

No. 18157

**UNITED STATES OF AMERICA
and
SAUDI ARABIA**

**Project Agreement for technical co-operation in audit
administration and training (with annexes). Signed at
Riyadh on 16 May 1978**

Authentic text: English.

Registered by the United States of America on 5 December 1979.

**ÉTATS-UNIS D'AMÉRIQUE
et
ARABIE SAOUDITE**

**Accord de projet de coopération technique en matière
d'administration et de formation aux contrôles admi-
nistratifs (avec annexes). Signé à Riyad le 16 mai 1978**

Texte authentique : anglais.

Enregistré par les États-Unis d'Amérique le 5 décembre 1979.

PROJECT AGREEMENT¹ BETWEEN THE GOVERNMENT OF THE KINGDOM OF SAUDI ARABIA AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA FOR TECHNICAL COOPERATION IN AUDIT ADMINISTRATION AND TRAINING

Article I. SCOPE

This Project Agreement to be implemented by the Department of the Treasury (Treasury) of the United States of America and the Ministry of Finance and National Economy (MFNE) and the General Control Board (Board) of the Kingdom of Saudi Arabia sets forth arrangements to provide assistance to the Board in management, training and manpower development.

Article II. AUTHORIZATION

The project will be carried out under the auspices of the United States-Saudi Arabian Joint Commission on Economic Cooperation and in accordance with the provisions of the Technical Cooperation Agreement between the Governments of the United States and Saudi Arabia, signed on February 13, 1975,² which is hereby incorporated by reference and becomes a part of this Agreement.

Article III. SERVICES

A. The services to be performed under this Agreement are as follows:

- (1) Provide a four-man team composed of the team leader, an auditor, and two management consultants/analysts for two years to advise and assist the Board in upgrading the organization and performance of its staff in monitoring the development activities of the Saudi Arabian Government. Particular emphasis will be placed on:
 - a. Audit Management and Administration;
 - b. Policy-making, Organization and Staffing;
 - c. Planning;
 - d. Personnel and Training;
 - e. Data Management.

Additional consultants in these or related fields may be used as appropriate. A detailed description of the work to be performed in these areas is contained in annex 1, the January 1978 Assessment Study of the Board, which is attached hereto and becomes part of the Agreement;

- (2) Prepare and provide for training programs for selected Board personnel;
- (3) Arrange and coordinate longer term graduate degree study in the U.S. for Board personnel;
- (4) Arrange consultations for Board personnel in the U.S.

A detailed description of each advisor's work program is contained in annex 2, "Working Experts Required by the Board".

¹ Came into force on 25 May 1978, the date of deposit by the Government of Saudi Arabia of the sum described in article VII, in accordance with article IX.

² United Nations, *Treaty Series*, vol. 998, p. 209.

B. The selection of individuals under this Agreement will be based solely on consideration of professional capability, experience and other merit factors.

Article IV. LOCAL SUPPORT

A. The Board, either directly or through the MFNE or other agencies, will support this project by:

- (1) Designating counterpart personnel from the Board to work with the Team on a day-to-day basis;
- (2) Assuring the Team access to MFNE computer facilities and all relevant statistical data and information available to the Board and the MFNE;
- (3) Providing the Team with adequate offices, furnishings, and facilities in Riyadh and in other parts of the Kingdom as necessary to perform their duties;
- (4) Providing a translator in addition to secretarial and on-the-job logistical support, where possible;
- (5) Designating Board personnel to receive training, and working with the Team to evaluate and revise Training programs;
- (6) Providing other job-related support services as needed to enable the Team to perform its duties effectively.

B. Treasury may use funds advanced for this project by the Government of Saudi Arabia in the Dollar Trust Account to provide such supplies and services mentioned in this article to the extent they are not provided by the Government of Saudi Arabia.

Article V. COORDINATION

A. Treasury shall designate an appropriate official to be responsible for coordination between Treasury and the Board under this Agreement. The Board shall designate an appropriate official to be responsible for coordination between the Board and Treasury under this Agreement.

