissal, while at the same time providing legal protection for auditors and technical staff in carrying out their work. The experiences of the 10 SAIs pointed to the need for SAIs to preserve their independence without becoming overly enmeshed in the executive branch of government.

Subtheme 2: The Role of SAIs in Combating Corruption

The SAI of Kuwait chaired the discussion of subtheme 2, with the SAIs of Jordan as rapporteur and Saudi Arabia as subject coordinator. Ten country papers were submitted by the SAIs of Algeria, Egypt, Kuwait, Lebanon, Morocco, Palestine, Qatar, Saudi Arabia, United Arab Emirates, and Yemen.

The SAI of Jordan presented a summary report on the definition of corruption, including the different types and their implications; the type of environment conducive to corruption; and the role of SAIs in detecting and combating corruption, including factors that facilitate SAIs' detection of corruption.

After an in-depth discussion and review of the country papers, the members made 12 recommendations that were later approved and adopted by the ARABOSAI General Assembly. These wide-ranging recommendations included preventive measures, such as strengthening the internal audit systems within audited entities, establishing an effective legal system in line with the requirements of the United Nations Convention against Corruption, and strengthening SAI capacity. Strengthening SAIs' institutional capacity could include measures such as recruiting and developing staff with the necessary competencies and expertise and obtaining the needed financial resources to do the work. Developing auditing guidelines, working procedures, and methodologies would also strengthen SAI institutional capacity.

Recognizing that auditors working in this area need better data and working relations with the agencies in charge of combating corruption, the members recommended promoting coordination between the SAIs and these agencies and access to automated systems that provide a real-time flow of integrated data. This would, however, need to be done in a way that would not compromise SAI independence.

Behdad M. H. Nowroozi, a Senior Financial Management Specialist at the World Bank and guest speaker at the conference, reported that the World Bank's Department of Institutional Integrity is involved in preventing and investigating fraud and identifying weaknesses in internal controls. He stated that the World Bank has good processes for handling complaints but is concerned about the need to do more to combat corruption related to World Bank–funded projects. He told the assembly that the World Bank supports regional seminars on this subject and welcomed members to contact him should they have any questions on this or any other issue.

Subtheme 3: The Role of Internal Audit Services in Government Agencies and Their Impact on SAI Audit Work

The SAI of Qatar chaired the discussion of subtheme 3, with the SAI of Saudi Arabia serving as both rapporteur and subject coordinator. Eleven country papers were submitted by the SAIs of Algeria, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Palestine, Qatar, Saudi Arabia, and Yemen.

Saudi Arabia led the discussion on enhancing and enforcing the role of internal audit in government agencies in the Arab world. The discussion focused on various aspects of internal audit, including internal audit within an automated information technology systems environment, and the role of internal audit services in government agencies. Some members also discussed the differences in their respective systems.

After an in-depth discussion and review of the country papers, the members made seven recommendations that were later approved and adopted by the ARABOSAI General Assembly. These recommendations included a call to establish an independent professional body for internal auditors in member countries and national legislation ensuring the independence of internal audit services. The recommendations underscored the need for ARABOSAI to issue guidelines for internal audit and evaluation of internal audit systems and urged SAIs to set criteria and standards to

select internal audit services staff. The recommendations also recognized the need to develop auditors' capacity to do this work by advising the SAIs to undertake integrated training programs on evaluating and assessing internal audit systems for both financial and performance audits.

Other Conference Business

During this 10th ARABOSAI Assembly, some new members were elected to the Executive Board, where Saudi Arabia was named as the new ARABOSAI Chair. Other elected members of the Executive Council include Yemen (First Vice President), Kuwait (Second Vice President), Bahrain, Lebanon, Iraq, Morocco, Palestine, and Mauritania. Tunisia will continue to serve as the General Secretariat.

Furthermore, Sudan and Qatar were elected as the principal members of the Financial Audit Committee, with Oman and Libya as reserve members. The assembly also approved a resolution sending a cable to the King of Saudi Arabia thanking him for his support and sponsorship of the conference. The Chairman reported that the second joint meeting of ARABOSAI and EUROSAI had been held in Paris in 2009 and that the third joint ARABOSAI/EUROSAI meeting would be held in the United Arab Emirates, March 29–30, 2011.

