OECD-DAC Task Force on Donor Practices

Sub-group on Financial Management and Accountability

Task D Standards

An inventory of relevant international standards

1. Introduction

The sub-group agreed that broadly accepted standards have a key role to play in helping to strengthen the financial accountability systems of recipient countries. The current set of international standards however only provide partial coverage of public financial management and accountability practices and although they represent consensus in terms of international best practice, most developing countries fall far short of these standards.

In order to strengthen financial management systems there is a need to define a clearer framework within which performance can be evaluated. This will encompass a number of performance measures covering budget formulation, execution and reporting. This will provide a framework within which international best practice and the current status of financial management in each country can be mapped. The framework will indicate clearly the direction of change that is needed, the current status of financial management and indicate the need for remedial measures.

Members of the sub-group are committed to helping recipient countries to achieve these standards. They also wish to explore how policies and procedures in their individual aid programs can be made more consistent with the proposed standards.

2. Purpose of this report

As a first step towards identifying criteria and setting performance measures across them it was agreed to review existing standards in the area of financial management and accountability. This will provide the foundation for further work in this area.

This initial report therefore reviews existing work and will seek to identify areas where further developments are necessary. Section 3 reviews work undertaken by a number of standard setting agencies in the general areas of accounting and auditing together with the work done by the IMF in the context of the Code on Fiscal Transparency. Section 4 reviews the recent work undertaken in assessing Financial Management in HIPC countries and indicates how this could form the basis for a set of more basic performance measures.

The final section draws some interim conclusions and summarises further work that will need to be undertaken by the task group and how this could be combined with other initiatives.

3. Standards

3.1 Accounting and Auditing Standards

Work on the development of International standards is being taken forward by a number of different organisations and groups of which the most important are as follows

IASB

A comprehensive set of international accounting standards for private sector enterprises have been developed by the International Accounting Standards Board (IASB). IASB publishes standards in a series of pronouncements called International Accounting Standards (IAS). (See Standards on the IASB website; http://www.iasb.org.uk) Membership in IASB is predominantly private sector and voluntary with no requirement that the IAS is used. Adoption of IAS is the decision of national authorities or, where relevant, self-regulatory organizations. Some stock exchanges, however, require financial statements in accordance with IAS as a condition for listing (and in many jurisdictions there is nothing to prevent individual corporations from unilaterally adopting IAS, especially where local accounting standards are harmonized with IAS).

The IAS defines overall considerations for financial statements related to fair presentation, accounting policies, going concern, accrual basis of accounting, consistency of presentation, materiality and aggregation, offsetting and comparative information. For basic financial statements IAS prescribes the minimum structure and content. Individual standards provide detailed rules on recognition, measurement and disclosure for specific types of transactions.

IASB publishes and prints individual Standards, usually within 30 days after their Board approves them. IASB issues the publication Standards and Interpretations annually as well as a CD-ROM of all Standards and Interpretations (updated three times a year). In 1997, IASB (then named the International Accounting Standards Committee (IASC)) began publishing a series of Interpretations of International Accounting Standards developed by the Standing Interpretations Committee (SIC) and approved by the IASC Board. IASC has also published the Framework for the Preparation and Presentation of Financial Statements (often called the Framework). The Framework sets out the concepts that underlie the preparation and presentation of financial statements for external users.

The IASB website also gives a brief country synopsis stating whether the relevant country concerned is a member of IFAC and what is their basis for accounting standards. For example the following extract covers Tanzania

TANZANIA

IFAC Member: Yes

Stock Exchange: Dar-as-Salaam Stock Exchange allows companies to submit IAS financial statements.

Accounting Principles: the National Board of Accountants and Auditors (NBAA), a government agency, set Accou standards in Tanzania. The standards are set out in Tanzanian Statements of Accounting Guidelines (TSAG). Whil TSAGs are not the same as IAS, the introduction to the TSAGs states: "In the preparation of these Guidelines, acco has been taken of the development of accounting standards on the international scene (i.e. the work of the Internat Accounting Standards Board) as well as specific developments in various countries of accounting repute. Thus thes Guidelines embrace the best international accounting practice adapted where necessary to cater for Tanzanian nee

The application of the IAS to the public sector is limited and this is the gap that is being addressed by IFAC.

IFAC

IFAC is an organization of national professional accountancy organizations that represent accountants employed in public and private sector as well as some specialized groups that interface frequently with the profession. The membership of IFAC is identical to that of the IASC. (See, the IFAC website at http://www.ifac.org). Currently, it has 153 member bodies in 113 countries, representing 2 million accountants. IFACs objectives are to develop the profession and harmonize its standards worldwide to enable accountants to provide services of consistently high quality in the public interest. IFAC's leadership consists of committees and task forces that work with member bodies. Membership in IFAC is open to accountancy organizations recognized by law or general consensus within their countries as substantial national organizations in good standing. Three levels of membership are available: full, associate and affiliate.

Membership of IFAC imposes an obligation on individual member bodies to support the adoption of IFAC standards in their own jurisdictions.

The mission of IFAC as set out in its constitution is " the worldwide development and enhancement of an accountancy profession with harmonised standards able to provide services of consistently high quality in the public interest"

IFAC plays a complementary role to the IASB by its engagement in initiatives covering audit and the public sector. In addition it provides guidelines in four other areas namely education, ethics, financial and management accounting and information technology.

The work that has most relevance to the Task team is that undertaken in the audit and public sector accounting area.

IFAC International Auditing Practices Committee (IAPC)

IAPC is a working committee within the IFAC to improve the degree of uniformity of auditing practices and related services throughout the world by issuing pronouncements on a variety of audit and attest functions. IASB and IFAC work together to promote benchmark standards

IFAC issues International Standards on Auditing (ISAs). Since national standards on auditing and related services published in many countries differ in form and content IFAC has developed international standards to harmonise national practises and promote compatibility and a set of “best practises” issued by its International Auditing Practices Committee (IAPC). ISAs are to be applied in the audit of financial statements. ISAs are also to be applied and adapted to the audit of other information and to related services. International Auditing Practice Statements (IAPSs) are issued to provide practical assistance to auditors in implementing the ISAs and to promote good practice. These particular statements are not intended to have the authority of standards.

A significant number of IFAC members use the ISA as a basis for developing their own national standards. The standards developed by IFAC/IAPC *have however no legal force*; members are simply expected to use best efforts to see that IFAC and IASB pronouncements are used nationally. However, the IFAC does encourage members to undertake a self-review of their domestic auditing practices to evaluate how well they compare with the ISA.

The ISAs apply predominantly to financial statement audits conducted in the private sector, although in recent years selected ISAs have incorporated a “public sector perspective” statement, which highlights specific issues that might arise in the application of the ISA to public sector audits.

A task force is currently reviewing the future strategy, role and operations of IAPC. The task force’s discussion document suggests (by omission) that there will be little, if any, attention paid to public sector attestation audits. This could potentially open up a significant gap in the international accounting and auditing standards-setting architecture.

IFAC-Public Sector Committee

The Public sector committee focuses on the accounting, auditing and reporting needs of national, regional and local governments, related governmental agencies and the constituencies they serve.

