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ACCOUNTING AND AUDITING OF FOREIGN AID PROGRAMMES AND EDP AUDIT

Report of the United Nations/INTOSAI
Expert Group Meeting on Government Auditing

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NOTE

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INTRODUCTION

1. An United Nations Expert Group Meeting on Government Auditing was held in Vienna, Austria, from 12-21 September 1990. This was the ninth in a series of interregional seminars and expert group meetings organized jointly by the United Nations Department of Technical Co-operation for Development (UN/DTCD) and the International Organization of Supreme Audit Institutions (INTOSAI).

2. The principal subjects of discussion at the meeting were the accounting and auditing of foreign aid programmes (12-18 September) and electronic data processing (EDP) audit (19-21 September). For a definition of foreign aid, the meeting accepted the definition of "official development assistance" by the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development. DAC defines "official development assistance" using three criteria:

- (a) Does it promote economic development and welfare?
- (b) Does it have a grant element of 25% or more?
- (c) Is it undertaken by official agencies?

This definition includes food aid, technical co-operation and concessional loans, such as the soft loans of the International Development Association. It excludes concessional flows from private voluntary agencies and concessional flows for military purposes. The meeting discussed the various aspects of the accountability needs of donors/lenders and the capacity of the government financial management systems of developing countries to satisfy these needs. It also reviewed the scope, methods and techniques of EDP audit.

3. Welcoming the participants on behalf of the United Nations Department of Technical Co-operation for Development, Mr. Hamdan BenAissa, Director, Development Administration Division of DTCD, underlined the importance which the United Nations attaches to these seminars and meetings, and the impact they have in developing countries in terms of improving their overall financial management. He stated that aid flows from developed to developing countries are now running at approximately US\$51 billion a year; in some specific recipient countries, these flows constitute a significant share of GDP, and about 30 per cent of government budgets. Aid is of crucial significance for many developing countries, a significance which has increased with the tightening of the debt crisis. Mr. BenAissa

stressed the need for using the aid efficiently and effectively. He emphasized the fact that this was the first large-scale international meeting of donors and host countries on this topic and expressed the hope that the participants would examine the complex issues of aid accountability and develop practical recommendations for harmonizing accountability requirements as well as strengthening the financial management capabilities of host countries.

4. On behalf of INTOSAI, Mr. Tassilo Broesigke, President of the Court of Audit of Austria and Secretary-General of INTOSAI, welcomed the participants. He emphasized the importance of collaborative efforts undertaken by the United Nations and INTOSAI in the organization over the years of interregional seminars and expert group meetings on government auditing for developing countries. He suggested a close linkage between accounting and auditing of foreign aid programmes and EDP audit, in the sense that auditors present at the meeting would learn more about accounting and other problems regarding aid and would thereby be able to audit the aid accounts more effectively.

5. The discussions at the meeting were based on the papers prepared by the participants. For accounting and auditing programmes, as many as 28 papers were submitted by the Development Administration Division, experts from 11 developing countries, representatives from three bilateral donors and the World Bank, the United Nations Development Programme, the Asian Development Bank, the Inter-American Development Bank, and officials from nine supreme audit institutions of donor countries. For EDP audit, presentations were made by the supreme audit institutions (SAIs) of Australia, Canada, France, Norway, Sweden, Great Britain and the United States. (Papers are listed in annex I.)

6. A total of 77 participants attended the meeting. They comprised 27 experts from developing countries, 25 senior officials from the supreme audit institutions of developed countries, representatives from 7 bilateral donors, officials from the World Bank, the International Monetary Fund (IMF), and regional development banks, observers from United Nations specialized agencies and officials from UN/DTCD and INTOSAI. (A list of participants is given in annex II.)

7. The meeting started on 12 September 1990, held 14 plenary sessions, and concluded its discussions on 21 September 1990. The meeting organized five working

groups to discuss the following specific topics under aid accountability: harmonization of accountability requirements, accounting issues, auditing issues, institutional and training issues, and UNDP national execution. These groups developed practical recommendations for harmonizing the accountability requirements of donors as well as strengthening the public financial management capacity of host countries. On EDP audit, a working group reviewed the presentations and prepared a course outline for a training seminar for the benefit of auditors of developing countries. The recommendations made by working groups on accounting and auditing of foreign aid and EDP audit were adopted at the meeting and are presented in the following sections.

