

ASIAN DEVELOPMENT BANK

TAR: TRA 34398

**TECHNICAL ASSISTANCE
(Financed from the Japan Special Fund)**

FOR THE

AUDIT TRAINING PROGRAM

FOR

CENTRAL ASIAN REPUBLICS

September 2000

ABBREVIATIONS

ADB	- Asian Development Bank
ASOSAI	- Asian Organization of Supreme Audit Institutions
CAR	- Central Asian Republic
DMC	- developing member country
IDI	- INTOSAI Development Initiative
SAI	- Supreme Audit Institution
SPW	- strategic planning workshop
TA	- technical assistance

NOTE

In this report, "\$" refers to US dollars.

I. INTRODUCTION

1. A Fact-Finding Mission¹ from the Asian Development Bank (ADB) visited Kazakhstan, Kyrgyz Republic, and Uzbekistan on 14-25 May 2000 to formulate the regional technical assistance² (TA) project for the Audit Training Program for Central Asian Republics. The Mission reached an understanding with the three governments on the objectives, scope, and implementation arrangements of the proposed TA. The Mission also held consultations with officials concerned at the International Organization of Supreme Audit Institutions (INTOSAI),³ INTOSAI Development Initiative (IDI),⁴ and Asian Organization of Supreme Audit Institutions (ASOSAI).⁵ The TA framework is presented in Appendix 1.

II. BACKGROUND AND RATIONALE

2. The ADB Anticorruption Policy⁶ provides increased emphasis to strengthening key institutions to advance transparency and accountability in ADB's developing member countries (DMCs), as part of ADB's broader emphasis on governance and capacity building. Within the framework of advancing accountability, ADB recognizes that improving accounting and auditing procedures is the first line of reform in the public finance system. In this context, government auditing plays a key role in ensuring that adequate controls exist and work effectively, relevant laws and regulations are complied with, public funds are properly safeguarded, and public accounts and records are properly kept.

3. ADB lending operations in the DMCs in the Central Asian Republics (CARs) started in 1994 and have been growing since then. One requirement for ADB-funded loan projects is the submission of audited financial statements pertaining to the project. This requirement aims to strengthen accountability for the use of funds, thus promoting sound financial management and good governance. The Mission noted that for all existing loans to Kazakhstan, Kyrgyz Republic, and Uzbekistan, (i) the required audits are being conducted by private auditors since government auditing is focused mainly on compliance with budgetary regulations, and (ii) financial or performance audits are not generally conducted. While there is no prohibition in the current laws or in their mandate, lack of expertise has kept the government auditors from undertaking such audits. The Mission also noted that assistance to Kazakhstan by the World Bank and to the Kyrgyz Republic by the European Union was recently provided for strengthening auditing in those countries. The assistance resulted in proposals for a new audit law or for revisions to the existing laws, as well as proposals for adopting international auditing standards. However, no training for auditors was provided under these projects and no further allocations were contemplated by the international organizations. Although the international organizations did not provide similar assistance to Uzbekistan, Uzbekistan nevertheless initiated revisions to its audit law.

4. The approach adopted in public sector audits in the three countries appears to be transaction-based, which does not require the review of the systems that support the delivery and achievement of objectives, and does not correspond to the modern international concept of auditing. It therefore, does not adequately contribute to the strengthening of systems and

¹ The Mission was composed of V. T. Virtucio, Senior Audit Specialist; and J. M. Lafreniere, Audit Specialist.

² The TA first appeared in *ADB Business Opportunities* in June 2000.

³ INTOSAI is the professional organization of supreme audit institutions in countries that are members of the United Nations.

⁴ IDI is the training arm of INTOSAI.

⁵ ASOSAI is one of the regional working groups of INTOSAI. Kyrgyz SAI has been a member of ASOSAI since 1994. Kazakhstan SAI is in the process of becoming an associate member.

⁶ R89-98: *Anticorruption Policy*, 11 June 1998.

controls within government organizations. Suitable training in modern auditing techniques is therefore required to enable government auditors to conduct effective and efficient audits.

5. Strengthening the skills of government auditors is considered timely with the recent completion of a TA⁷ that strengthened the institutional capacity of executing agencies of ADB-financed projects in preparing project accounts following government and ADB requirements, and therefore laid the basic groundwork for introducing a suitable training program in auditing.