B. Overall coordination of this technical cooperation project with other Joint Economic Commission activities within the United States Government, and provision of certain administrative facilities and support for this project, will be the responsibility of Treasury. The Office of the Joint Economic Commission in Riyadh will serve as the point of contact for communications between the Board, MFNE and Treasury concerning this project, and will be primarily responsible for monitoring the implementation of this Agreement in Saudi Arabia.

Article VI. "FORCE MAJEURE"

If any party to this Project Agreement is rendered unable because of *force majeure* to perform its responsibilities under this Agreement, these responsibilities shall be suspended during the period of continuance of such inability. The term "*force majeure*" means acts of God, acts of the public enemy, war, civil disturbances, and other similar events not caused by nor within the control of the parties. During the period of suspension of performance caused by *force majeure*, Treasury may continue to pay normal costs of maintaining project personnel in Saudi Arabia from funds advanced to the United States by the Government of Saudi Arabia. In the event of suspension of a party's duties because of *force majeure*, the parties shall consult and endeavor jointly to resolve any attendant difficulties.

Article VII. ESTIMATED BUDGET

Formal budgets will be submitted by Treasury to MFNE each year. The total cost for the first two years of this project is estimated to be \$2,171,000. This estimate covers the following expenses:

	<i>Year 1</i>	<i>Year 2</i>	<i>Total</i>
Personnel compensation and benefits	231,000	247,000	478,000
Travel and Transportation	64,000	67,000	131,000
Housing and Related Expenses	197,000	204,000	401,000
Other	200,000	207,000	407,000
TDY Specialists (6 @ 2 mos. each)	84,000	—	84,000
Training*	300,000	300,000	600,000
Local Staff	35,000	35,000	70,000
TOTAL Dlr.	1,111,000	1,060,000	2,171,000

* Training figure covers the estimated cost for short-term and long-term training as may be appropriate.

Article VIII. DOLLAR TRUST FUND

The Government of Saudi Arabia agrees to deposit in the Dollar Trust Account in the United States Treasury established by the Technical Cooperation Agreement the sum of \$1,111,000 to cover the estimated costs for the first year's activities referenced in article VII above.

Article IX. EFFECTIVE DATE

A. This Agreement shall enter into force upon the deposit by the Government of Saudi Arabia of the sum described in article VII above, and shall remain in effect until terminated by the parties hereto in accordance with paragraph (C) below or the termination of the Technical Cooperation Agreement of February 13, 1975, whichever shall occur first.

B. This Agreement may be amended, supplemented or extended by the mutual written consent of all parties.

C. This Agreement may be terminated at any time at the discretion of either Government, upon sixty (60) days written notice.

D. All questions related to this Agreement arising during its term shall be settled by the parties hereto by mutual agreement.

United States of America:

Department of the Treasury,

[Signed — Signé]¹

Date: May 16, 1978

Kingdom of Saudi Arabia:

Ministry of Finance
and National Economy,

[Signed — Signé]²

Date: May 16, 1978

General Control Board:

[Signed — Signé]³

Date: May 16, 1978

¹ Signed by John Hummon — Signé par John Hummon.

² Signed by Mansoor Al-Turki — Signé par Mansoor Al-Turki.

³ Signed by Faqih — Signé par Faqih.

[A N N E X 1]

ASSESSMENT OF THE ORGANIZATION, PROGRAMS, ACTIVITIES AND FUNCTIONS OF THE GENERAL CONTROL BOARD, KINGDOM OF SAUDI ARABIA, RIYADH, SAUDI ARABIA

Project Study Team:

L. Paul Blackmer, Chief, Internal Audit Division, Bureau of Alcohol, Tobacco and Firearms, U.S. Department of the Treasury;

Robert J. Leuver, Chief, Treasury Employee Data and Payroll Division, Office of the Secretary, U.S. Department of the Treasury.

January 1978

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1.0. INTRODUCTION

1.1. *Purpose*

This assessment was performed at the request of the Kingdom of Saudi Arabia, General Control Board (GCB)* to determine the broad parameters of need and method of:

1. Improving the GCB's organization and management in order to improve overall efficiency;
2. Developing GCB's staff through short- and long-term training programs in the United States and possibly in Saudi Arabia;
3. Developing a continuing relationship between GCB and a U.S. agency which would provide an assured source of technical assistance over the long term; and
4. Determining the merits of computerizing the various functions of GCB.