The underlying philosophy of the PSC is that while most of the basic principles of accounting and auditing are the same across both public and private sectors, the application of these principles raises a number of specific issues in the public sector context. The PSC identifies and addresses specific public sector accounting and auditing issues and concerns. The PSC also resolves differences in practice and application that may arise between public sectors in different jurisdictions and between levels of the public sector within a jurisdiction.

The terms of reference for the PSC require it to develop programs aimed at improving public sector financial management and accountability including:

- developing accounting and auditing standards and promoting their acceptance
- developing and coordinating programmes to promote education and research
- encouraging and facilitating the exchange of information among member bodies and other interested parties

For the public sector, the PSC is formulating accounting standards, based initially on the IAS. The objective of its current phase of work is to develop a full set of IPSAS based on the IASs issued at the end of August 1997. These are expected to be completed by the end of 2001 and will provide a framework of standards that can be applied to the public sector. These will, however, need to be reviewed to assess their relevance to developing countries. The World Bank have been supporting IFAC-PSC since 1997 and they have recently approved a new grant of $250,000 for each of the next three years. A condition of this grant is that the PSC should take additional steps to strengthen the involvement of developing countries in the standard setting process. There is recognition that although the PSC is the right international forum for accounting standards, there is a need for some changes to enhance the legitimacy, realism and acceptability of the standards.

It also intends to continue to deal with public sector financial reporting issues that are either not comprehensively dealt with in existing IASs or for which an IAS Has still not been developed by the IASB.

These International Public Sector Accounting Standards (IPSAS) contain individual requirements on financial reporting, accounting and auditing in the public sector with related guidance in the form of explanatory and other material. National standards or legal requirements for governmental financial reporting differ in form and content and in the light of this PSC issues international standards recommended for international adoption. International Public Sector Guidelines recommend practices to be followed in the public sector on financial reporting, accounting, and auditing. International Public Sector Studies are intended to provide advice on financial reporting, accounting, and auditing issues in the pubic sector. They are based on study of best practices. Neither the committee nor the accounting profession has the power to require compliance with the IPSASs and so the ultimate success of the committees work will be the recognition and support that it is able to generate.

The committee is preparing sets of IPSASs, one of which will Standards applying to the accrual basis and a separate set which will specify the reporting requirements for the cash basis The PSC's efforts to date have in the main been focused on developing standards for the accrual basis of accounting. In response to feedback from stakeholders, more recently it has developed a standard for cash accounting, and is about to issue a guidance document on making the transition from cash to accrual accounting. These latter pronouncements will be of greater interest to developing countries

Further detail on the IFAC-PSC is attached at Annex I

Other IFAC initiatives

IFAC issues International Education Standards, these are intended to establish the essential elements on which education and training programs, both pre-qualification and post-qualification, for all accountants should be founded. International Education Guidelines have been developed to promote good practice and or provide advice. They are based on study of the best practices and methods for dealing with the issues being addressed.

The IFAC Code of Ethics for Professional Accountants is intended to serve as a model on which to base national ethical guidance. It sets standards of conduct for professional accountants and states the fundamental principles that should be observed by professional accountants in order to achieve common objectives.

International Management Accounting Practice Statements focus on the application of accounting concepts, procedures, and techniques to the management and control of organisations. They reflect accumulated practical experience and seek to provide guidance on best practice. Studies are intended to contribute to the growth or accessibility of knowledge on a broad range of financial management topics. They are produced to provide new information accessible for practitioners.

The Information Technology Committee issues guidelines to assist management in overseeing IT projects. They are written by management and incorporate world best practice.

IFAD

The International Federation of Accountants (IFAC), in partnership with international financial institutions and the global accounting firms, established the International Forum on Accountancy Development (IFAD) in February 1999 to address issues related to the development of global financial architecture by building accounting and auditing capacity in developing and transitional economies. One of the specific objectives of IFAD is to encourage governments to focus more directly on the needs of developing countries and economies in transition.

Plan SYSCOA

One other localised initiative in West Africa has been the development of accounting principles based on an accounting plan. The Systeme Compatable Ouest-Africain (Plan SYSCOA) covers Benin, Burkina Faso, Ivory Coast, Mali, Niger, Senegal and Togo.

INTOSAI

The International Organisation of Supreme Audit Institutions (INTOSAI) is a professional organisation of supreme audit institutions (SAI) in countries that belong to the United Nations or its specialised agencies. INTOSAI was founded in 1953 and has grown from the original 34 countries to a membership of over 170 SAIs. INTOSAI issues international guidelines for financial management and other areas, develops related methodologies, provides training, and promotes the exchange of information among members.

Its Lima Declaration of Guidelines on Auditing Precepts (see Annex III) provides the conceptual framework for INTOSAI's work. INTOSAI's Statutes, revised and adopted unanimously at the 1992 Washington Congress, is the organisation's charter and describes INTOSAI's structure, membership, mandate and rules. Also adopted at the Washington congress were two main publications: Auditing Standards (see http://www.intosai.org/3_audste.html) and Guidelines for Internal Control Standards. (see http://www.intosai.org/3_INTCOe.html).

INTOSAI consists of the following main bodies:

International Congress of Supreme Audit Institutions (INCOSAI) - Hosted by a member SAI, the triennial congress offers all INTOSAI members an opportunity to gather at one time in one place to share experiences, discuss issues, and pass recommendations aimed at improving government accountability worldwide. Participation at congresses by the United Nations, the World Bank and other international and professional organisations reflects INTOSAI's relationship with these world bodies. The next triennial conference will be held in October 2001 in Korea.

Governing Board - The sixteen-member Board meets annually to provide leadership and continuity between congresses. To ensure balanced representation of all member countries, each of INTOSAI's seven regional working groups and the main types of public auditing systems are represented on the Board. The Chairman of the Board is the head of the SAI, which hosted the last congress.

General Secretariat - Located in Vienna, Austria, the General Secretariat provides central administrative support to INTOSAI, manages the INTOSAI budget, assists the Board and Congresses, facilitates communications among members, and organizes seminars and special studies. The Secretary General is the President of the Court of Audit of Austria.

Regional Working Groups - Seven Regional Working Groups promote INTOSAI's goals regionally, thus providing members with opportunities to focus on issues characteristic of their region. The following seven regional working groups have been formed:

- Organisation of Latin American and Caribbean Supreme Audit Institutions (OLACEFS), 1965.
- African Organisation of Supreme Audit Institutions (AFROSAI), 1976.
- Arab Organisation of Supreme Audit Institutions (ARABOSAI), 1976.
- Asian Organisation of Supreme Audit Institutions (ASOSAI), 1978.
- South Pacific Association of Supreme Audit Institutions (SPASAI), 1987.
- Caribbean Organisation of Supreme Audit Institutions (CAROSAI), 1988.
- European Organisation of Supreme Audit Institutions (EUROSAI), 1990.

Committees and other Working Groups - Much of INTOSAI's technical work occurs in the committees and working groups established to advance the profession by issuing professional standards, guidelines, methodologies, bibliographies and other practical reference materials. INTOSAI members participate in this work by joining committees, commenting on committee products, and attending technical sessions at congresses.