6. One criterion for acceptability of auditors for ADB-funded projects is competence. To achieve competence, intensive training and a continuing professional development program for auditors are necessary. Basic training in financial auditing, to be covered by the proposed TA, will enable government auditors to have deeper understanding of the fundamental concepts of auditing. Simulated audits, focusing on ADB-funded projects, will be included in the training to prepare the government auditors to undertake financial audits of ADB-funded projects. The training will also introduce them to audit procedures and techniques established along lines of international best practice and applied in accordance with international standards.

7. The subject of fraud awareness and fraud investigations will be part of the training program so as to emphasize ADB's Anticorruption Policy, and also to enable the government auditors to assist in conducting effective investigations on allegations of fraud and corruption.

8. To ensure the sustainability of audit knowledge within the governments of the participating CARs, the program will likewise train the participants to effectively impart their acquired knowledge to other government auditors on a continuing basis.

9. A regional approach in training is consistent with ADB's program of encouraging regional cooperation. Workshops will provide the participants an opportunity to discuss possible solutions to problems and issues common to the three countries. A regional approach will also facilitate collaboration with IDI and ASOSAI, particularly in the use of relevant course materials that have been utilized in other regional training seminars.

10. The TA will reinforce the benefits that Kazakhstan and the Kyrgyz Republic gained from the TA granted to them in 1997 for strengthening their accounting capabilities. Uzbekistan is included in this TA due to the commonalities, as noted by the Mission, in the three countries in the area of government auditing. These commonalities make it economically feasible to conduct the training on a regional basis⁸. The two other DMCs in the CARs namely, Azerbaijan and Tajikistan, could not be accommodated in this TA because (i) they were not part of the earlier TA for strengthening accounting capabilities; and (ii) when the need for this TA was analyzed in late 1998, Tajikistan had just joined ADB. Azerbaijan joined later, in 1999.

III. THE TECHNICAL ASSISTANCE

A. Objectives

11. The TA aims to improve capacity and efficiency in conducting financial and performance audits in the governments of Kazakhstan, Kyrgyz Republic, and Uzbekistan through the introduction of basic auditing concepts and techniques consistent with international best practices; and to enhance fraud awareness in government auditing as well as introduce basic techniques in fraud investigation by training government auditors. It is envisaged that,

⁷ TA 5724-REG: Capacity Building in Project Accounting in Kazakhstan and the Kyrgyz Republic, and the Republic of Uzbekistan, in the amount of US\$500,000, and approved by ADB in February 1997.

⁸ Kazakhstan, the Kyrgyz Republic, and Uzbekistan have given their no-objection for inclusion in the TA.

with enhanced auditing skills, government auditors would be able to assume the responsibility of conducting periodic audits of projects funded by ADB and other multilateral financial institutions.

A. Scope

12. The TA will include (i) a study of government auditing in the participating CARs; and (ii) preparation of training materials, auditing guidelines and training manuals for the participating CARs, to be used in conducting a strategic planning workshop and an audit training workshop in financial and performance audits including training the trainers, and in fraud investigation. There will be an extensive use of the accounting manuals prepared under the previous TA for capacity building in project accounting in Kazakhstan and the Kyrgyz Republic to familiarize the government auditors with the generally accepted accounting principles adopted in the country.

1. Strategic Planning Workshop

13. This will be a three-day strategic planning workshop for senior officials of the government audit institutions concerned. It will provide a forum for these officials to discuss the following: (i) the goals and objectives of the TA project, (ii) actions to be taken to ensure that newly acquired audit and investigation skills are applied on the job, (iii) criteria for selecting the participants, and (iv) the governments' action plan to ensure the continuity of training within their respective audit institutions. The workshop also aims to obtain commitment from the recipient governments that the participants would be allowed to complete the training program and encouraged to remain in their current or similar positions for a specified minimum period so that their newly acquired skills are put to use. An evaluation framework will be prepared during the workshop.