I. ACCOUNTING AND AUDITING OF FOREIGN AID PROGRAMMES

A. Issues and problems

8. Donors and host countries have similar interests in this field. They need reliable and relevant financial information about aid programmes for two main purposes:

- as a basis for accountability (that is to say, to give to those with a right to know, essential data on aid programmes sufficient to provide reassurance that the money has been properly controlled and used for the purposes for which it was intended).
- as a basis for management action (that is to say, to give to those involved in the management of aid programmes, and the projects which comprise these programmes, sufficient relevant information for the proper discharge of their management responsibilities).

9. Without good host country accountability there can be no donor accountability (unless of course, donors carry out all the relevant transactions themselves). Second, without relevant management information, donors' and recipients' decisions regarding aid have to be made in the absence of the relevant facts.

10. While the situation differs considerably from case to case, significant numbers of host countries are unable to provide the information needed either for accountability or management purposes. Consequently, bearing in mind the enormous sums of money involved, important questions are raised with regard to the accounting and auditing of aid programmes:

How do host countries vary in their ability to provide adequate financial information about aid programmes?

What is an adequate standard in this respect?

What policies with regard to the giving of aid (the amount, the modalities, and the financial controls) should be pursued with respect to host countries which fall below an adequate standard?

Can accounting and auditing of aid programmes be addressed in isolation from a country's general standard of financial management?

If so, what could be done to help countries to improve aid accountability?

If not, what programmes could be devised to enable those host countries with limited financial management capacity, to reach an acceptable standard?

What actions could be taken by donors to make it easier for host countries to fulfil their accountability obligations?

11. Such questions are topical at a time when aid continues to expand, but the electorates in donor countries (and the supreme audit institutions acting on their behalf) are increasingly concerned about the extent to which it is reaching its intended targets. They may become even more concerned given the tendency of multilateral donors to delegate more financial management tasks to host country institutions (for example via the national execution modality of UNDP, and via the revolving fund/statements of expenditure modality favored by the development banks). An increased use of such modalities in environments where financial management is generally poor, threatens the maintenance of accepted standards of accountability. These were the major issues facing the expert group meeting. Discussion centered on how to resolve them, at the conceptual, technical and institutional levels.

12. The lack of financial management capacity of many host countries, particularly in the public sector, was a major subject of discussion. The major constraints in this area were seen to be inadequate training facilities, a consequent lack of trained financial staff, inadequate remuneration and career prospects for financial staff in the public sector, obsolete financial and accounting systems, inadequately developed accounting professions, and absence of a strong commitment to improvement in many countries. If the objective were to improve aid accountability, discussants were cautious as to whether this could be achieved without fundamental improvements in financial management itself. To achieve such improvements, technical assistance was seen to be crucial. Host governments would ensure the maximum impacts from this assistance by creating national accounting professions, paying government financial staff adequate remuneration, ensuring that the skills of those trained abroad are properly utilised upon their return, and pursuing vigorous policies to control corruption and other forms of abuse which militate against good financial management.

13. While the real remedies for poor aid accountability were seen to be general rather than particular, several specific issues were identified:

Audit

14. The shared responsibilities for executing aid-funded projects result in some project components which are the sole responsibility of donors, other components which are the sole responsibility of host country institutions and other components for which responsibility is shared. Audit jurisdiction reflects these divisions of responsibility. As a result, different components of aid-funded projects fall within different audit jurisdictions. This complicates the auditing of aid-funded projects. Donors wish to be subject to an audit of acceptable standard. For this reason some donors evaluate the quality of audit available in-country. If they are not convinced that it is of acceptable quality, they may choose only international firms to carry out their audits. The meeting understood the care donors need to exercise, in order to obtain as high a standard of accountability as possible. However, those representing developing countries were concerned that host country Supreme Audit Institutions lacking appropriate capacity could find themselves effectively by-passed by such choices. They therefore supported a range of measures designed to strengthen national SAIs ranging from consultations to joint working between auditors of aid-financed projects operating under different jurisdictions. They also saw considerable scope for improvement at a much more mundane level: that of informing host country SAIs in good time, of the essential facts about projects which they would be called upon to audit.

Accounts

15. Accurate, reliable and timely accounts are a minimum requirement for proper accountability and management of aid-funded projects. Participants noted the ease with which the transactions of such projects could escape proper accounting, and therefore escape the financial controls that go with accounting. They considered cases such as:

- aid-in-kind given in the form of marketable commodities received by a host country but not accounted for;
- loans advanced by a donor for on-lending to businessmen, but no accounts opened for the repayment of loans or the receipt of interest;

- revolving funds set up to finance expenditure by government bodies but without the knowledge of the Government Accounting Service;
- projects set up on the basis of partial funding by user charges, where the project accounting system and relevant controls were so weak that large amounts of user charges remained uncollected;
- direct purchases by donors not notified to the host country government, so that the government concerned did not know the extent of draw-downs on borrowings from that donor.