INTOSAI provides training in public sector auditing. Its biennial seminars sponsored jointly with the United Nations provide training for members from developing countries. The INTOSAI Development Initiative (IDI) was established at the 1986 Sydney Congress to provide region-based training programs with a focus on training-the-trainer. Information exchange, particularly in the area of curriculum and methodology, is an IDI activity which is expected to assume a greater role as IDI decentralises its operations to the regions.

INTOSAI has established an international *Code of Ethics* for auditors in the public sector. The Code of Ethics is a comprehensive statement of the values and principles that should guide the daily work of auditors. The Code of Ethics is seen as a necessary complement, reinforcing the INTOSAI Auditing Standards issued by the INTOSAI Auditing Standards Committee in June 1992. The INTOSAI Code of Ethics is directed at the individual auditor, the head of the SAI, executive officers and all individuals working for or on behalf of the SAI who are involved in audit work.

Due to national differences of culture, language, legal and social systems, it is the responsibility of each SAI to develop its own Code of Ethics that best fits its own environment. The INTOSAI Code of Ethics is intended to constitute a foundation for the national Codes of Ethics. The adoption and application of a code of ethics for auditors in the public sector is promoted to create trust and confidence in the auditors and their work, which is the key for the SAI to be looked upon with trust, confidence and credibility.

3.2 IMF Financial Sector Assessment Programme

The Financial Sector Assessment Programme (FSAP) was a joint IMF and World Bank effort that was introduced in 1999 to increase the effectiveness of efforts to promote the soundness of financial systems in member countries. The programme seeks to identify the strengths and vulnerabilities of a country's financial system; determine how key resources are being managed and to look at developmental and technical assistance needs and to help prioritise policy responses. The development of Reports on the observance of standards and codes (ROSC) were developed from this base and within these reports the code on Fiscal transparency is perhaps the most relevant to the work of the task team.

Code on Fiscal Transparency

The IMF has taken a lead in developing standards for fiscal transparency in member countries. A *Code of Good Practices on Fiscal Transparency* was issued in 1999 and the Board approved a further update in March 2001. They are available on the IMF's Web site (www.imf.org).

The Code is based on four principles:

- roles and responsibilities of, and within, the government should be clear;
- governments should commit themselves to make comprehensive reliable information on fiscal activities available to the public
- the process of budget preparation, execution, and reporting should be undertaken in an open manner
- fiscal information should be subject to an independent assurance of integrity.

A Manual on Fiscal Transparency has also been produced which provides guidelines on the implementation of the Code. It draws on existing international standards and the experiences of member countries to illustrate good practice. A questionnaire has been prepared as a basis for assessing the transparency of a country's fiscal management system against the requirements of the Code. A model self-evaluation report is also available and is intended to highlight strengths and weaknesses of current fiscal management systems, and to point to areas where improvements can be made.

The Code acknowledges diversity across countries in fiscal management systems and in cultural, constitutional, and legal environments, as well as differences across countries in the technical and administrative capacity to improve transparency. Most countries have scope for improvement in some aspects of fiscal transparency covered in the Code. Diversity and differences across countries, however, inevitably imply that many countries may not be able to move quickly to implement the Code. Moreover, it is recognized that there may be a need for technical assistance if existing fiscal management practices are to be changed. The IMF, together with other international organizations, will give some priority to providing technical assistance to those countries that need help and are strongly committed to improving fiscal transparency.

The Revised code of Good practices on Fiscal Transparency is attached at Annex II and can be accessed via http://www.imf.org/external/np/fad/trans/code.htm

The IMF website (via http://www.imf.org/external/standards/agency.htm has a list of agencies involved in standard setting.

Issues arising

In addition to revising the code the IMF has also recently been reviewing the experience that has been gained with the assessment and implementation of economic and financial systems standards and codes. (See http://www.imf.org/external/np/sec/pn/2001/pn0117.htm)

A number of the lessons have more general relevance for work with standards. The key lessons are that

- assessments need to be independently conducted and consistently applied across countries. Detailed guidance for assessors can help provide this consistency. Self-assessments also have a useful role to play, as these would help promote ownership of the assessments. In general, Directors thought self-assessments should be followed by external evaluations to bring the perspective of independent assessors to the process;
- early evidence suggests ROSCs can appropriately allow for consideration of the different stages of economic development, the range of administrative capacities, and the different cultural and legal conditions across the membership; but care needs to be taken to ensure that these considerations are actively incorporated in standards assessments;
- ROSCs should provide the context for the assessment, including the progress made by the country in implementing standards, and the authorities' plans for further implementation;
- ROSCs can be useful to national authorities by helping them develop their own reform plans, assess compliance with international standards and codes, and serve, if published, as a signal of transparency of their policies;
- ROSCs can provide a helpful input into Fund surveillance and technical assistance;

- there is growing interest and awareness in the private sector of the work done on standards by the Fund and the World Bank, but further outreach efforts are clearly needed;

While welcoming the work under way in the Fund on standards and codes, a number of Directors expressed concerns about the process of developing and assessing standards. They stressed the importance of ownership and of ensuring that all members had a role in shaping and guiding the work on standards, and indicated that the key aspect of achieving this aim would be the regular review by the Fund Board of the modalities under which assessments take place and of the list of standards used for such assessments. Directors welcomed the steps, which have been taken thus far to address the concerns raised by some members. These include: prioritization of assessments so that members are assessed only against those standards, and those parts of standards, which are relevant to their situation; and the fact that, in several cases, standard setters have adopted a multi-track approach, setting out benchmarks for countries at different stages of development. Further investigation is required of this initiative.

While underscoring the importance of addressing the concerns that have been raised about the work on standards, Directors emphasized that a key benefit of international standards is the use of consistent definitions across countries and that it is important to maintain this consistency.

3.3 General Comments

The World Bank has supported IASB and IFAC in developing harmonized accounting and auditing standards and has provided funding from its Development Grant Facility to accelerate standard setting in both bodies. The IMF has established contacts with the IASB and IFAC.

It is clear that IFAC in particular is well on the way to developing a range of standards which can be applied internationally across the public sector. While this ensures there will be a range of universally agreed standards which will capture best international practice there will still be a clear difference between the standards that are achieved in developed and developing countries. The same point can be made about the ROSC Methodology, which has been applied in the UK as well as in a developing country context. In the case of the module on Fiscal transparency this has only been applied in Africa in Uganda, Tunisia and the Cameroon and in Asia in Hong Kong SAR, Pakistan and Papua New Guinea. There is therefore still a need for an assessment of the direct applicability and relevance of the ROSC methodology in a developing context. It is understood that a further 8 ROSCs will take place in HIPCs in the remainder of 2001.

The IMF/WB recognised in their assessment of HIPC countries the value of a more limited set of standards in comparison to the range of standards covered within the code and this approach would appear to the most practical application.

There was concern about the ownership and the direction of the work on Standards. The DAC Task Force needs therefore to give particular attention to how participation from developing countries can be enhanced. In relation to this it is also important to consider the resource implications of measuring performance initially and then maintaining a monitoring capability over time. The use of a self-evaluation mechanism together with further peer group assessment is a good one and would be a useful part of any standard setting mechanism.