* The General Control Board is referred to in several ways in Riyadh, but for the purpose of this report, General Control Board will be used.

The purpose of the assessment as outlined above was discussed with John P. Hummon, Director, USREP/JECOR, and Daniel Sturt, Ph.D., Project Monitor, in meetings on January 21, 1978.

The General Control Board has major audit and review responsibilities over accounting source documents, financial records and statements, and development projects undertaken with public funds. The number of source documents, magnitude and variety of projects, and the limited number of trained personnel make this an overwhelming task.

1.2. *Scope of Assessment*

The scope of the assessment was extremely broad and limited only by time and language barriers. The assessment was somewhat constrained because the documentation available on some aspects of the activities to be reviewed was insufficient. Nonetheless, six primary issue areas surfaced during the assessment and were treated in separate chapters of this report. Each issue area is important and order of presentation is not intended to indicate relative significance.

1.3. *Methodology*

The study team had to determine exactly what activity the GCB performs and the universe of their needs. Senior staff officials and middle management personnel were interviewed. The team also reviewed in detail the voucher examination procedures and auditing techniques applied by the various units. Mechanization of procedures and automated data processing equipment were discussed and assessed.

1.4. *Acknowledgements*

All members of the General Control Board were extremely generous of their time and comments. This enabled the study team to proceed much more quickly than was expected. Mr. Sharif and Mr. Shetway were particularly helpful. Their aid and insights provided the study team with a thorough and quick orientation and definition of issue areas. Both individuals have expended considerable effort in management studies of the GCB. We also appreciate the assistance provided by the USREP staff.

2.0. SUMMARY AND RECOMMENDATIONS

2.1. *Summary*

An assessment was made of the mission, policy, organization and operational procedures of the GCB, Riyadh, Saudi Arabia. The assessment team was composed of two officials of the U.S. Department of Treasury, working under the auspices of the U.S.-Saudi Arabian Joint Commission on Economic Cooperation.

The GCB occupies an important position and is highly respected in the hierarchy of government of the Kingdom. Several recent innovations by the current President of the GCB have been instrumental in improving both the operations and thrust of the GCB. The GCB is evolving from financial voucher examination, field inspection of funds and supplies, and desk audit of contracts to the review of program performance and evaluation of the financial health of the government. A recent performance audit of a school lunch program, for example, caused the cancellation of that program after reviewing its effectiveness by cost and results.

The assessment indicates that there are several inherent weaknesses in the General Control Board that require immediate action. Initially, the mandate of the GCB should be broadened through a change in the charter to allow it to set audit standards and accounting principles for the entire government. The authority for approval of the GCB's budget should be removed from the Ministry of Finance and National Economy and elevated to a higher level in the government. The organizational alignment of the GCB should be changed to enable a functional approach to auditing. The span of control exer-

cised by certain officials should be narrowed to assure proper control and assignment of responsibilities.

There are several key recommendations that the GCB should implement to prepare the way for other, more specific, initiatives. The key recommendations are:

- Obtain external assistance of four fulltime technicians to work with the GCB for approximately 2 years. The technicians would advise and assist the GCB in the areas of government accounting and auditing, management, organization, planning, training and data management. The cost of this proposal would be approximately \$1.5 million, including short-term consultative assistance;
- Educate the key Saudi staff of the GCB (managers, supervisors and team leaders) so that all would have a university degree and some would have the advantage of a higher degree. Train the entire staff in the use of special audit techniques and a select group in computer science. Provide courses in executive development to senior staff officials and selected second-line management;
- Create an Office of Policy and Planning to provide direction and guidance to the GCB as well as allow the monitoring of the effectiveness of the GCB. The initial staffing of the Office could be provided by some of the experts of the staff.

The assessment of the GCB has been developed into a series of specific recommendations shown below. The remaining chapters of the report are organized into the six primary issue areas which describe in greater detail the circumstances surrounding the recommendations and develop a course of action.