16. The dangers inherent in poorly-designed, inadequate or non-existent accounting systems are accentuated because aid moneys are fungible. Fungibility refers to the fact that money loses its separate identity when mixed with other money, for instance in a bank account. Fungibility militates against accountability because at the extreme, it allows a host country institution to convert project aid to whatever use it pleases. To protect themselves from such possibilities some donors require their money to be placed in separate bank accounts, subject to special controls. Others do not go this far, but require the reassurance of separate financial reports and supporting documentation for each project which they fund. The work thereby undertaken by host country institutions may be considerable, especially when donors act in consortium. On the other hand, the reassurance given to donors may not always be completely convincing given the possibility of document substitution. The same problem of fungibility is encountered with regard to aid given in the form of marketable produce, which because it is marketable, can quickly become money. Participants therefore saw the need for an accounting standard on the treatment of in-kind transfers.

Conclusion

17. Clearly, imperfect accountability from host governments (or from other recipient institutions in host countries) undercuts the aid process. The normal reassurances that the money and other items provided, have been properly controlled and accounted for, and used for the purposes for which they were intended, are absent. Moreover, where accountability is seriously imperfect, donors may find themselves ostensibly funding an agreed aid project

when in fact they are funding something completely different. There was general agreement that such situations were contrary to the interests of both donors and host countries. Accordingly, participants stressed the need for a range of initiatives to improve the financial management capacity of host countries. In addition they saw scope for simplification and harmonisation of donor accountability requirements.

B. Findings and Recommendations

1. Harmonization of donor accountability requirements

18. The meeting identified a range of problems regarding accountability for foreign aid. Problems were described by host countries and donors/lenders. These expressed different viewpoints and focused on different aspects, but there was common interest in these problems and a unanimous desire to improve accountability.

19. One of the principal areas of contention raised by host countries was the differing requirements of the various donors. This made it difficult for them to develop regular procedures to provide accountability information. It was a special problem when a number of donors were involved in a particular project. All agreed that there was, in principle, a need for greater uniformity. This would make it easier for host countries to develop systems to produce the required assurances and would benefit donors in the provision of accurate and timely information of the type they sought.

20. The meeting recognized that the task was not easy. On the one hand it was important not to create procedures which might impinge on the sovereign status of host countries. On the other hand, it was also important to recognize that donors had to work within their own statutory frameworks and accountabilities, and their needs would inevitably differ to some extent.

21. The meeting was also aware of past initiatives to achieve greater harmony amongst donor requirements. For example, similar issues were discussed by the Development Assistance Committee of the Organization for Economic Co-operation and Development in the late seventies. The meeting believed that this initiative should be taken up once more and vigorously pursued.

22. While there might be differences of detail, the underlying policies of donors had common threads - the need for transparency of information and a desire for comprehensive reporting. The meeting saw the first step being the collation of documentation produced by donors setting out their requirements. From this compendium the meeting considered that it might be possible to produce a core model or matrix which might in turn form the basis of minimum accountability standards for foreign aid.

23. Following a previous expert group meeting, INTOSAI had taken the initiative to develop common accounting, auditing and internal control standards for the public sector; those for auditing have been completed, and the two other projects are in progress. These are important initiatives which should do much to improve the quality of accounting and auditing around the world.

24. While recognizing these developments, the meeting believed there was a need to produce more specific standards in the field of foreign aid. In the limited time at their disposal it was not practical for the meeting to develop detailed standards. However, they recommended that a working party should be established to make specific proposals for minimum standards of accountability. The meeting considered that primary responsibility for agreeing such standards rested with the ministries and other bodies providing and receiving aid, since such bodies would need to make the standards a regular feature of their aid agreements. It would be particularly important to involve those responsible for meeting the requirements of aid agreements. Supreme audit institutions (SAIs), which assess the accountabilities of donors and hosts alike, would also have a crucial role to play.

25. The meeting did not wish to underestimate the difficulty of the task. They considered it important not to expect too much too soon by way of agreed common standards. It is not practicable, for example, to set maximum standards. But the meeting considered that if realistic aims were set, the working party could devise basic rules for aid agreements to which individual donors could add their specific requirements. Once accepted, the meeting considered that the standards should be supported by a programme of suitable training and advice. In time the standards might be developed further as agreement and understanding progressed among all those involved.

26. The meeting accepted that it would not be possible to reach agreement on fully common standards. It would, of course, be for the working party to consider how best to

proceed; but the meeting recommended that its terms of reference should be sufficiently flexible to allow a range of options. For example, one possibility might be for donors to agree to arrangements specific for certain types of aid -- such as loans or grants, project-linked aid, budgetary support, commodity aid and disaster relief.