Other standards in the general finance area, which are also relevant to developing countries, are set out in Annex IV.

4. Assessment of Financial management in the context of the HIPC initiative.

A preliminary assessment of the capacity of budget institutions to track poverty reducing expenditures was made in 25 HIPCs that had either reached decision point or were expecting to within the next few months. This therefore represents one of the few assessments of performance in financial management which has been directed specifically at a developing country context.

It was recognised that systems to track HIPC funds would only provide a partial perspective and therefore the approach used looked at the analysis of overall financial management systems in each respective country. In this respect it can be treated as a comprehensive assessment.

The joint IMF/WB team working on the assessment methodology recognised that they could not directly apply the good practices from the IMF Code on Fiscal Transparency. It was felt that the code focused principally on the transparency of institutional arrangements rather than on performance against specific tasks. The review revealed that all the countries fell far short of international standards and most failed to meet much more basic tests of competence.

Performance across budget formulation, execution and reporting was reviewed on the basis of 15 key public expenditure management measures. Wherever possible, an objective indicator was applied, although in some cases they had to be more subjective. Table 1 summarises the measures and the relevant indicators. Countries were ranked against each measure using a scale comprising “ little upgrading required” (A), “some upgrading required” (B), and “substantial upgrading required” (C).

Table 1. Description of Expenditure Tracking Issues and Benchmarks

Budget Management
Benchmark Description

Formulation

Comprehensiveness

1. Composition of the budget entity

"Close-fit or better" to GFS definition of general government

2. Limitations to use of off-budget transactions

Extra (or off) budget expenditure is not substantial

3. Reliability of budget as guide to outturn

Level and composition of outturn is "quite close" to budget

4. Data on donor financing

Both capital and current donor funded expenditures included

Classification

5. Classification of budget transactions

Functional and/or program information provided

6. Identification of poverty-reducing expenditure

Identified through use of classification system (e.g., a virtual poverty fund)

Projection

7. Quality of multi-year expenditure projections

Projections are integrated into budget formulation

Execution

Internal Control

8. Level of payment arrears

Low-level of arrears accumulated

9. Quality of internal audit

Internal audit function (whether effective or not)

10. Use of tracking surveys

Tracking used on regular basis

Reconciliation

11. Quality of fiscal/banking data reconciliation

Reconciliation of fiscal and monetary data carried out on routine basis

Reporting

Reporting

12. Timeliness of internal budget reports

Monthly expenditure reports provided within four weeks of end of month

13. Classification used for budget tracking

Timely functional reporting derived from classification system

Final Audited Accounts

14. Timeliness of accounts closure

Accounts closed within two months of year end

15. Timeliness of final audited accounts

Audited accounts presented to legislature within one year

The detailed findings of the 25 HIPC countries are summarised in the boxes below

Box 1. Budget Formulation

- About half of the 25 HIPCs analyzed have budgets that use an appropriate definition of consolidated general government broadly consistent with GFS standards.

- While extra budgetary spending is identified for over 40 percent of the HIPCs, in most case is confined to health, social, or pension funds that are well documented and can easily be brought into the central government budget.

- Over one-third of HIPCs have sufficiently detailed data on donor-financed expenditures, an may be possible to widen coverage of donor-financed current and capital outlays fairly rapid with better cooperation between donors and governments.

- In about a quarter of HIPCs, more than 10 percent of poverty-reducing spending has been devolved to sub national governments.

- Most countries have already implemented a functional classification of budget plans sufficie assess intended changes in expenditure patterns. But quality varies, with some reliance on aggregations of high-level administrative line items, not on program-related coding.

- Altogether, more than two-thirds of the countries plan to use a virtual poverty fund or other classification-based approach (which can be seen as a form of program classification), to monitor and track some particular set of poverty-reducing programs and projects.

- About half of the HIPCs already use some type of multi-year projections. But these are mos limited to sector-specific projections that are used for public investment programs. Less tha fifth already have a Medium-Term Expenditure Framework (MTEF) that is fully integrated in the budget process. The remainder of the HIPCs are only now beginning to establish the capacity to produce meaningful medium-term projections.

Box 2. Budget Execution and Reporting

Budget Execution

- Most HIPCs have budget outturns, which are considered quite close to their original budget although a sizeable minority (more than one-third) have significant differences between pla and actual expenditures.

- About two-thirds of HIPCs do not have serious payment arrears problems.

- Almost one-fifth of HIPCs have already introduced expenditure tracking surveys that seek t determine the actual use of public money.

- About one-third of HIPCs are reported to have active internal audit systems, but a closer lo suggests that for most, internal audit capacity is partial at best, and often ineffective.

- Over one-third of the countries now undertake regular reconciliation between fiscal and monetary accounts.

Budget Reporting

- In less than a fifth of HIPCs are the audited accounts forwarded to the legislature within twe months of the end of the fiscal year. In some cases, the accounts are never closed and aud

- More than one-third of the HIPCs close their books shortly after the end of the fiscal year, w in these cases reduces the scope for discretion in assigning transactions as between fisca years, which has been a source of some abuses in the past.

- One-fifth of HIPCs provide in-year tracking reports within two weeks of the end-of-period, a two-thirds within two to four weeks. While about two-thirds of HIPCs surveyed provide a functional classification for the budget, over one-third do not currently provide in-year tracki on a functional basis.

This initial work provides a conceptual framework for measuring performance. Further work needs to be undertaken to validate the measures of performance that have been used and to link this with the definition of minimum standards in each area of assessment. An example of the application of the framework is shown in the following analysis of Ghana, which was undertaken by the IMF/WB as part of the assessment of actions that need to be undertaken by Ghana in the area of Public Expenditure Management in parallel to its application for HIPC relief.

An assessment and action plan is now being drawn up to address the deficiencies highlighted in the analysis and this will be divided into short-term immediate actions together with medium term actions. Further work will be necessary to construct a monitoring framework that will enable progress to be measured.

The International Public Sector Accounting Standards promulgated by IFAC will still represent the ultimate goal for all countries but the structured use of a limited number of performance measures which can be monitored over time could provide the mechanism to raise the current level of performance in developing countries.