The next ARABOSAI conference will be held in 2013 in Kuwait. Lebanon will host the upcoming Executive Board meeting in October 2011.

Other Conference Activities

Throughout the conference, the President of the GAB and his staff treated participants with warmth and generous hospitality. Assembly members toured the King Abdulaziz Historical Center and enjoyed dinner and performances of traditional folklore (the Arthah) there after the tour. Assembly members also had the opportunity to visit the Shura Council, the Consultative Assembly of Saudi Arabia that serves as the nation's formal advisory body, and meet with the Vice-Chairman of the Council and several of its members. At the end of the ARABOSAI assembly functions, many members took the opportunity to participate in a trip organized by the GAB to Holy Mecca to perform Umrah.[1]

For additional information, contact the General Auditing Bureau at *gab@gab.gov.sa*.

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[1]Umrah is a pilgrimage to Mecca.

21st Conference of Commonwealth Auditors-General in Namibia

by Monika González-Koss, INTOSAI Director of Strategic Planning

The 21st Conference of Commonwealth Auditors-General was held in Windhoek, Namibia, April 10–13, 2011. The conference, entitled "Pioneering Excellence in Public Sector Auditing," brought together 38 representatives of the 54 Commonwealth Auditors-General.

Representatives of more than 20 SAIs delivered principal and country papers on the following conference themes:

- strengthening financial management in the public sector (chaired by the SAI of the Cayman Islands),

- aligning institutional capacity and performance of SAIs (chaired by the SAI of Gambia), and

- international developments in building SAI capacity—the commonwealth's role (chaired by the SAI of the United Kingdom).

The final theme was discussed in a workshop in which the future role of the Commonwealth Auditors-General conferences was also deliberated.

Participants in the Commonwealth Auditors-General Conference in Namibia in April 2011.

INTOSAI's Director of Strategic Planning, Monika González-Koss, represented INTOSAI at the conference. She informed participants about recent INTOSAI developments, including the INTOSAI initiative to strengthen independence, the upcoming 21st United Nations/INTOSAI Symposium in July 2011, and the INTOSAI-Donor Cooperation initiative. She also gave a brief account of the XX INCOSAI held in Johannesburg in November 2010.

Theme One: Strengthening Financial Management in the Public Sector

Conference participants elaborated the following key points related to the first theme, strengthening financial management in the public sector.

■ SAIs should consider recommending that their governments adopt national and international standards such as the International Public Sector Accounting Standards (IPSAS).

■ SAIs should consider recommending that their governments move toward accrual accounting.

■ A strong legal framework is necessary to strengthen financial management in order to safeguard public assets and use public resources in the most economic, efficient, and effective way.

■ Sound planning and budgeting are needed to ensure the robust fiscal and macroeconomic policies necessary for economic growth.

■ The budget process should be transparent and consultative and involve all stakeholders. It should focus on outputs rather than processes and inputs.

■ Financial laws and regulations should stipulate the responsibilities of accounting officers and establish internal control systems that include an internal audit function and audit committees.

■ Public financial management can only be improved if there are institutions responsible for monitoring and overseeing public funds, such as SAIs and Parliament.

■ SAIs help to strengthen financial management of the public sector by conducting different types of audits.

■ The effectiveness of a country's financial management can be enhanced by the strong institutional capacity of its SAI.

Theme Two: Aligning Institutional Capacity and SAI Performance

The following key points were noted for the second theme, aligning institutional capacity and SAI performance.

■ INTOSAI's *Building Capacity in SAIs: A Guide*[1] is a useful capacity-building tool for SAIs.

■ The stocktaking report[2] INTOSAI and the international donor community produced in 2010 incorporates the key areas that were found to require the most attention from SAIs.

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[1]Published by the INTOSAI Capacity Building Committee, this guide is available at *http://cbc.courdescomptes.ma.*

[2]INTOSAI Development Initiative, *Capacity Development of Supreme Audit Institutions: Status, Needs and Good Practices, INTOSAI-Donor Cooperation Stocktaking Report 2010,* available at *www.idi.no* under INTOSAI-Donor Cooperation documents.

■ The framework for communicating and promoting the value and benefit of SAIs,[3] endorsed by the XX INCOSAI in 2010, is an important document in promoting and building SAIs as independent model institutions.