27. In establishing the working party recommended above (para. 24), the meeting considered that it should have the following objectives:

- (a) Promote transparency and act as a focus for harmonization, simplification and other improvements in aid accountability;
- (b) Document the accountability requirements of donors with a view to a publication which would summarize the principal features of their requirements; and
- (c) Identify a common core of donor accountability requirements suitable for expression as an accountability standard.

28. The meeting expected the working party to incorporate accounting, reporting and auditing aspects, drawing on the work already done by INTOSAI, but focusing on financial accountability requirements. To this end, the standards might include matters such as the frequency and timeliness of statements of account, an attestation of those statements, and an opinion on compliance and internal controls. The meeting considered that it might also be possible at a later stage to develop simple recommendations for performance monitoring and evaluation of projects and other aid-financed activities.

29. The meeting expected the working group to operate in conjunction with full-time project staff, funded under a United Nations technical assistance project of two years' duration. The costs of the project might be partly funded from direct donor contributions. The working group would include representatives of multilateral and bilateral donors, INTOSAI, the Development Assistance Committee of the OECD, host country governments, supreme audit institutions, and other interested bodies such as those which set accounting standards.

30. Underlying the meeting's conclusions was the belief that there was a clear need for greater collaboration and co-ordination among donors and recipients. The meeting called on the United Nations to take action to bring about the formation of the working group, and to fund the technical assistance project which would support the programme of the working group.

2. Accounting issues

31. The meeting stressed that proper budgeting of aid-funded projects is essential as a basis for correct accounting, management, and reporting to donors. The following are major requirements for proper budgeting:

- (a) Adequate project documentation;
- (b) Satisfactory linkage between a country's investment or development plan and its annual budget;
- (c) Adequate consultations between the central agency charged with responsibility for aid management and the implementing agencies, and good communications within implementing agencies; and
- (d) Valuation and disclosure of aid-in-kind and technical assistance, in project estimates.

32. The meeting also felt that host countries should ensure that their budgeting classification schemes are adequate for aid accountability and other purposes. Adoption of International Monetary Fund classifications for government financial transactions would be one way of achieving this. Where governments have adopted such a classification scheme, the development banks should refrain from requiring more detailed information than IMF classifications provide. In addition, host country governments should further explore the possibilities of providing funds to aid-funded projects for a period longer than the budget year. Multi-year appropriations are one way of achieving this.

33. With regard to accounting, the meeting arrived at the following conclusions

- (a) A system of both cash and commitment accounting by host country governments is adequate for the purposes of aid management, provided it is supplemented by memorandum accounts to show accounts receivable, accounts payable, and tangible assets;
- (b) Differences in fiscal years between host and donor country governments do not materially affect the accountability of host countries;
- (c) Accounting classification should be structured to allow the tracking of funds from each donor source through the accounts. In other words, the chart of accounts should be sufficiently analytical to reflect project expenditure by donor source;
- (d) In order to provide for greater control and stability of aid management, some host countries use trust funds in which unspent balances are not surrendered at the year end; and
- (e) The value of assets created from foreign aid in the economic sector or in commercial statutory bodies may undergo material changes due to inflation or movements in exchange rates. Procedures should be developed to update the valuation of such assets.

34. With regard to financial reporting, the meeting felt that:

- (a) Host government reports should be timely and transparent as to the aid received from each source and its application;
- (b) Donors should provide timely information to host countries on direct payments made by them and on gifts or assistance in kind; and
- (c) Where possible, the accountability requirements (such as classification of eligible items etc.) should be harmonized between host governments and donors/lenders.

When considering the subject of financial reporting, the meeting noted the advantages of governments adopting integrated management reporting systems, capable of producing timely data for decision-making.

35. The meeting noted with concern that the accounting systems of many host governments are not adequate to cope with the analytical and reporting needs of foreign aid management. In seeking solutions, the meeting recommended that:

- (a) The strengthening and modernization of government accounting systems in those host countries with weak systems, should be a priority;
- (b) The training of accounting and financial management staff in all host countries should also be a priority; and
- (c) Both host countries and donors should ensure that sufficient resources are brought to bear on the accounting problems of host countries over a sufficiently long period of time, if significant progress is to be made.

3. Auditing issues

36. The meeting noted the variety of aid modalities, and in particular the existence of three major types of contracts written in the aid field: contracts between donors and host country governments; contracts between donors and private sector bodies in host countries; and contracts between donors and executing agencies or contractors located outside host countries, which undertake aid-funded activities in particular host countries pursuant to aid agreements. The meeting also noted that direct purchase by the donor of goods and services to be supplied to aid-funded projects in host countries, is a modality which is frequently found, particularly in the fields of procurement and technical assistance.