Table 1: GHANA: TRACKING POVERTY-RELATED SPENDING IN HIPCs

BUDGET MANAGEMENT		Benchm	Assessm
Form on	COMPREHENSIVENESS		
	1. Budget reporting follows GFS definition of consolidated general government.	A	C
	2. Government activities are not funded through extra budgetary sources to a signific degree.	A	B
	3. Budget outturn data (levels, functional allocation) are quite close to that of the orig budget.	B	C
	4. Budget includes capital and current expenditure financed by donors.	A	C
	CLASSIFICATION		
	5. Budget classified on an administrative, economic, functional basis.	B	C
	6. Poverty-related expenditure clearly identified in the budget.	A	C
	PROJECTION		
	7. Multi-year expenditure projections integrated into the budget cycle.	A	C
Execu	INTERNAL CONTROL		
	8. Small stocks of expenditure arrears; little accumulation of new arrears over past yea	A	C
	9. Internal audit is active.	A	C
	10. Tracking surveys supplement internal control.	B	C
	RECONCILIATION		
	11. Fiscal and banking reconciliation undertaken routinely.	A	C
Repo	REPORTING		
	12. Internal budget reports from line ministries/Treasury received within four weeks of end of the relevant period.	B	C
	13. Functional classification is reflected in the in-year budget reports.	A	C
	FINAL AUDITED ACCOUNTS		
	14. Closure of the accounts occurs within two months after the end of the fiscal year.	A	C
	15. Audited account presented to the legislature within 12 months of the end of the fis year.	B	C

5 Conclusions

The above review represents the state of work in the Standards area. IFAC would appear to be the group, which has the most relevance. They have a clear role in developing accounting standards although the position on audit standards is more confused. If IAPC reasserts its role as primarily a private sector standards-setting body, it is not clear what will be the equivalent body for the public sector. Whilst INTOSAI has issued public sector auditing standards, these are neither current nor comprehensive.
There is however a need for further work and verification within this area. No country has fully adopted IPSAS into their legislative framework Although South Africa has announced that it intends to do so. However, this should not be interpreted as a failure on IFAC's part – the gestation period for adoption of standards is usually measured in years, if not decades. In addition there is also a need for a comparison of theory (as defined by the legislation) and custom and practice. For example many countries prescribe the time taken to complete annual accounts within their own legislation but in many cases the practices will diverge widely with many countries failing to accomplish the task within the timescale.

Further work could entail a comparison of legislation and practice in each country together with a comparison of the existing legislation with the standards promoted in the IPSAS.

While the development of international standards will define the ultimate standards to be met by all countries the application of a standard based on International best practice in the developed world has little direct relevance to the standards prevailing in the developing world. In this regard there will still be a need to develop something which provides a more straightforward assessment of a countries ability to manage its own affairs and provides a mechanism to measure improvements I performance.

The development of the 15 performance measures by the IMF/WB teams in their assessment of the 26 HIPC countries would appear to reinforce the approach taken by the Standards group namely to

Identify a set of performance measures. These will cover the processes of budget formulation, execution and reporting. Additional measures will be needed to cover procurement and audit.
Identify minimum acceptable standards for each measure against which partner countries and donors can evaluate their current policies and procedures

It is recommended that the current list of 15 measures is taken as a starting point. The critical questions are whether these measures adequately cover the relevant and necessary competencies and whether performance in each area can be measured and tracked over time.

If a range of measures together with relevant standards can be identified there will be a need to make an assessment of a range of countries against this measure.

This will then lead to the need to

Identify, without carrying out a detailed analysis of the financial management policies and procedures of individual donors, the extent to which existing donor practices are consistent with and promote the use of the identified standards
Develop a range of options by which individual donors could more fully subscribe to and include in their individual policy frameworks relevant international standards.

In this regard the proposed joint work to be undertaken by IFAC to look at the development of an International standard to cover accounting for development assistance would be a timely and appropriate response. There will be a need for this work to be informed by the development of measures and minimum standards.

The final objective of the task group was to consider how to

Identify models for building developing country capacity to meet the minimum acceptable standards.

It is very important to link the use of standards to the overall diagnostic work that is being undertaken on PEM systems in particular and to link this with an action programme. This will create the dynamic that the application of a standard or benchmark cannot achieve on its own. The ultimate objective is to enable developing countries to manage all funds, including those internally generated, in such a way that maximises the benefit for its entire people.

One practical way of testing the viability of this approach is to consider the case of Uganda, which is one of the few developing countries, which has been subject to both a ROSC and the HIPC assessment. It has also had a CFAA diagnostic exercise undertaken recently. The fundamental question is which set of measures best captures the state of development of Ugandan Public Expenditure Management and most clearly highlights the areas where reform is needed. The team could consider commissioning some work in this area. In particular it is important to ensure that the assessments made do not become static instruments, which capture the rules and regulations in place but do not measure performance and practice.

The following quote from the recent SPA report, which deals with issues of ownership, will also remain a challenge for the Task Team

"Ownership and transparency is a major challenge. Existing assessment mechanisms are often large and cumbersome and sometimes politically sensitive and are therefore not often applied. None of the existing mechanism provides SPA donors with a comprehensive assessment of the public financial management system and how this system functions in practice, using a systematic assessment approach, covering all SPA countries. There is limited recipient involvement and ownership in the assessment processes and limited follow up and implementation of the capacity building and technical assistance activities recommended in many of these assessments."

Next steps for Group members

1. Comments on this paper.

   Group members are asked to identify other relevant work on standards, which has been omitted together with other general points, and comments on the draft.

2. Comments on the coverage of the 15 performance measures identified in the HIPC study

   Do these performance measures adequately cover the basics of financial management that need to be in place for a Government to plan, manage and report on public expenditure?

3. Minimum standards

   Is it possible to identify a range of minimum standards across the identified performance measures? Do you have any suggestions?

4. Relevance of IFAC to undertake work on the development of a standard on Accounting for Development Assistance

   Should the DAC group actively endorse and share in the work proposed by the MDB group on Financial Management and Analysis? (This has been covered in the separate note from Paul Bermingham.)

5. How can the DAC Group develop ownership and interaction on this issue with national governments?

   Will the proposed reference group of developing countries be sufficient to take this forward? What else can be proposed?

6. How can the work of the Standards group be more effectively co-ordinated with that of other Group members and with the multilateral group, which is looking at similar aspects of the work?

ANNEX 1

BACKGROUND NOTE: THE INTERNATIONAL FEDERATION OF ACCOUNTANTS - PUBLIC SECTOR COMMITTEE

The IFAC Public Sector Committee

The Public Sector Committee (PSC) was established in 1986 to address, on a coordinated worldwide basis, the needs of those involved in public sector financial management, reporting, accounting and auditing.

The underlying philosophy of the PSC is that while most of the basic principles of accounting and auditing are the same across both public and private sectors, the application of these principles raises a number of specific issues in the public sector context. The PSC identifies and addresses specific public sector accounting and auditing issues and concerns. The PSC also resolves differences in practice and application that may arise between public sectors in different jurisdictions and between levels of the public sector within a jurisdiction.

The PSC has been given authority by the IFAC Board to issue standards, guidelines, studies and occasional papers on financial reporting, accounting and auditing in the public sector.

PSC Membership

PSC members are selected by the IFAC Nominating Committee and approved by the Board. Members are appointed for a term of three years, with the option of one renewal.

PSC Membership	
Australia (Chair)	New Zealand
Canada	Pakistan
France	South Africa
Germany	Thailand
Mexico	United Kingd
The Netherlands	United State

In addition to the members and technical advisers, meetings are attended by observers from the Asian Development Bank, the International Organization of Supreme Audit Institutions (INTOSAI), the International Accounting Standards Board (IASB), the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development, the United Nations Development Programme and the World Bank.

Technical Agenda

Prior to beginning its Accounting Standards Program in 1996, the PSC had issued a range of publications (descriptive guidelines and case studies) on public sector accounting and auditing. These can be accessed on the IFAC website, www.ifac.org.