■ The AFROSAI institutional capacity framework[4] provides a comprehensive set of provisions relating to SAI capacity building.

■ Capacity building is not an end in itself but should be aligned with improving SAI performance to meet stakeholders' expectations.

■ International Standards of Supreme Audit Institutions (ISSAI) and INTOSAI Guidance on Good Governance (INTOSAI GOV) serve as the basis for SAI capacity building.

■ Legislative provisions that adequately ensure SAIs' functional independence, such as the Lima and Mexico Declarations, are essential to align capacity building with improving the performance of SAIs.

■ The issue of aligning capacity building and SAI performance is to be addressed in relation to audit standards and methodology as well as in other areas affecting SAIs, namely their legal framework, organization and management, human resources, and communication and stakeholder management.

■ SAIs need to build capacity in all the types of auditing they conduct, including financial and regulatory audits, performance/value-for-money audits, IT audits, environmental audits, social audits, and special audits and investigations.

■ Commonwealth SAIs should interact among themselves, as well as with other SAIs, to identify opportunities for collaborative capacity-building activities that can help improve the performance of their respective SAIs.

■ Peer reviews among Commonwealth SAIs, as well as among other SAIs, help identify areas requiring improvement and capacity-building activities that are needed.

■ Collaborating with local and foreign professional and other organizations—such as civil society, Parliament, the executive, auditees, internal auditors, academic organizations, and private sector auditors—can also help SAIs identify areas for capacity building.

■ To ensure that capacity-building activities address the goals and vision of the government, each SAI should align its goals with those of the government.

■ SAIs must be flexible and adaptive in their capacity-building activities in order to adapt to changing circumstances.

■ SAIs' strategic plans should take into account any capacity-building activities that may be required in the short, medium, or long term.

■ Capacity-building activities to improve SAI performance are not one-time activities but are to be sustained over the medium and long term.

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[3] XX INCOSAI, "The Framework for Communicating and Promoting the Value and Benefit of SAIs," *The Johannesburg Accords: 27 November 2010.* XX INCOSAI Johannesburg, Annexure A. Available at *http://www.intosai.org/blueline/upload/jhbaccordsen.pdf*.

[4] Available at *http://afrosai-e.org.za/institutional-capacity-building-framework*.

The SAI of Namibia under its Auditor-General, Junias Etuna Kandjeke, deserves particular praise for its excellent organization of the conference. With their tireless efforts behind the scenes, the members of the Office of the Auditor-General created ideal conditions for an efficient and successful meeting. As participants, we were captivated by the beauty of Namibia and appreciated its positive aspects. From the moment we arrived, we felt the warmth of Namibian hospitality. The friendliness of our reception and the amiability of the conference staff, which transmitted itself immediately to all participants, will long be remembered.

For additional information, contact the Namibian SAI at *jkandjeke@oag.gov.na*.

Spotlight on ISSAIs

by Nanna Schnipper, Professional Standards Committee Secretariat

Why Is Harmonization Needed?

The ISSAI framework was established in an INTOSAI official document approved by the XIX INCOSAI in 2007. With the adoption of this framework, different documents that INCOSAI had approved in previous years were classified into four levels and systematically numbered. Since then, the PSC has added documents to the framework in various audit areas where no guidance existed or the PSC considered existing guidance insufficient. Following the XX INCOSAI, the ISSAI framework is now a comprehensive set of standards and guidelines that can support SAIs around the world in their day-to-day auditing practice.

The XX INCOSAI affirmed that the ISSAIs present the essence of public sector auditing and called upon INTOSAI's members to implement the standards in accordance with their national mandates. At the same time, the XX INCOSAI gave the PSC the mandate to revise the fundamental auditing principles (ISSAIs 100–999) in order to provide an improved conceptual basis for public sector auditing and make the ISSAI framework more consistent.