37. Given these circumstances, the meeting recognized that particular types of aid-funded activities fall within different audit jurisdictions. As regards the jurisdictions of the supreme audit institutions (SAIs) of host countries, the meeting appreciated that these are defined by national law, and that they may therefore differ from country to country. It was nevertheless felt that the minimum jurisdiction for any host-country SAI should extend to all

aid-funded transactions which cross the consolidated fund of the country concerned. In countries without the consolidated fund concept this would be equivalent to a jurisdiction extending to all organs of the central government, including ministries, departments, their constituent offices, and all other bodies dependent to a large extent on public funds. The meeting also recognized that the jurisdiction of SAIs in many host countries extends further than the minimum jurisdiction indicated here.

38. On the basis of the appropriate jurisdictional basis, the meeting felt there should be greater co-operation between auditors of aid-funded projects, particularly when auditors operating on behalf of donors have audit assignments in host countries. This could be achieved in several ways:

- (a) By visiting auditors making contact with the SAI of the host country to explain the nature of their assignment, thus giving the SAI of the host country the opportunity to offer information and advice;
- (b) By agreement between the SAI of the donor country and the SAI of the host country for joint working, when the former has an assignment in the host country; and
- (c) By the two SAIs carrying out related assignments and exchanging the results of their work where no agreement exists between them for joint work.

The meeting was aware of instances when lack of contact between auditors of aid-funded projects operating under different jurisdictions had weakened the prospects of accountability. It therefore saw advantages for both donors and host countries of greater co-operation in this area.

39. The meeting heard from some SAIs of host countries that they might suddenly be asked to audit the accounts of aid-funded projects of which they were previously unaware. In such circumstances, the SAI may only become aware of the project many months after its inception. The meeting expressed concern that the failure to inform the SAIs of host countries in advance of the status of aid-funded projects would weaken accountability in foreign aid relations. It therefore called on donors and the governments of host countries to take steps to ensure that SAIs are (a) informed of their possible future involvement at the

time aid agreements are signed or projects are started; and (b) involved in early consultations in such cases, so that their role can be properly defined, they can give necessary advice, and accountability can be thereby improved.

40. The meeting also heard that host countries do not always submit audit reports promptly to donors, and sometimes do not submit them at all. The meeting expressed concern that such failures seriously weaken accountability. It therefore proposed that host country governments should pay greater attention to the prompt submission of audit reports. In addition, in countries where the SAI has the freedom to make public reports, the meeting proposed that the SAI of the host country should submit its audit reports on aid-funded projects to both the national legislature and donors concurrently, as and when these become available. In such cases, it was understood that the SAI would take the precaution of discussing drafts of its audit reports in advance with the auditee and other interested parties, such as the Ministry of Finance.

41. The meeting expressed concern on the shortage of well-trained auditors in host countries and advised SAIs to take appropriate action to strengthen their training efforts. Donors were also urged to consider aiding the development of appropriate training institutions in host countries.

4. National execution modality of UNDP

42. The group noted with interest the development of the national execution (NEX) modality in the United Nations Development Programme (UNDP). Under this modality, the Government assumes responsibility for the effective management of all aspects of its UNDP-financed technical assistance projects and programmes. Governments are accountable to the Administrator of UNDP for ensuring the most appropriate implementation arrangements, the quality of the technical co-operation, and its judicious financial management. The Administrator continues to be responsible and accountable to the UNDP Governing Council for all phases and aspects of the NEX programme, which was initiated in the mid-seventies, has grown rapidly in recent years, and in 1989 accounted for some 10 per cent of the programme delivery.

43. Following General Assembly Resolution 44/211, which affirmed national execution modality, the Governing Council, at its thirty-seventh session in June 1990, endorsed the

further acceleration of NEX. While taking into account the need for further simplification, harmonization and adaptation of rules, procedures and formats governing all aspects of the programming processes and project cycles, it reiterated the necessity for the application of adequate accounting, reporting and auditing procedures to ensure that accepted standards of accountability are maintained.

44. The administration by a government of funds obtained through UNDP is carried out under the host government's respective financial regulations, rules and procedures to the extent that they provide adequate control over the resources. Where the financial governances of a government do not provide the required guidance, those of UNDP should apply. The UNDP-financed activities should be audited by a legally recognized auditor of the government, or by a commercial auditor acceptable to the government and UNDP.