Standards Project

In 1996-1997 the PSC raised funds from a group of MDBs to begin an accounting standards project. This initial project, which is nearing completion, has involved the development of:

- A study, *Governmental Financial Reporting: Accounting Issues and Practices.* This study is a descriptive document, which attempts to outline a range of good or best practices for financial reporting by governments.
- A core set of International Public Sector Accounting Standards (IPSASs) based in the main on the (private sector) International Accounting Standards (IASs) issued by the IASB. (IPSASs apply to two defined bases of accounting: cash accounting and accrual accounting.)
- A guidance document on issues to be resolved in making the transition from cash accounting to accrual accounting.

IPSASs are intended to apply primarily to national governments and their component entities. However, there would be nothing to prevent state, regional and local governments from applying the standards.

Using IASs as the basis for the development of IPSASs is consistent with the PSC's view that there are many more similarities than differences between public sector and private sector accounting. Clearly there are areas that are specific to the public sector (for instance, the measurement and recognition of tax revenues), but the PSC sees value in developing initially a set of standards that is built on existing best international practice and that will cover much of the territory of public sector accounting and financial reporting.

As the initial project nears completion, the PSC aims to shift the emphasis of its technical agenda in order to:

1. Address complex public sector-specific accounting issues not already covered;
2. Raise its profile internationally as the only public sector accounting standards setter with an international scope; and
3. Focus to a greater extent on implementation, via translations of IPSASs, active promotion and communications, and direct engagement with specific jurisdictions that are implementing or considering implementation of IPSASs.

Mandate, Authority and Acceptance

Accounting standards-setting is a long-term activity: the predecessor of the current IASB was formed in 1973, yet it is only in recent years that IAS have received widespread acceptance. Setting accounting standards for public sector agencies is in many ways more complex than for private sector corporations, since:

- There is little available experience worldwide of the development of public sector accounting standards;
- In many jurisdictions, the governmental accounting framework is enshrined in legislation, making it difficult to introduce financial reporting reforms;

- The notion of general purpose financial reporting is not widely adopted in a public sector setting.

Moreover, the PSC's authority as the international public sector accounting standards-setter can be challenged on the basis that IFAC does not represent the public sector globally. However, whilst it is the case in many countries that accountants in government are not typically organized in professional bodies that are members of IFAC, the members of the PSC are strongly representative of the public sector in their own countries[1].

Like most standards-setting bodies, the PSC builds authority for its pronouncements through a formal exposure process, whereby draft IPSASs are distributed for comment to every national government (finance ministry or equivalent) and every supreme audit institution. For the draft standard on cash accounting, this process is being augmented by a targeted "field testing" of the standard in a range of developing countries, with the aim of identifying potential implementation problems.

The PSC has made significant progress over a relatively short period to gain acceptance of its pronouncements. For example:

- The South African government has recently announced that it will adopt IPSASs for governmental financial reporting;
- The OECD has announced that it will prepare its own financial statements in accordance with IPSASs;
- In a recent discussion paper[2] the French Ministry of Finance observes that "….the Public Sector Committee of the International Federation of Accountants (IFAC) has drawn up accounting standards for the public sector that France cannot ignore";
- The Asian Development Bank has published a series of country studies that recommend the adoption of IPSASs.

Annex II

Of the 12 members: 7 work for public sector organizations (typically the finance ministry or audit institution); 3 work for rofessional practices servicing public sector clients; 1 is the President of the national accounting body; and 1 works for the World ank).

The Modernisation of Government Accounting in France, OECD Accrual Accounting and Budgeting Symposium, September 001

Revised Code of Good Practices on Fiscal Transparency

I. Clarity of Roles and Responsibilities

1.1 **The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.**

1.1.1 The structure and functions of government should be clearly specified.

1.1.2 The responsibilities of different levels of government, and of the executive branch, the legislative branch, and the judiciary, should be well defined.

1.1.3 Clear mechanisms for the coordination and management of budgetary and extra budgetary activities should be established.

1.1.4 Relations between the government and nongovernmental public sector agencies (i.e., the central bank, public financial institutions, and nonfinancial public enterprises) should be based on clear arrangements.

1.1.5 Government involvement in the private sector (e.g., through regulation and equity ownership) should be conducted in an open and public manner, and on the basis of clear rules and procedures that are applied in a nondiscriminatory way.

1.2 **There should be a clear legal and administrative framework for fiscal management.**

1.2.1 Any commitment or expenditure of public funds should be governed by comprehensive budget laws and openly available administrative rules.

1.2.2 Taxes, duties, fees, and charges should have an explicit legal basis. Tax laws and regulations should be easily accessible and understandable, and clear criteria should guide any administrative discretion in their application.

1.2.3 Ethical standards of behavior for public servants should be clear and well publicized.

II. Public Availability of Information

2.1 **The public should be provided with full information on the past, current, and projected fiscal activity of government.**

2.1.1 The budget documentation, final accounts, and other fiscal reports for the public should cover all budgetary and extra budgetary activities of the central government, and the consolidated fiscal position of the central government should be published.

2.1.2 Information comparable to that in the annual budget should be provided for the outturns of the two preceding fiscal years, together with forecasts of the main budget aggregates for two years following the budget.

2.1.3 Statements describing the nature and fiscal significance of central government contingent liabilities and tax expenditures, and of quasi-fiscal activities, should be part of the budget documentation.

2.1.4 The central government should publish full information on the level and composition of its debt and financial assets.

2.1.5 Where sub national levels of government are significant, their combined fiscal position and the consolidated fiscal position of the general government should be published.

2.2 **A commitment should be made to the timely publication of fiscal information.**

2.2.1 The publication of fiscal information should be a legal obligation of government.

2.2.2 Advance release date calendars for fiscal information should be announced.

III. Open Budget Preparation, Execution, and Reporting

3.1 **The budget documentation should specify fiscal policy objectives, the macroeconomic framework, the policy basis for the budget, and identifiable major fiscal risks.**

3.1.1 A statement of fiscal policy objectives and an assessment of fiscal sustainability should provide the framework for the annual budget.

3.1.2 Any fiscal rules that have been adopted (e.g., a balanced budget requirement or borrowing limits for sub national levels of government) should be clearly specified.

3.1.3 The annual budget should be prepared and presented within a comprehensive and consistent quantitative macroeconomic framework, and the main assumptions underlying the budget should be provided.

3.1.4 New policies being introduced in the annual budget should be clearly described.

3.1.5 Major fiscal risks should be identified and quantified where possible, including variations in economic assumptions and the uncertain costs of specific expenditure commitments (e.g., financial restructuring).

3.2 **Budget information should be presented in a way that facilitates policy analysis and promotes accountability.**

3.2.1 Budget data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative category. Data on extra budgetary activities should be reported on the same basis.

3.2.2 A statement of objectives to be achieved by major budget programs (e.g., improvement in relevant social indicators) should be provided.

3.2.3 The overall balance of the general government should be a standard summary indicator of the government's fiscal position. It should be supplemented where appropriate by other fiscal indicators for the general government (e.g., the operational balance, the structural balance, or the primary balance).