The current text of the fundamental auditing principles does not reflect recent developments in the ISSAI framework. When the framework was established, the text of the "old" INTOSAI auditing standards developed in 1992 was used for ISSAIs 100–999. It was anticipated that a revision would be necessary in light of newer and partly overlapping ISSAIs. Therefore, the aim of the harmonization project is to update ISSAIs 100–999 to create a better link between ISSAI 1, *The Lima Declaration*, and ISSAIs 1000–5999, the level 4 auditing guidelines. The revised fundamental auditing principles will describe the general role and tasks of SAIs and will also briefly summarize the most important general recommendations contained in the more than 1,000 pages of implementation guidelines on financial, performance, and compliance auditing in ISSAIs 1000–5999.

Revised ISSAIs 100, 200, 300, and 400

A project group has been established to revise the fundamental auditing principles. The group members are Austria, Brazil, China, Denmark (Chair), the European Court of Auditors, India, Mexico, Norway, Slovakia, South Africa, Sweden, the United Kingdom, and the United States. At the group's first meeting in Copenhagen in March 2011, members discussed the overall direction and general issues related to the project and started the process of revising the fundamental auditing principles.

The project group is now drafting the revised set of fundamental auditing principles that will express the general principles of public sector auditing that can support SAIs in their different national settings. Afterwards, the project group will ensure consistency between the fundamental auditing principles and ISSAIs 1000–5999. ISSAIs 1000-5999 translate the fundamental auditing principles into more specific, detailed, and operational guidelines that can be used in day-to-day auditing tasks. The revision of ISSAI 100 will define the fundamental, common principles and concepts of public sector audit. The revisions of ISSAIs 200, 300, and 400 will spell out the specific principles and concepts that define financial, performance, and compliance audit.

Looking Ahead

In the coming months and years, the project group will continue to work on ISSAIs 100–400. When they are finalized, they will be shared with the INTOSAI community in the exposure process described in the INTOSAI due process. Subsequently, the project group will consider how to align ISSAIs 10–99 (the prerequisites for the functioning of SAIs) and 1000–5999 to the revised fundamental auditing principles where necessary.

Since the harmonization project will affect the entire INTOSAI community, we will report regularly on its progress. For more information about the harmonization project and the documents on its Web site, please visit *www.psc-intosai.org/composite-280.htm*. You can also visit the ISSAI Web site at *www.issai.org*.

INTOSAI-Donor Cooperation Update

Increasing the SAI Capacity-Development Supply Side

by the INTOSAI-Donor Cooperation Secretariat

In 2010, the INTOSAI-Donor Secretariat conducted the first global SAI stocktaking. The report contained an overview of the extent of country-owned strategic and development action plans in place and an inventory of capacity-building projects and capacity-building funding gaps in the SAI community. The report generated considerable attention within both INTOSAI and the donor community. One key area of interest was the perceived value of peer-to-peer support within INTOSAI and the potential for increasing the level of such support. This article will focus on peer-to-peer support, with particular emphasis on the need to increase support for SAIs in implementing the International Standards of Supreme Audit Institutions (ISSAI) framework.

Volume and Perceived Value of Peer-to-Peer Support within INTOSAI

INTOSAI has a long tradition of cooperation and mutual support. The 2010 stocktaking identified a considerable volume of peer-to-peer support being provided within INTOSAI through such methods as SAI-to-SAI support and capacity development programs that the INTOSAI regions and the INTOSAI Development Initiative (IDI) are carrying out.

Recipients of capacity-development support were asked in the stocktaking whether support was best provided by an SAI, an INTOSAI region, or IDI or whether it could be equally well provided by other entities. The results show that most SAIs believe that support is best provided by their peers in INTOSAI and that this constitutes an important and valuable mechanism for strengthening SAIs. Approximately 75 percent of SAIs state that their peers are the provider of choice for support to strengthen financial, information technology (IT), compliance, and performance auditing and other specialized audit disciplines. While the percentage is somewhat lower for support in strengthening organizational and external relations capacity, the majority of recipients also identified SAIs, INTOSAI regions, and IDI as the preferred service providers for these categories.

The stocktaking found that fewer than 50 SAIs currently see themselves as providers of capacity development support. It also found relatively few examples of SAIs in developing countries assisting each other.

Data regarding barriers to providing support indicate that resource shortages and skills constraints represent the key obstacles. Only a small number of SAIs have legal barriers that prevent them from providing support to other SAIs.