45. Experience has revealed that many governments have failed to account, report and audit expenditures as specified, and as a result, UNDP financial statements have been qualified by the United Nations Board of Auditors. In January 1989, a simplified set of financial reporting procedures was introduced. These procedures were designed to ensure adequate financial accountability by governments, keep responsibility for expenditure certification vested in governments, and provide for a more appropriate way of recording expenditure. Detailed guidelines on the accounting, reporting and audit requirements were prepared and distributed to all governments. This was accompanied by a number of workshops to help governments and UNDP field offices better understand what was required of them. It has also been recognized that to ensure successful implementation, further decentralization is required, together with improved system support to ensure the timely flow of financial data. Development of a computer-based support package is under study. Governments have also been encouraged to apply the monies available under the UNDP "add-on" facility to strengthen their administrative and financial support structures. In addition, a new project has been approved to develop training packages using the "training the trainer" approach. It has been noted that some countries have successfully implemented NEX by establishing a coordinating and support unit within the government, which has in the first instance drawn support from the UNDP field office. This approach is being recommended to other host governments.

46. The meeting welcomed the expansion of the national execution modality. It was felt that it would lead to projects more in line with existing government programmes and

national needs, and to the development of the management and administrative capacities of host countries. To improve the operation of the modality, the need was expressed for UNDPs NEX procedures and systems to be further refined and for further technical assistance to developing countries in the field of financial management.

5. Improving the financial management capacity of host countries

47. The meeting agreed that in all countries there needs to be a responsible, transparent governance system to provide a favourable environment for financial management and control, and that the supreme audit institution of a country is an essential component of such a system. For this reason countries' constitutions or basic laws provide for systems of accountability, in which SAIs are asked to play important roles. The meeting recognized the Lima Declaration of INTOSAI as the international authority on the norms of audit applicable to SAIs, and recommended that SAIs not in full compliance with the declaration, should aspire to adopt its standards more completely.

48. In this process, the donor community can assist in promoting a host government's commitment to international norms of accountability by determining from time to time whether accountability arrangements are being applied effectively, and by recommending improvements.

49. The meeting agreed that within host country governments there is need for a centralized, coordinating accounting institution, to act as focal point for all financial transactions (including aid) affecting the accounts of the host government. This is essential to be able to maintain proper records of account. Donors should seek to involve this institution at appropriate stages in the development and implementation of their aid programs.

50. All countries are constantly changing and upgrading their systems and procedures. Those with adequate control systems are developing more comprehensive tools for analysis, reporting, better coordination, and planning. The meeting believed that all host countries will require some form of technical assistance to upgrade their systems, and that technical assistance should be adapted to each country's stage of financial management development. Donor support should be sought within an overall framework aimed at improved financial decision-making, and should start with a basic assessment of need for each country. Those

countries without adequate internal control systems should be given priority assistance. Attention should also be given to strengthening the capacity of host countries to review and improve their systems so that further enhancements can be carried out with a minimum of external advice. Within this process computers would have an important role to play.

51. Training, including upgrading of skills in all aspects of financial management, is a constant requirement for all countries. This is particularly the case in developing countries where public sector pay is usually low, making it difficult to retain staff. The meeting felt that priority for donor support should include:

- (a) Enabling professional institutes of accountancy to develop and maintain standards, and provide technical support services;
- (b) Upgrading existing government staff skills with short term, on-the-job, and formal training. Priority should also be given to technical diploma-level staff to provide basic analytical and managerial skills. In doing so, local training institutes and universities should be used to the fullest extent possible; and
- (c) Developing a long-range training plan that would make sure that any overseas training is truly needed and that jobs will exist for trained staff upon their return from training.

The meeting recommended that donor missions should include financial management staff in order to help assess financial management needs. By doing so they might also better ensure that host country financial staff are involved in the planning of aid projects.

52. The meeting also felt that efforts to attract and retain staff can be enhanced through increased salaries. However, just as important are efforts to provide non-monetary benefits such as better office and other staff facilities, and take other actions designed to enhance the status of financial management staff. Such measures could also include increased job training, rotation, and mobility. The meeting also recommended that in all areas of training and staff development, the participation of women should be especially encouraged.

53. The meeting agreed that there was an urgent need for additional support for financial management improvements in host countries. Bilateral donors in particular should

consider providing such support, in the first instance to perhaps one or two of their respective target countries. These efforts should be coordinated with UN/DTCD and other multilateral agencies as and where appropriate. It was emphasized that long-term commitments from donors will be required in this area. A comprehensive approach to financial management improvement in host countries, such as was taken under recent large World Bank-financed projects, is favoured because of the need to develop an overall strategy towards developing a country's financial management. In this process, participation of local private accounting and audit firms should be encouraged.