2.2. Recommendations

The recommendations of the assessment team are listed below. Parenthetical numbers refer to sections of the assessment where the recommendations are discussed.

1. Retain four technicians for a period of approximately 2 years to assist the General Control Board of Saudi Arabia in implementing the organizational and operational changes recommended in this report. These technicians would form a project team which should be headed by a professional auditor. Associate team members should consist of one auditor and two management analysts. Additional specialized project support should be provided by temporary consultants. It is estimated that the total cost of this project would be approximately \$1.5 million over a 2-year period (3.2);
2. Request the Council of Ministers to broaden the mission and assure the independence of the GCB in areas directly related to its responsibilities; specifically (4.1):
 - a. Authorize the GCB to set audit standards for the Kingdom (4.1.1);
 - b. Authorize the GCB to set accounting principles for the Kingdom (4.1.2);
 - c. Establish the authority for review and approval of the GCB's budget with His Majesty, the King, or with the Council of Ministers (4.1.3);
3. Establish internal policy and procedures for the GCB (4.3);
4. Reorganize the GCB. In the reorganization consider establishing new functions, narrowing the span of control of certain officials, providing for comprehensive functional audits of government-funded programs and establishing participative management (4.3);
5. Staff the GCB with qualified personnel and hire technicians to adequately provide services to be performed under the GCB's mission (4.4);
6. Authorize the GCB to directly recruit and hire its professional staff and management personnel (4.4);
7. Retain, on an interim basis, the services of an independent auditing firm to perform audits of certain government-funded organizations (4.4);

8. Establish an audit planning system to enable efficient and effective accomplishment of the GCB's mission (5.2);
9. Establish a system of personnel management planning to assure that present and future personnel needs are met (5.3);
10. Use the management-by-objectives technique integrated with budget formulation to achieve the goals of the organization (5.4);
11. Establish a management information system to collect and analyze internally generated data to enhance the decision-making process (5.5);
12. Establish management policies which enhance the image of the GCB and enable it, as a professional audit organization, to meet staffing needs through management initiatives (6.1);
13. Provide education and training to Saudi personnel including:
 - Undergraduate education in the United States for key Saudi employees (managers, supervisors and team leaders) over a 5-year period;
 - Specialized training in audit techniques to Saudi staff members; and
 - Executive development for senior managers (6.2);
14. Purchase electronic calculator equipment (some with programmable memory) and train personnel in the use of this equipment (7.2);
15. Establish a computer-oriented technical group (experts) in the Office of Policy and Planning (7.4.3);
16. Train a select group of individuals in computer science to analyze computer applications required by the GCB (7.4.3);
17. Develop a staff responsible for determining computer applications for government accounting systems and methods of auditing computerized accounting systems of government agencies and private corporations (7.4.3);
18. Define requirements and needs for possible future acquisition of computer processing capability (7.4.3);
19. Expand the scope of audit work to encompass full scope field auditing of Saudi Arabian funded programs, functions, activities and organizations (8.1).

3.0. EXPERTS SHOULD BE RETAINED TO ASSIST THE GENERAL CONTROL BOARD IN IMPLEMENTING IMPROVEMENTS

3.1. *Observations*

It became clear during the course of this assessment that the General Control Board would benefit greatly from the continued consultation of U.S.-trained accounting and auditing experts. The profession of accounting and auditing in the U.S., both in the public and private sector, is highly developed as evidenced by the international predominance in standard setting and influence enjoyed by the U.S. General Accounting Office and the major certified public accounting firms. The advanced development of government and business in the U.S. capitalistic society has been a natural catalyst for the evolution of accounting and auditing in the U.S. In such an environment, the need of society, both investors and citizens, for clear and objective analysis and interpretation of the economic transactions of business and government are obvious. The Government of Saudi Arabia has a unique opportunity to take advantage of U.S. accounting and auditing expertise developed over many years.