2. Audit Training Workshop

14. Three main topics will be covered in this workshop: financial and performance audit, fraud awareness in auditing, and training the trainers. Financial and performance audit will take about 17 days and will deal with the complete audit process comprising planning, execution, reporting, and follow-up. Two case studies involving simulated audits of an ADB-funded project and a selected government function will be used. Fraud awareness will be imbedded within this segment to familiarize the participants with the basic techniques of detecting potential fraud cases during an audit. This will be followed by a three-day training-the-trainers segment to upgrade the presentation skills of the participants, and assist them in effectively passing on their acquired audit knowledge and skills to other government auditors in their respective institutions.

3. Fraud Investigation Workshop

15. The five-day workshop on fraud investigation will deal with preventing, investigating, and reporting fraud and corruption cases. This workshop will be segregated from the audit training workshop due to its specialized nature. It aims to provide the participating CARs the flexibility of selecting other participants, whose jobs may be more suitable to this subject. It is envisaged that the workshop will be held at least two months after the completion of the audit training workshop.

4. Auditing Guidelines and Training Manual

16. Auditing guidelines for each of the recipient countries will be provided to serve as a guide for audits. The guidelines will include basic auditing techniques and highlight ADB's auditing requirements. The training manual will be used as reference in training other

government auditors on a continuing basis. The auditing guidelines and the training manual will be in both English and the Russian language.

B. Cost Estimates and Financing Plan

17. The total cost of the TA is estimated at \$509,000 equivalent of which \$500,000 will be provided by ADB (Appendix 2) on a grant basis, from the Japan Special Fund, funded by the Government of Japan. The participating governments will provide the remaining \$9,000 equivalent, which represents the estimated cost of office accommodation and administrative support.

18. Due to the differences in the development of accounting and auditing in the three participating CARs, it is essential that ADB be represented in a mitigating role at the inception as well as at the end of the program. It is unlikely that the consultant engaged for this project would be able to play this role. Therefore, the associated costs to be incurred by ADB staff for attending the Strategic Planning Workshop and the tripartite meetings at the conclusion of the program are included in the TA costs.

C. Implementation Arrangements

19. The Executing Agency of the TA will be the Office of the General Auditor (OGA) of ADB. An international consulting firm with extensive experience in international accounting and auditing standards and practice and in working with supreme audit institutions (SAI), or an equivalent, preferably in the CARs, will be engaged. The consulting firm will provide a consultant who is fluent in the Russian language and has substantial experience in conducting training in the Russian language and in developing audit-related manuals. Preference will be given to a consultant who is familiar with accounting and auditing standards and practice within the governments of the CARs.

20. The consultant will be required to acquire the services of a domestic consultant in each participating CAR. The domestic consultants will (i) be familiar with the local accounting and auditing practices in the government and have substantial experience in working with the local SAI, or its equivalent, (ii) assist the international consultant in preparing auditing guidelines and training manuals suitable for use in each participating CAR, and in developing training programs in auditing, training the trainers, and fraud investigations, and (iii) assist in the workshop in their respective country.

21. The consultants in each participating CAR will (i) conduct a study of the current auditing practice, (ii) conduct a training need analysis, (iii) develop training materials and case studies for the workshops, (iv) conduct the workshops, (v) prepare the auditing guidelines and the training manuals, and (vi) submit periodic reports to ADB regarding the workshops and other project activities.

22. Approximately 22.5 person-months of consulting services will be required during an implementation period of 20 calendar months. The input is estimated to be 10 person-months, for the international consultant and about 12.5 for the domestic consultants. The TA is expected to commence in January 2000 and be completed by August 2002. The terms of reference for the consultants are in Appendix 3. The international consulting firm will be selected in accordance with ADB's simplified technical proposal procedures and the *Guidelines on the Use of Consultants*.

23. The three senior officials of audit institutions of the participating CARs are encouraged to attend the strategic planning workshop. The consultants will provide these officials with relevant materials well in advance to allow them to adequately prepare for the workshop. The criteria for selecting participants to the audit training workshop will be decided in the strategic planning workshop. It is emphasized that this audit training workshop will last for four continuous weeks. As such, the governments are expected to (i) be prepared for the absence of their staff from work for that period of time, and (ii) allow them to complete the workshops. To maximize learning and interaction, the size of the audit training workshop will be restricted to not more than 36 participants (12 government auditors from each country). Each Government may draw an initial list of about 15 staff from whom to select the final 12 on a priority basis to ensure availability of replacements if needed.