The findings of the stocktaking send a clear message: there is considerable demand for increased levels of support to SAIs in developing countries, and support from peers within the INTOSAI community is perceived as the most valuable and preferred tool for support. Thus, a key challenge over the years to come will be to mobilize more SAIs to get involved in providing capacity-building support to their peers.

Implementation of the ISSAI Framework

The XX INCOSAI in November 2010 adopted a comprehensive set of ISSAIs that covers the core disciplines of financial, compliance, and performance audits. The ISSAIs represent a milestone in strengthening the global public audit profession and will serve as a key tool for securing greater uniformity in the way public sector auditing is conducted. This will in turn contribute to improving audit quality, benchmarking current practices against internationally recognized best practices, and ensuring increased credibility for SAI reports as audits are carried out in accordance with international standards. As such, the ISSAIs constitute the most significant development in the operational environment of SAIs globally.

Most SAIs will face challenges when implementing the ISSAI framework. The ISSAIs can be perceived as technical and complex and may represent challenges in, for example, changing audit approaches, securing consistency between national manuals and standards and the ISSAIs, and building staff capacity to ensure successful implementation.

Some SAIs have the necessary means to overcome these challenges. However, many SAIs in developing countries—where the vast majority of INTOSAI members are located—find themselves limited by considerable resource and skills constraints. Even though successfully implementing the ISSAIs would be of great value for these SAIs, the reality is that many SAIs currently face difficulties in taking the implementation process forward on their own.

It is important that the ISSAIs be recognized as the internationally accepted framework for public sector auditing. However, this will demand that the standards not only be of high quality and be maintained and updated regularly, but also be applied globally. With the adoption of the ISSAIs, INTOSAI members thus have a shared responsibility to implement the ISSAIs to strengthen public sector auditing and assist those SAIs in need of support in line with INTOSAI's best traditions and motto—"Mutual Experience Benefits All."

Potential for Increasing the SAI Capacity-Building Supply Side

Recognizing the need to further strengthen the SAI capacity-building supply side—particularly in light of the recently adopted ISSAIs—the INTOSAI and donor communities should work together in this endeavor. This may entail the following.

- *Increasing the funding available for peer-to-peer cooperation.* This may involve donors' increased willingness to cover the costs of that cooperation for SAIs willing to provide capacity development support. Donors should increasingly look to the INTOSAI community to identify SAIs to provide capacity-building support. A number of SAIs have indicated an interest in becoming future support providers or increasing the amount of support to be provided, and these are opportunities that should be utilized. Additionally, support for cooperation between developing country SAIs that work in comparable environments with similar challenges and shared languages could be increased.

- *Providing assistance to SAIs in developing their skills to provide capacity-building support and identifying future cooperation partners.* Some SAIs point to skill constraints as a hindrance to providing capacity-building support. These constraints may include a lack of experience in providing support and a shortage of staff with the required skills in areas such as facilitation, or language. Developing guidance material and providing training and practical advice to providers of capacity-development support should thus be pursued.

While these measures may promote additional cooperation among SAIs, increasing the number of SAIs that provide support to their peers appears to be a key factor. With the introduction of the ISSAIs, SAIs need to step up to the challenge of assuming their share of responsibility in supporting SAIs in developing countries—strengthening their capacity and helping them to become strong and effective institutions that can promote good governance, transparency, and poverty reduction. The INTOSAI-Donor Secretariat has an overview of the needs reported by various SAIs and ongoing cooperation programs, and it is ready to help identify and facilitate communication between potential cooperation partners.

For additional information, please contact the INTOSAI-Donor Cooperation Secreatariat at *idi@idi.no*.

INSIDE INTOSAI

Working Group on Key National Indicators Meets in Finland

The INTOSAI Working Group on Key National Indicators (KNI) held its fourth meeting in Helsinki, Finland, in April 2011. During the meeting, participants reviewed the working group's activities over the past 3 years. These activities included implementing five subprojects and elaborating a white paper on the development and use of KNIs in SAI activity. In November 2010, the XX INCOSAI recognized the working group's accomplishments and extended its mandate for the next 3 years. Also, the INTOSAI Governing Board acknowledged the working group's participation in developing the *INTOSAI Glossary of Audit Terms*.