Such an arrangement may be achieved through the use of four advisors assigned to assist GCB management for a period of 2 years at an estimated cost of \$1.4 million. These advisors should be senior professionals with a background of education and expe-

rience in full-scope government accounting and auditing, organization and management and management analysis and data processing. Specific experience and knowledge of U.S. General Accounting Office methods of operation and philosophy, computer and contract auditing and organizational study and implementation practices would be desirable. Exhibit 3.1 shows the required and desirable qualifications that the consultants should possess. In addition to the four advisors (project team), provision should be made for the use of temporary duty consultants for approximately 1 staff-year at an estimated cost of about \$100,000. These temporary duty consultants would provide the project team with specialized support on an as-needed basis.

3.2. Recommendation

We recommend that four advisors be retained for a period of approximately 2 years to assist the GCB in implementing the organizational and operational changes recommended in this report. These advisors would form a project team which should be headed by a professional auditor. Associate team members should consist of one auditor and two management analysts. Additional specialized project support should be provided by temporary consultants. It was estimated that the total cost of this project would be approximately \$1.5 million over a 2-year period.

Exhibit 3.1

PROJECT TEAM QUALIFICATIONS

I. Project Team Leader

A. Requirements:

1. Senior audit manager with 3 to 5 years of audit management experience in government;
2. Four-year university or college degree in accounting and financial administration;
3. Demonstrated ability to design and apply audit standards and procedures in the form of audit manuals and programs;
4. Demonstrated ability and experience in government financial and compliance auditing;
5. Demonstrated ability and experience in government program auditing.

B. Desirables:

1. C.P.A. certificate or advanced degree in accounting or financial administration;
2. Experience with the U.S. General Accounting Office or other large centralized audit organization;
3. Experience in auditing in the international environment;
4. Experience and/or training in computer and contract auditing.

II. Project Team Associates

Auditor (1)

A. Requirements:

1. Associate audit manager with 2 to 4 years' experience as an audit team leader and supervisor in government;
2. Four-year university or college degree in accounting and financial administration;

3. Demonstrated ability to design and apply audit standards and procedures in the form of audit manuals and programs;
4. Demonstrated ability and experience in government financial and compliance auditing;
5. Demonstrated ability and experience in government program auditing.

B. Desirables:

1. C.P.A. certificate or advanced degree in accounting or financial administration;
2. Experience with the U.S. General Accounting Office or other large centralized audit organization;
3. Experience in auditing in the international environment;
4. Experience and/or training in computer and contract auditing.

Management Analysts (2)

A. Requirements:

1. Senior project manager or supervisor with 2 to 4 years of project management experience in government;
2. Four-year university or college degree;
3. Demonstrated ability and experience in dealing with government financial management organizations;
4. Demonstrated ability and experience in organizational planning;
5. Demonstrated ability and experience designing and using management information systems.

B. Desirables:

1. Advanced degree;
2. Training and/or experience in computer operations and applications;
3. Familiarity with the use of or implementation of electronic calculators and data processing equipment in financially-related organizations.

4.0. MISSION, POLICY, ORGANIZATION AND STAFFING OF THE GENERAL CONTROL BOARD

4.1. *Mission*

The GCB was established in 1373 A.H. (1954 A.D.), when the first Council of Ministers was formalized in the Kingdom. Subsequently, the Council of Ministers has issued resolutions affecting the GCB which have broadened and strengthened its mission.

The GCB was structured so as to give it certain independence. The President of the GCB was appointed by Royal decree and is directly responsible to His Majesty, the King. As the President noted in an interview, he has the complete confidence of His Majesty and the authority of his office in the direction of the GCB.

Even though the purview of the GCB is broad, it does lack complete independence and certain responsibilities. These responsibilities are related to its mission and are not officially authorized to any other agency of the Kingdom. Specifically, the GCB should have authority to set audit standards and accounting principles.

4.1.1. *Audit Standards*

Audit standards are necessary for the effective fulfillment of the work of the GCB. As the GCB's scope expands, the GCB auditors gain more experience, and Ministries

assume responsibility for internal auditing functions; the GCB should have the authority and responsibility to develop and set audit standards.