24. It is envisaged that the strategic planning workshop will be held in Kazakhstan, the audit training workshop including the training-the-trainers program in the Kyrgyz Republic, and the workshop on fraud investigation in Uzbekistan. The host governments will provide, at their expense, adequate secretarial and clerical support and a furnished and equipped office for the consultants while working on the project.

25. For the smooth implementation of the TA, each Government of the participating CARs will appoint, at their expense, a project coordinator (preferably from the SAI or equivalent) who will be responsible for close interaction with the international consultant and ADB and for monitoring the daily activities of the workshops. These coordinators will also liaise with the international and domestic consultants and/or ADB in setting up the office to be provided by each Government for the project, in preparing the venue for the workshop in their respective countries, and in the planned activities during the workshops. Details of the planned activities will be decided during the strategic planning workshop.

IV. THE PRESIDENT'S DECISION

26. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, on a grant basis, in an amount not exceeding the equivalent of \$500,000 for the purpose of the Audit Training Program for Central Asian Republics, and hereby reports such action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Targets	Monitoring Mechanisms	Assumptions and Risks
<p>1. Goals</p> <ul style="list-style-type: none"> • Improve quality and efficiency of government audits • Strengthen government auditing system to conform with best practice and international auditing • Enhance awareness of fraud in government auditing and introduce basic fraud investigation techniques 	<ul style="list-style-type: none"> • Increased number of entities being audited • Expanded scope of audits from compliance to budgetary regulations to financial and performance audits • Close adherence to international auditing standards • Compliance with generally accepted auditing guidelines • Improved quality of audit reports 	<ul style="list-style-type: none"> • Annual work program of the Supreme Audit Institution (SAI) or equivalent • Annual accomplishment reports by the SAI or equivalent • Audit reports • Published audit findings 	<ul style="list-style-type: none"> • Auditing guidelines are officially adopted. • Continuous training of government auditors through the use of the training manual. • State agencies are receptive to the government audit reports. • Government is able to retain trained auditors. • Trained government auditors will be able to apply audit concepts and techniques to actual fieldwork.
<p>2. Objectives</p> <ul style="list-style-type: none"> • Provide training in modern internal audit concepts & techniques, in fraud awareness & investigation, and in preparing trainers to continue training • Provide government auditors with an auditing guidelines manual to facilitate reference in future audits 	<ul style="list-style-type: none"> • Enable government auditors to audit Asian Development Bank (ADB)-financed projects • Formation of a team qualified to audit ADB-financed projects and other government agencies • Enable government auditors to conduct fraud investigations 	<ul style="list-style-type: none"> • Consultants' evaluation reports • Consultants' report on overall accomplishment • ADB review missions • Tripartite meetings 	<ul style="list-style-type: none"> • SAI or equivalent actively supports the TA. • Consultants are competent and work effectively with SAI and ADB staff. • Auditing training manuals are used in ongoing training of government auditors. • Trained government auditors will be able to apply audit concepts and techniques to actual fieldwork.
<p>3. Outputs</p> <ul style="list-style-type: none"> • Auditing guidelines manual • Audit training manual 	<ul style="list-style-type: none"> • Completion of auditing guidelines by February 2001 • Completion of audit training manual and audit training materials by July 2001 • Audit training course completed by October 2001 • Completion of training materials on fraud investigation by January 2002 • Training on fraud investigation completed by February 2002 	<ul style="list-style-type: none"> • Consultants' evaluation reports • ADB review missions • Tripartite meetings 	<ul style="list-style-type: none"> • SAI or equivalent has no substantive disagreement with the auditing guidelines. • Consultants selected fully meet ADB requirements. • Government auditors are receptive to new ideas and approaches.