3.2.4 The public sector balance should be reported when nongovernmental public sector agencies undertake significant quasi-fiscal activities.

3.3 **Procedures for the execution and monitoring of approved expenditure and for collecting revenue should be clearly specified.**

3.3.1 There should be a comprehensive, integrated accounting system, which provides a reliable basis for assessing payment arrears.

3.3.2 Procurement and employment regulations should be standardized and accessible to all interested parties.

3.3.3 Budget execution should be internally audited, and audit procedures should be open to review.

3.3.4 The national tax administration should be legally protected from political direction and should report regularly to the public on its activities.

3.4 **There should be regular fiscal reporting to the legislature and the public.**

3.4.1 A mid-year report on budget developments should be presented to the legislature. More frequent (at least quarterly) reports should also be published.

3.4.2 Final accounts should be presented to the legislature within a year of the end of the fiscal year.

3.4.3 Results achieved relative to the objectives of major budget programs should be presented to the legislature annually.

IV. Assurances of Integrity

4.1 **Fiscal data should meet accepted data quality standards.**

4.1.1 Budget data should reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments.

4.1.2 The annual budget and final accounts should indicate the accounting basis (e.g., cash or accrual) and standards used in the compilation and presentation of budget data.

4.1.3 Specific assurances should be provided as to the quality of fiscal data. In particular, it should be indicated whether data in fiscal reports are internally consistent and have been reconciled with relevant data from other sources.

4.2 **Fiscal information should be subjected to independent scrutiny.**

4.2.1 A national audit body or equivalent organization, which is independent of the executive, should provide timely reports for the legislature and public on the financial integrity of government accounts.

4.2.2 Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and all underlying assumptions.

4.2.3 A national statistics agency should be provided with the institutional independence to verify the quality of fiscal data.

THE LIMA DECLARATION OF GUIDELINES ON AUDITING PRECEPTS

With the Lima Declaration of Guidelines on Auditing Precepts, adopted in 1977, INTOSAI formulated a set of standards. Meeting these standards emphasising the particular role of SAIs as independent from other government institutions and vehicles for transparency to promote a democratic environment is one of the main objectives pursued by INTOSAI and its members.

The Lima Declaration contains a comprehensive list of all goals and issues relating to government auditing. The chief aim of the Lima Declaration is to call for *independent* government auditing. A Supreme Audit Institution that cannot live up to this demand does not comply with the standard.

The main objective of the declaration is to promote efficient use of public funds as essential prerequisites for the proper handling of public finances and the effectiveness of the decisions of the responsible authorities. In order to achieve this objective each country needs to have a Supreme Audit Institution (SAI) whose independence is guaranteed by law.

The issue of the independence of Supreme Audit Institutions continues to be a theme repeatedly discussed within the INTOSAI community. However, the demands of the Lima Declaration are not satisfied by a SAI just achieving independence; this independence needs also to be ensured in the legislation. This requires well-functioning institutions with legal security, and as stated by the declaration, this is only considered to be found in a democracy based on the rule of law. Rule of law and democracy are, therefore, essential premises for really independent government auditing and are the pillars on which the Declaration of Lima is founded.

The concept and establishment of audit is inherent in public financial administration as the management of public funds represents a trust. Audit is not an end in itself but an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and financial management early enough to make it possible to take corrective action in individual cases, to make those accountable accept responsibility, to obtain compensation, or to take steps to prevent such breaches.

The following presents some of the key issues raised in the declaration:

Pre-audit represents a before the fact type of review of administrative or financial activities; post-audit is audit after the fact. Effective pre-audit is considered indispensable for the sound management of public funds entrusted to the state. According to the Lima Declaration it may be carried out by a Supreme Audit Institution or by other audit institutions. Pre-audit by a Supreme Audit Institution has the advantage of being able to prevent damage before it occurs, but has the disadvantage of creating an excessive amount of work and of blurring responsibilities under public law. Post-audit by a Supreme Audit Institution highlights the responsibility of those accountable; it may lead to compensation for the damage caused and may prevent breaches from recurring.

The legal situation and the conditions and requirements of each country determine whether a

Supreme Audit Institution carries out pre-audit. Post-audit is however the core task of every Supreme Audit Institution regardless of whether or not it also carries out pre-audits.

Internal audit services are established within government departments and institutions, whereas external audit services are not part of the organisational structure of the institutions to be audited. Supreme Audit Institutions are *external* audit services.

Internal audit services are subordinate to the head of the department within which they have been established. In accordance with the declaration, they shall be functionally and organisationally independent as far as possible within their respective constitutional framework. As the external auditor, the Supreme Audit Institution has the task of examining the effectiveness of internal audit. If internal audit is judged to be effective, efforts shall be made, without prejudice to the right of the Supreme Audit Institution to carry out an overall audit, to achieve the most appropriate division or assignment of tasks and cooperation between the Supreme Audit Institution and internal audit.

The traditional task of Supreme Audit Institutions is to audit the legality and regularity of financial management and of accounting. In addition to this type of audit, there is another equally important type of audit, *performance audit*, which is oriented towards examining the performance, efficiency and effectiveness of public administration. Performance audit covers not only specific financial operations, but also the full range of government activity including both organisational and administrative systems.

Supreme Audit Institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence. Although state institutions cannot be absolutely independent because they are part of the state as a whole, Supreme Audit Institutions need to have the functional and organisational independence required to accomplish their tasks. The establishment of Supreme Audit Institutions and the necessary degree of their independence should be laid down in the Constitution with details set out in legislation. In particular, adequate legal protection by a supreme court against any interference with a Supreme Audit Institution’s independence and audit mandate should be guaranteed. The independence of Supreme Audit Institutions is inseparably linked to the independence of its members. Members are defined as those persons who have to make the decisions for the Supreme Audit Institution and are answerable for these decisions to third parties. The independence of the members should be guaranteed by the Constitution. In particular, the procedures for removal from office also shall be embodied in the Constitution and may not impair the independence of the members. The method of appointment and removal of members depends on the constitutional structure of each country. Audit staff of Supreme Audit Institutions should in any case not be influenced by the audited organisations and not be dependent on such organisations.

Supreme Audit Institutions need the financial means to enable them to accomplish their tasks. Supreme Audit Institutions should be entitled to apply directly for the necessary financial means to the public body deciding on the national budget.

The independence of Supreme Audit Institutions provided under the Constitution and law also guarantees a very high degree of initiative and autonomy, even when they act as an agent of Parliament and perform audits on its instructions. The relationship between the Supreme Audit Institution and Parliament should be laid down in the Constitution according to the conditions and requirements of each country.

Supreme Audit Institutions need access to all records and documents relating to financial management and shall be empowered to request, orally or in writing, any information deemed necessary by the SAI. Either the law or the Supreme Audit Institution (for individual cases) shall set time limits for furnishing information or submitting documents and other records including the financial statements to the Supreme Audit Institution.