II. ELECTRONIC DATA PROCESSING

A. Review of EDP Presentations

54. Presentations were made by representatives of seven supreme audit institutions (SAIs) on the topic of electronic data processing (EDP) audit. The presentations covered a variety of issues including:

- (a) Development and implementation of EDP systems and facilities in SAIs; and
- (b) Description and demonstration of specific EDP audit facilities.

55. Considering that a number of SAIs have limited or little experience in the use of EDP, the presentations generated a good deal of discussion within the group. This paper aims to identify the more important issues covered in the presentations and the main points of discussion.

56. The presentations on development and implementation of EDP audit had a number of common themes. It was emphasized that in reaching their current position of development, the SAIs had taken an evolutionary approach.

57. The processes associated with the introduction of EDP facilities in SAIs had initially been relatively uncoordinated, but in all cases a strategic implementation plan was subsequently developed and was either implemented or was in the process of implementation. This set a framework which was seen as essential for continued development.

58. It was emphasized by the presenters that successful implementation would be difficult or perhaps impossible without strong and demonstrated commitment to change by very senior management. In a number of cases, staff in SAIs had been resistant to change because of concerns about the impact of technology on them. This required the development of specific training programs to inform and train staff to use the new facilities.

59. In the presentations on specific EDP audit facilities which included basic audit support facilities, such as word processing and spreadsheets, data extraction and analysis

software, other computer-assisted audit techniques and audit planning and management systems, it was emphasized that the applicability of particular options depended on the structure of the SAI and the nature of its audit mandate.

B. Findings and Recommendations

60. The meeting formed a small group to review EDP presentations and made recommendations for any follow up action. The discussion within the group focused on the following issues:

- (a) The importance of realistic planning and careful definition of user requirements in the initial stages of system design and implementation;
- (b) Costs and benefits associated with implementing EDP audit systems;
- (c) Training and retention of staff with appropriate EDP skills and experience by SAIs;
- (d) Funding processes for acquisition of appropriate hardware and software solutions;
- (e) The role of the SAI in reviewing controls in systems under development;
- (f) The desirability of setting up an information exchange giving a reference point for SAIs to provide information on current developments in the implementation of EDP facilities, which could then be accessed by SAIs in the process of implementing such facilities; and
- (g) The particular problems of introducing EDP audit in the developing country environment.

61. The meeting considered the need for another more detailed seminar to address the issues raised by the group. A draft seminar outline was developed addressing a number of issues raised in the discussion. To maximize the benefits of the seminar, it was felt that those attending should be in a management role within a SAI and have continuing

responsibility for sponsoring and managing the implementation of EDP technology. The group thought that in order for the seminar to provide maximum benefit to participants, it should provide hands-on experience in the form of computers and software, so that participants can use and apply some of the available products. The group recommended that UN/DTCD and INTOSAI arrange a seminar focusing on the appropriate EDP approach. A suggested structure is outlined in the following table I.

Table

EDP Auditing -- Sharing Experiences, Opportunities and Challenges

Basic EDP concepts (case study on the implementation of a basic EDP system)

EDP audit concepts

- Using the computer to audit data
- Using the computer to manage the audit process
- Auditing the management of EDP

Implementation of EDP audit in an SAI (case study approach)

- Development of strategy (including implementation plan)
- Organizational issues
 - commitment of senior management
 - staffing
 - appropriate use of consultants
 - defining requirements
- Products available
 - word processing
 - spreadsheets
 - commercial software utilities
 - data extraction and analysis software
- Hardware options
- Acquisition processes
- Training requirements
- Promotion of the implementation of EDP audit
 - internal (within the SAI)
 - external (to the legislature, the executive and auditees)
 - for funding support

Characteristics of well-structured accounting systems (case study approach)

- Environmental controls
- Development and implementation controls
- Production controls
- Security controls
- Role of the auditor
 - external audit
 - relationship between external and internal audit

Annex I

List of Documents for the UNDTCD/INTOSAI Expert Group Meeting on Government
Auditing, Vienna, Austria, 12-21 September 1990