(Reference in text: page 1, para. 1)

Design Summary	Performance Targets	Monitoring Mechanisms	Assumptions and Risks
<p>4. Inputs</p> <ul style="list-style-type: none"> • International and domestic consultants services • Workshops • Counterpart staff and facilities 	<ul style="list-style-type: none"> • Training materials and manuals \$256,970 • Workshops \$243,030 	<ul style="list-style-type: none"> • Consultants' evaluation reports • Consultants' report on overall accomplishment • ADB review missions • Tripartite meeting 	<ul style="list-style-type: none"> • Consultants are competent. • Qualified counterpart staff are available • Working relationship between consultants, ADB staff, and government staff is good. • Audit trainees are receptive to new ideas and approaches.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. ADB Financing (Japan Special Fund)			
1. Consultants' Remuneration and Per Diem	243	26	269
2. International and Local Travel ^a	38	1	39
3. Cost of Workshops:		98	98
Participants' Hotel and Subsistence -	77		
Local Travel -	16		
Venue and Other Related Expenses -	5		
4. Printing and Translation of Materials	22	4	26
5. Local Transportation		3	3
6. Shipment and Delivery Expenses	2		2
7. Miscellaneous	4	1	5
8. Contingencies	48	10	58
Sub total	357	143	500
B. Government Financing ^b			
1. Kazakhstan		3	3
2. Kyrgyz Republic		3	3
3. Uzbekistan		3	3
Total	357	152	509

^a Includes travel costs for Office of the General Auditor staff.

^b Estimated cost of office facilities and administrative support (secretarial services, furniture and equipment, office supplies) to be provided by the Government.

Source: Staff estimates.

(Reference in text: page 4, para. 17)

TERMS OF REFERENCE

1. The international consulting firm engaged under the technical assistance (TA) must provide a consultant that has extensive experience in international accounting and auditing standards and practice, and in working with supreme audit institutions (SAI), or equivalent, preferably in the Central Asian Republics (CARs), and is familiar with accounting and auditing standards and practice in the governments of the CARs.

2. The international consulting firm will be required to acquire the services of a domestic consultant in each participating CAR. The domestic consultants must be highly familiar with local accounting and auditing practices in the government and with substantial experience in working with the local SAI, or equivalent. The domestic consultants will assist the international consultant in preparing auditing guidelines and training manuals suitable for use in each of the participating CARs, and in developing training programs in auditing, fraud investigations, and training-the-trainers program. Specifically, the domestic consultants will perform the following tasks:

- (i) by holding discussions with the SAI or equivalent, validate the findings from previous studies (in Kazakhstan by the World Bank, in the Kyrgyz Republic by the European Union, and in Uzbekistan by the [ADB]) and provide the international consultant with up-to-date information regarding accounting and auditing concepts and practices in the country;
- (ii) familiarize the international consultant with standard protocol in the various government agencies to be dealt with;
- (iii) arrange the required meetings between the international consultant and/or ADB staff and the government/private institutions in the country;
- (iv) liaise with the government coordinator, the ADB Resident Mission staff, and the hotel management in making the necessary arrangements for the venue of workshops or for the workshop-related activities in the country;
- (v) assist the international consultant in conducting the workshop; and
- (vi) perform other related tasks as specified by the international consultant from time to time.

3. The TA is expected to commence in January 2001 and be completed by August 2002.

(Reference in text: page 4, para. 22)

A. Duties

4. The international consultant will take overall responsibility for the performance of the following tasks:

1. Study the Auditing and Accounting Standards and Practices in the Participating CARs

5. The specific responsibilities will include the following:

- (i) From documents provided by ADB and those obtained from the participating CARs, as well as discussions with the government concerned, study the current accounting and auditing standards and practices in the participating CARs. The accounting manuals prepared in the previous TA for strengthening the accounting capabilities of Kazakhstan and the Kyrgyz Republic will be distributed to the consultants.
- (ii) Study the accounting and auditing requirements for ADB-funded projects.
- (iii) Prepare a set of auditing guidelines that are suited to the existing conditions in each of the participating CARs, along the lines of international best practices and in accordance with international auditing standards.

2. Design an Audit Training Workshop

6. The workshop will cover basic auditing, fraud detection, and training the trainers, and a training manual for each of the participating CARs and a Fraud Investigation Workshop covering basic investigation techniques. The responsibilities of the consultants will include the following:

- (i) Ensure that the audit training workshop is consistent with the international auditing principles, standards, and techniques.
- (ii) To enable the participants to render an opinion regarding the presentation of financial statements, integrate brief, relevant, generally accepted international accounting principles in the audit of each account covered in the training course.
- (iii) Ensure that the auditing guidelines prepared in 1(iii) are fully covered in the training course.
- (iv) Prepare a case study involving a simulated audit of ADB project accounts, integrating conditions that are relevant to ADB projects, and another case study covering an audit of a selected government function.
- (v) Imbed techniques in detecting potential fraud cases in financial and performance audits. These techniques will be covered in the audit training workshop.