Government audit standards are generally considered to be of three types:

1. General standards—the scope of the audit function; the proficiency required by audit staffs; the independence of auditors in pursuing their objectives; and, the professionalism required in conducting audits and preparing reports;
2. Examination and evaluation standards—audit planning; supervision of associate auditors; review of legal and regulatory compliance; review of internal controls; and documentation of audit findings by competent evidential matter;
3. Reporting standards—determination of procedures for reports: method of report submission, distribution and issuance; and, required content of any financial report.

4.1.2. *Accounting Principles*

Accounting principles are essential for the guidance of any financial organization in maintaining financial records. It is essential that the GCB be authorized to prescribe accounting principles to be followed by government agencies and organizations funded by the Kingdom.

Accounting principles generally apply to the following functions which are identical to those for which the U.S. General Accounting Office is responsible:

1. Prescribing the principles, standards, and related requirements for accounting to be observed by each Ministry and government agency, or related private company in the Kingdom;
2. Cooperating with the government agencies of the Kingdom in the development of their accounting systems and in the improvement of their financial management systems;
3. Approving government agency accounting systems;
4. Reviewing periodically the government agency accounting systems.

4.1.3. *Independence*

The GCB was initially organized to give it necessary independence, however, its work has the potentiality of being constrained by the Ministry of Finance and National Economy. Traditionally, the Ministry of Finance and National Economy over which the GCB has audit authority has been responsible for approving government agency budgets. Because of this long-established tradition, the Ministry approves the budget of the GCB. The potential adverse impact of this situation on the GCB's independence suggests that budget-approving authority should be given to the Council of Ministers of His Majesty, the King.

The establishment of criteria and the selection of personnel for the GCB is also important in the maintenance of independence. This personnel issue is more thoroughly discussed in section 6.1.

4.2. *Policy*

The GCB requires internal controls and standardized operating procedures as well as uniform practices for all departments.

The GCB is responsible for providing adequate independent audit coverage of all government operations. Auditing standards and accounting principles, mentioned previously in this section, should provide the basic criteria on which the GCB's operations are based.

4.3. *Organization*

The current organization is highly centralized. The three senior management officials all perform identical tasks with ultimate authority vested in the President. For instance, some 10 departments and 3 branch offices all report to the Director-General, who reports to the Vice President, who, in turn, reports to the President. The span of authority among the department heads is confused and procedures differ among departments.

It is recognized that the current centralized hierarchical system has a cultural basis. However, it has been noted that several Ministries have changed their organizational structure and introduced participative management.

Exhibit 4.1 is a 1975 portrayal of the organization of the General Control Board. Some adjustments have recently been made; however, it remains basically unchanged.

In order to make the GCB more dynamic, reorganization along the following lines would be desirable:

1. A new Office of Policy and Planning should be created. The function is described in section 5.0;
2. The position of Director General should be eliminated since it merely duplicates the function of the Vice President. Consideration might be given to establishing three or more vice president positions which would have the effect of narrowing the span of control of certain officials and contribute to efficient operations;
3. Audit standards and accounting principles should be developed and maintained by the Office of Policy and Planning;
4. The responsibility for the audit management and execution by the branch or field offices should be that of a department head or an office head. These branch offices should receive their direction from the functional departments when performing field audits and, of course, receive overall policy guidance from the GCB Headquarters in Riyadh;
5. Audit responsibility should be established along functional lines. This would allow the auditors to know more about the agency being audited and provide more meaningful assistance and guidance;
6. There should be more participative management between senior staff (President, Vice President, office heads and department heads/Controllers General) and mid-level staff (department heads and division or section chiefs);
7. Any reorganization should allow for full-scope audits. Functional teams of technical experts can fulfill this effort.

Exhibit 4.2 is a proposed organizational chart for the GCB. It is one of several organizational alignments that might be considered. The chart does not go into great detail. It is meant to capture only the main division of functions and responsibilities. The chart serves to reflect functional organizational alignment which reduces the current broad span of control by certain officials.