The working group's other subprojects included its review of international experiences in developing and using KNIs, principles for SAIs to use in applying KNIs, and recommendations on developing and using KNIs in innovative economies and Commonwealth of Independent States countries. Representatives of other INTOSAI working groups expressed significant interest in the outcomes of these subprojects at the second meeting of the INTOSAI Knowledge Sharing Steering Committee in 2010.

Developing the white paper on KNIs was a major outcome for the working group over the past 3 years. It not only provides information to help understand the complex issues related to developing and using KNIs but also makes specific recommendations. The working group has prepared analytical material that INTOSAI members are to present for discussion as a manual for developing and using KNIs in SAI activity.

In addition, the Working Group Secretariat is using Organisation for Economic Co-operation and Development (OECD) information resources to develop an electronic database on KNIs that will be available to all INTOSAI members. This tool will draw on multiple data sources (such as the International Monetary Fund, the World Bank, and OECD) to analyze economic processes over different time periods, countries, regions, and economic sectors.

The SAIs of South Africa and Armenia became members of the working group at the Helsinki meeting, demonstrating the growing interest in KNI issues among the INTOSAI community.

All materials of the Working Group on KNIs are available online at *www.ach.gov.ru/en/intosaikni*. For additional information, contact the working group:

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EUROSAI Holds Seminar on SAI Communication with the Media

Communication is a vitally important issue for SAIs, whose task is to provide the public with information on the condition of the government. It is especially important in view of the new tools and platforms available in today's changing communications environment. To discuss this topic in the EUROSAI community, a seminar entitled *SAIs' Communication with Public Opinion via the Media* was held May 10–11, 2011, in Warsaw, Poland. More than 50 participants from 20 European SAIs and the European Court of Auditors attended the seminar, which was organized and hosted by the Polish SAI (NIK), the EUROSAI President at the time. The seminar was targeted to SAI staff responsible for designing and implementing media policy as well as public relations / press / media officers. Its main objectives were to discuss the communications process from the perspective of both an SAI's public relations services and the media and to consider how communications between SAIs, the media, and the general public can be improved.

In the seminar's opening address, Jacek Jezierski, President of the NIK, stressed the importance of cooperation between SAIs and the media. His presentation discussed why SAIs should communicate the results of their audits to the media and the need for civil society to be informed if it is to make informed decisions in a democratic country.

The seminar was divided into three sessions.

- The SAI public relations perspective: When journalists get on press officers' nerves.

- The media perspective: When media officers get on journalists' nerves.

- Problems communicating with the media that arise from an SAI's specific situation: When an SAI gets on its press officer's nerves.

During each session, representatives of the participating SAIs discussed their institutions' communication policies, relationships with the media, and problems they have observed in the field. Several external speakers—journalists and an expert in public relations—also participated and presented their experience in cooperating with SAIs. Seminar participants sought to identify the most common communication problems and possible solutions. They also focused on the need to protect the interests of auditees when communicating audit findings to the public.

Seminar materials are available at: *www.nik.gov.pl/communication-seminar-2011*.

IDI UPDATE

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

IDI/ASOSAI Program on Quality Assurance in Performance Auditing

In April 2011, a review meeting was held for the teams from the 11 SAIs who attended the Workshop on Quality Assurance in Performance Auditing (QAPA) in 2010 and conducted pilot quality assurance (QA) reviews in their respective institutions. At the meeting, they presented their QA review reports, reviewed other teams' reports, and discussed challenges and lessons learned during the QA review. They also prepared a utility report on the generic IDI/ASOSAI QAPA handbook and made the necessary modifications to it. The teams also customized the handbook to suit the requirements of each SAI. After the handbook is adopted, it will be translated into the official languages of the respective SAIs.

IDI/AFROSAI-E Management Development Program

In 2009, IDI and AFROSAI-E launched a Management Development Program (MDP) to enhance leadership and managerial capacities in the participating SAIs. In 2010, the focus was on the heads and senior managers of SAIs. In 2011, the MDP is focusing on the management development needs of the operational managers. In May and June 2011, two workshops were held for 80 operational managers of SAIs. They were trained in agreed-upon management imperatives; roles and responsibilities of operational managers; and knowledge, skills, and attributes of operational managers.