- (vi) Design a training manual to be used in the segment dealing with training the trainers to ensure the sustainability of the acquired knowledge in government auditing.
- (vii) Design a fraud investigation workshop that will enhance the participants' awareness of the typical conditions in which fraud can exist, as well as teach them basic investigative techniques and ways of handling fraud cases. Since the training materials for this workshop are focused only on fraud investigation, endorsement by each participating CAR can be obtained during the consultant's visit to the country.

3. Conduct a Strategic Planning Workshop (SPW)

7. The workshop will discuss the coverage of the proposed workshops with the senior officials of government auditing offices in the participating CARs, and obtain their input to ensure suitability of the course to their respective countries as well as their endorsement of the audit training workshop. The responsibilities of the consultants will include the following:

- (i) Prepare a briefing paper to be sent to the appropriate senior officials of the audit institutions in the participating CARs for their review, describing, in general terms, the coverage of the training course prior to the SPW.
- (ii) Provide the same officials with the initial version of the auditing guidelines, for their review prior to the SPW.
- (iii) Revise the auditing guidelines, training materials, and the training manual, as necessary, based on the results of the SPW.

4. Conduct an Audit Training Workshop (ATW)

8. The ATW will include three segments, namely: introduction of basic auditing concepts and techniques, fraud awareness in auditing, and the training-the-trainers program. The responsibilities of the consultants will include the following:

- (i) Allocate sufficient time for completion of the two simulated audits as required in the practice sets, and for discussion of the solutions offered by the participants as well as the consultant's proposed solution.
- (ii) Update/revise the auditing guidelines and training manuals, as necessary, based on discussions in the workshop.

5. Conduct a Fraud Investigation Workshop

9. The consultant will introduce basic fraud investigation concepts such as rules of evidence, concept of due process, interview procedures, surveillance procedures, reporting procedures, and related issues.

B. Other Activities

10. The consultant will undertake other activities:
- (i) Present to ADB for approval all training materials, training manuals, and auditing guidelines and all revisions thereto.
 - (ii) Ensure the timely and competent translation of the auditing guidelines, training materials, and training manuals.
 - (iii) Liaise with the coordinators designated by each participating CAR to ensure the timely setup of the office facilities and administrative support in each participating CAR, the venues for all workshops, and other planned activities for the participants.
 - (iv) Conduct a wrap-up session with ADB and senior officials of audit institutions in the participating CARs to discuss the highlights of the workshops, lessons learned, problems encountered, recommendations for the sustainability of knowledge acquired from the workshop, and any future training workshop deemed necessary for the participating CARs.
 - (v) Revise and finalize the auditing guidelines and the training manuals, as necessary, based on the discussions during the workshops; ensure their publication in the manner and number approved by ADB; and deliver the final product to ADB for distribution to the participating CARs.
 - (vi) Provide ADB with a report at the end of the strategic planning workshop, the audit training workshop, and the fraud investigation workshop.
 - (vii) Report on the overall accomplishments of the TA, including an assessment of the trained government auditors' capability to provide audit training to the other auditors.

C. Deliverables

11. The consultants are expected to prepare
- (i) a preliminary general outline of the training workshops on auditing and fraud investigations based on their evaluation of the current status of government auditing in the participating CARs, for ADB review;
 - (ii) a briefing paper to be sent to the senior officials of audit institutions in the participating CARs for their review, describing, in general terms, the coverage of the training course prior to the SPW;
 - (iii) drafts of training materials to be used in the workshops on audit training and fraud investigations for ADB review;
 - (iv) draft of auditing guidelines and training manuals for ADB review;

- (v) final versions in English and in the Russian language, of auditing guidelines, training manuals, and materials for the training workshops in auditing and fraud investigation;
- (vi) evaluation reports covering the (a) preliminary review of the current status of government auditing; and (b) proceedings of and significant issues discussed during the SPW, audit training workshop, and fraud investigation workshop. A separate report must be prepared for each workshop;
- (vii) a report on the overall accomplishment of the TA; and
- (viii) minutes of tripartite meetings held after each of the three workshops.