Topic: Accounting and Auditing of Foreign Aid Programmes

Working Papers: Developing Countries

<u>No.</u>	<u>Author</u>	<u>Country/Institution</u>	<u>Title</u>
WP/1	Mr. Peter Dean	Development Administration Div., UNDTCD	Accounting and Auditing of Aid Programmes
WP/10	Mr.M.Haroonur Rashid	Bangladesh	Accounting and Auditing of Foreign Aid Programmes in an LDC: Bangladesh
WP/11	Mr. Erfan Shafey	Egypt	Accounting and Auditing of External Aid to Egypt
WP/8	Mr. Lemma Argaw	Ethiopia	Accounting and Auditing of Foreign Aid Programmes
WP/4	Mr. Isaac Ewun-Tohma	Ghana	Accounting and Auditing of Foreign Aid Programmes
WP/12	Mr. Diakalia Diamoutene	Guinea	Le systeme de gestion de l'aide Exterieur en la Republique de Guinee
WP/9	Ms. Euceline Shaw	Jamaica	Accounting and Auditing of Internationally Funded Projects (Jamaica)
WP/5	Lic. Javier de la Paz	Mexico	Ciudad de Mexico, Sept '85, Analysis de un caso para el control de las donaciones en especie
WP/7	Mr. C.B. S. Nemkul	Nepal	Accounting and Auditing of Foreign Aid Programmes in Nepal
WP/6	Mr. S. Ramamurthy	Papua New Guinea	Accounting and Auditing of Foreign Aid Programmes
WP/2	Mr. Michel Rajoharison	Zaire	Note sur la comptabilisation et la Verification des Programmes d'Aide Exterieur

WP/3 Mr. L.N. Muronzi Zimbabwe Auditing of Foreign Aid Programmes in Zimbabwe

Working papers: Bilateral Aid Agencies

WP/17 Mr. Richard Herring CIDA/Canada Financial Monitoring of Bilateral Development Assistance

WP/15 Mr. Finn Balslev Mr. Kjeld Elkjaer DANIDA/Denmark Joint Statement on Accounting and Auditing Related to Danish Development Aid

WP/18 Mr. James B. Durnil USAID Accountability and Auditing of the United States Economic Aid Programmes

Working Papers: Supreme Audit Institutions of Bilateral Aid Agencies

WP/24 Mr. Gregory M. Williams Australia Audit of Foreign Aid

WP/19 Mr. Frieder Herrmann Austria Accounting and Auditing of Foreign Aid Programmes

WP/20 Mr. Paul Ward Canada Auditing of International Development Activities

WP/22 Mr. J.F.J. Bernicot France La verification des Systems Informatises

WP/25 Cons. Giorgio Clemente Italy La Co-operation au Developpement en Italie: Objectifs, Organismes et Controles de la Cour des Comptes

WP/23 Mr. R. de Jong Netherlands The Netherlands Court of Audit and Auditing of Foreign Aid Programmes

WP/21 Mr. Gregorio C. Ausin Spain Accounting and Auditing of Foreign Aid Programmes: Effectiveness of Accounting Information; Impact of Inflation and Exchange Rate Fluctuations on Financial Statements

WP/30 Mr. Bjorn Jonsson Ms. K. Gustafsson Sweden Accounting and Auditing of Foreign Aid Programmes

WP/31 Mr. J.M. Pearce U.K. Auditing of Foreign Aid

Working Papers: Regional Banks and International Funding Agencies

WP/32	Mr. Bernard Donge	Asian Development Bank	Project Accounting and Loan Disbursement
WP/34	Mr. Luis A. Prieto	Interamerican Development Bank	Experiencia del banco en Relacion con la auditoria de Entidades Ejecutoras y Proyectos
WP/35	Mr. Pervaiz Rashid	World Bank	World Bank's Role in Improving Financial Management and Accountability in Developing Countries
WP/36	Mr. D. Colin McLean	UNDP	Accounting and Auditing of Foreign Aid Programmes - UNDP Approach to National Execution

Background Papers

BP/1	Ministry of Foreign Affairs, Audit Dept	Netherlands	Plan for Tackling Audits of Bilateral Aid, December 1988
BP/2	Kreditanstalt für Wiederaufbau (KfW)	Germany	Guidelines for the Disbursement of Funds of German Financial Cooperation with Developing Countries
BP/3	U.S. Agency for International Development	United States of America	Your Role in the Accountability Process

Topic: EDP Audit

Mr. G.M. Williams Office of the Auditor General of Australia	Australia	Use of Computer Assisted Audit Techniques in Audits of Central Government Financial Statements
Ms. Pace Office of the Auditor General of Canada	Canada	The Canadian Experience: Auditing and Using Information Technology
Mr. J.F. Bernicot Cour des Comptes	France	La verification des Systems Informatises
Mr. Johan Norvalls Riksrevisjonen	Norway	EDP Audit in Norway
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Computer Security in
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Annex II

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United Nations/INTOSAI Expert Group Meeting on Government Auditing

Vienna, Austria, 12-21 September 1990

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