IDI/PASAI Cooperative Performance Audit on Access to Safe Drinking Water

In 2010, IDI and PASAI launched a second cooperative performance audit in an environmental area—access to safe drinking water. Audit teams from nine SAIs in the region participated in the program. They developed audit plans and then carried out field audits and data analysis. After submitting their draft findings to IDI and a subject matter expert, the teams met again in April 2011 for guidance and feedback on the draft audit reports, which will be presented for approval to their respective SAIs.

Trans-regional Program on Public Debt Management Audit

The Trans-regional Program on Public Debt Management Audit, launched at the end of 2008, is now in its final stage. The program's objective is to enhance professional staff development and organizational capacity in conducting public debt management audits. The 29 participating teams from AFROSAI-E, ARABOSAI, ASOSAI, CREFIAF, EUROSAI, and PASAI have completed an 8-week e-learning course and developed an audit plan through online collaboration and pilot audits on various public debt topics. The 29 teams successfully completed their pilot audit work by February 2011. In March and April 2011, each team attended one of three audit review meetings—a French-speaking group met in Morocco and two English-speaking groups met in Zambia and the Philippines. At the meetings, the teams received detailed peer and expert feedback on their draft audit reports, discussed the draft public debt audit guideline, and developed an individual SAI action plan to implement the program outputs in their SAIs for their internal capacity-building programs. A team of experts from IDI's cooperation partners—the INTOSAI Working Group on

Public Debt, the Debt Management and Financial Analysis System Programme of the United Nations Conference on Trade and Development, and the Commonwealth Secretariat—participated in the meeting.

In connection with the review meetings, IDI ran two public debt system training courses for 15 participating SAIs from AFROSAI-E and CREFIAF. The objective of this training was to build practical skills and systems knowledge and give participants a deeper understanding of the public debt management system of their countries.

A wrap-up and exit meeting for the program will be organized toward the end of 2011 to finalize all program outputs, identify lessons learned, and discuss the way forward.
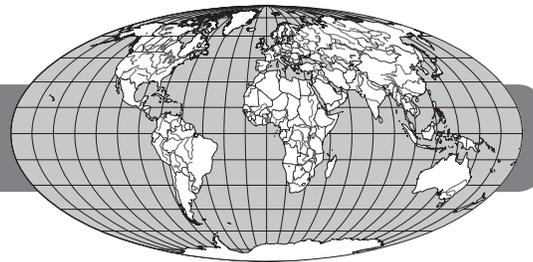
Contacting IDI

To discuss any of the issues raised in this edition, please contact IDI:

E-mail:	*idi@idi.no*
Web site:	*www.idi.no*

INTOSAI 2011 Events

July

13-15 UN/INTOSAI Symposium, Vienna, Austria

18 Meeting of the Finance and Administration Committee, Washington, D.C., USA

19-20 Meeting of the INTOSAI-Donor Cooperation Steering Committee, Washington, D.C., USA

August

1-5 XIV PASAI Congress, Tonga

4-5 Meeting of the Working Group on the Value and Benefits of SAIs, Montego Bay, Jamaica

September

8-9 Meeting of the CBC Subcommittee 3, Promote Best Practices and Quality Assurance through Voluntary Peer Reviews, Vienna, Austria

12-14 Meeting of the Working Group on the Fight Against Corruption and Money Laundering, Prague, Czech Republic

19-23 ASOSAI Governing Board Meeting, Istanbul, Turkey

22-23 ASOSAI/EUROSAI Conference, Istanbul, Turkey

27-29 Meeting of the Compliance Audit Subcommittee, Batumi, Georgia

October

3-5 Meeting of the Steering Committee of the Committee on Knowledge Sharing and Knowledge Services, Moscow, Russian Federation

17-22 OLACEFS General Assembly, Caracas, Venezuela

27-28 62nd Meeting of the INTOSAI Governing Board, Vienna, Austria

November

7-10 Meeting of the Working Group on Environmental Auditing, Buenos Aires, Argentina

December

January

February

March

Editor's Note: This calendar is published in support of INTOSAI's communications strategy and as a way of helping INTOSAI members plan and coordinate schedules. Included in this regular *Journal* feature will be INTOSAI-wide events and regionwide events such as congresses, general assemblies, and board meetings. Because of limited space, the many training courses and other professional meetings offered by the regions cannot be included. For additional information, contact the Secretary General of each regional working group.