The audited organisations shall comment on the findings of the Supreme Audit Institution within a period of time established generally by law, or specifically by the Supreme Audit Institution, and shall indicate the measures taken as a result of the audit findings. To the extent the findings of the Supreme Audit Institution's findings are not delivered as legally valid and enforceable judgments, the Supreme Audit Institution should be empowered to approach the authority that is responsible for taking the necessary measures and require the accountable party to accept responsibility.

Supreme Audit Institutions should conduct audit in accordance with a self-determined programme. Since an audit can rarely be all-inclusive, Supreme Audit Institutions as a rule will normally use a sampling approach. The samples, however, should be selected on the basis of a given model and be sufficiently numerous to make it possible to judge the quality and regularity of financial management. Supreme Audit Institutions need to prepare audit manuals as an aid for its auditors for this purpose.

The members and the audit staff of Supreme Audit Institutions should have the qualifications and moral integrity required to completely carry out their tasks. In recruiting staff for Supreme Audit Institutions, appropriate recognition shall be given to above-average knowledge and skills and adequate professional experience.

The Supreme Audit Institution shall be empowered and required by the Constitution to report its findings annually and independently to Parliament or any other responsible public body and the report should be published. This is to ensure extensive distribution and discussion, and enhance opportunities for enforcing the findings of the Supreme Audit Institution. The Supreme Audit Institution should be empowered to report on particularly important and significant findings during the year. Generally, the annual report shall cover all activities of the Supreme Audit Institution. The reports should present the facts and their assessment in an objective, clear manner and be limited to essentials. The wording of the reports shall be precise and easy to understand. The Supreme Audit Institution should give due consideration to the points of view of the audited organisations on its findings.

Supreme Audit Institutions should be empowered to audit the collection of taxes as extensively as possible and, in doing so, to examine individual tax files. Tax audits are primarily legality and regularity audits; however, when auditing the application of tax laws, Supreme Audit Institutions should also examine the system and efficiency of tax collection, the achievement of revenue targets and, if appropriate, should propose improvements to the legislative body.

The considerable funds expended by public authorities on contracts and public works justify a particularly exhaustive audit of the funds used. Public tendering is the most suitable procedure for obtaining the most favourable offer in terms of price and quality. Whenever public tenders are not invited, the Supreme Audit Institution should determine the reasons. When auditing public works, the Supreme Audit Institution should promote the development of suitable standards for regulating the administration of such works. Audits of public works should cover not only the regularity of payments, but also the efficiency of construction management and the quality of construction work.

The economic activities of government frequently include enterprises under private law. These enterprises should also be subject to audit by the Supreme Audit Institution if the government has a substantial participation in them particularly where this is majority participation or exercises a dominating influence. It is appropriate for such audits to be carried out as post-audits; they should address issues of efficiency and effectiveness.

Supreme Audit Institutions should be empowered to audit the use of subsidies granted from public funds. When the subsidy is particularly high, either by itself or in relation to the revenues and capital of the subsidised organisation, the audit should be extended to include the entire financial management of the subsidised institution.

IV - OTHER FINANCIAL MANAGEMENT STANDARDS

Data Dissemination

Standards in this area are linked to what is often called the IMF's Data Standards Initiative. The initiative originated from the financial crisis that hit a number of emerging economies in the early 90ies, and the main idea behind is to establish early warning of emerging economic difficulties of individual countries or groups of countries. The idea is to establish a General Data Dissemination System (GDDS) that will become fully operational in the course of 20001.

Transparency in Monetary and Financial Policies

The *IMF Interim Committee endorsed the Code of Good Practices on Transparency of Monetary and Financial Policies* in September 1999. A "supporting document" has been prepared, which elaborates and illustrates with examples of the good transparency practices of the Code.

Banking Supervision

The Basel Committee under the Bank of International Settlements have developed a core set of principles for sound banking supervision. A working group that included the Fund and Bank developed a handbook containing a methodology for assessing compliance with the Basel Core Principles. The IMF and the World Bank are currently undertaking assessments using this handbook.

Securities Market Regulation

International Organisation of Securities Commissions (IOSCO) has developed a document called the *Implementation of the Objectives and Principles for Securities Regulation.* The first phase of a self-assessment exercise has begun. Three self-assessment surveys and methodologies have been distributed to all IOSCO members (for the entire document, Principles relating to the Issuer, and Principles relating to the Regulator). A draft survey and methodology document on the Principles relating to Collective Investment Schemes has been circulated for comments. Responses will be received in April 2000.

Insurance Regulation

International Association of Insurance Supervisors (IAIS) has a Task Force on Core Principles Methodology that has drafted the Core Principles Methodology. The IAIS has invited the Fund and the Bank staff to comment on the draft. At the request of the IAIS, the Fund and the Bank staff are preparing a chapter for the methodology document on the structure and assessment methodology report. The original core principles have been modified from Insurance Supervisory principles to Insurance Core Principles. Three new principles have been added to the original 14 principles relating to organisation of a supervisory body, market conduct and insurance concordat.

Payment and Settlements Systems

The Committee on Payment and Settlement Systems (CPSS) has issued a consultative document on the *Core Principles for Systemically Important Payment Systems—CPSIPS* (December 1999). The consultation period will last until March 17, 2000. The CPSS Task Force is currently working on the second part of the report that will elaborate on how the CPSIPS are to be interpreted and applied in different contexts.

Corporate Governance

The OECD, with the World Bank, has been working to use the *Principles of Corporate Governance* as a framework for dialogue and consultation with emerging and transition economies with the aim of improving corporate governance practices and various regional "round table" meetings are being organised.

Insolvency Regimes

The *Model Law on Cross Border Insolvency* developed by UNCITRAL in 1997 is now under consideration in a number of countries. The IMF published a report *Orderly and Effective Insolvency Procedures* in 1999 that discusses major policy choices to be addressed by countries when designing insolvency systems. The World Bank is developing a set *of Principles and Guidelines on Insolvency Regimes for developing countries,* in collaboration with international organisations and insolvency experts. In parallel, an assessment matrix is being developed by the Bank for use in pilot assessments

Abbreviations

AFROSA	African Organisation of Supreme Audit Institutions
ARABOS	Arab Organisation of Supreme Audit Institutions
ASOSAI	Asian Organisation of Supreme Audit Institutions
CAROSA	Caribbean Organisation of Supreme Audit Institutions
CFAA	Country Financial Accountability Assessment
CPAR	Country Procurement Assessment Report
EUROSA	European Organisation of Supreme Audit Institutions
HIPC	Heavily Indebted Poor Countries
IAPC	International Auditing Practices Committee
IAPS	International Auditing Practice Statements
IAS	International Accounting Standards
IASC	International Accounting Standards Committee
IFAC	International Federation of Accountants
INTOSA	International Organisation of Supreme Audit Institutions
ISA	International Standards on Auditing
JDR	Joint Donor Reviews
OLACEF	Organisation of Latin American and Caribbean Supreme Aud Institutions
PEMA	Public Expenditure Management Assessment
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PRSC	Poverty Reduction Support Credit
ROSC	Report on Observance of Standards and Codes
SIC	Standing Interpretations Committee under IASB
SPA	Strategic Partnership for Africa
SPASAI	South Pacific Association of Supreme Audit Institutions

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