4.4. *Staffing*

The current staffing of the GCB is inadequate to support the work assigned to this agency. An important aspect of the problem facing the GCB in filling its authorized positions with qualified individuals is the current practice of all government hiring being done by the Saudi Arabian Civil Service Bureau. This contributes to the current circumstances which find unqualified individuals being hired to fill audit positions. The importance of obtaining qualified employees and the need for independence from other government organizations suggests that the GCB should establish qualification standards for its professional and management positions and be free to recruit and hire individuals based on these standards without outside interference.

Exhibit 4.1

Auditing General Bureau
Riyadh, Saudi Arabia

The Present Organizational Chart
1975

A. A. Shetway

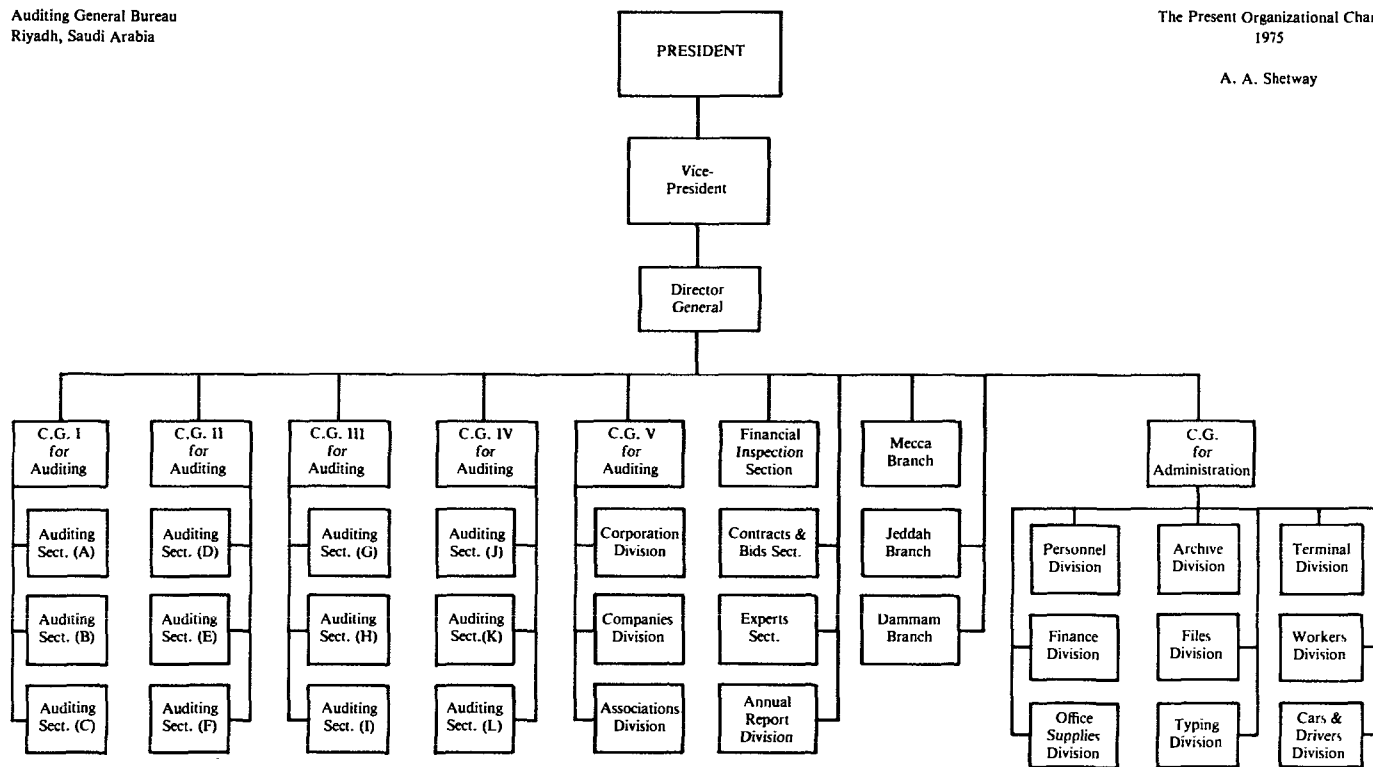
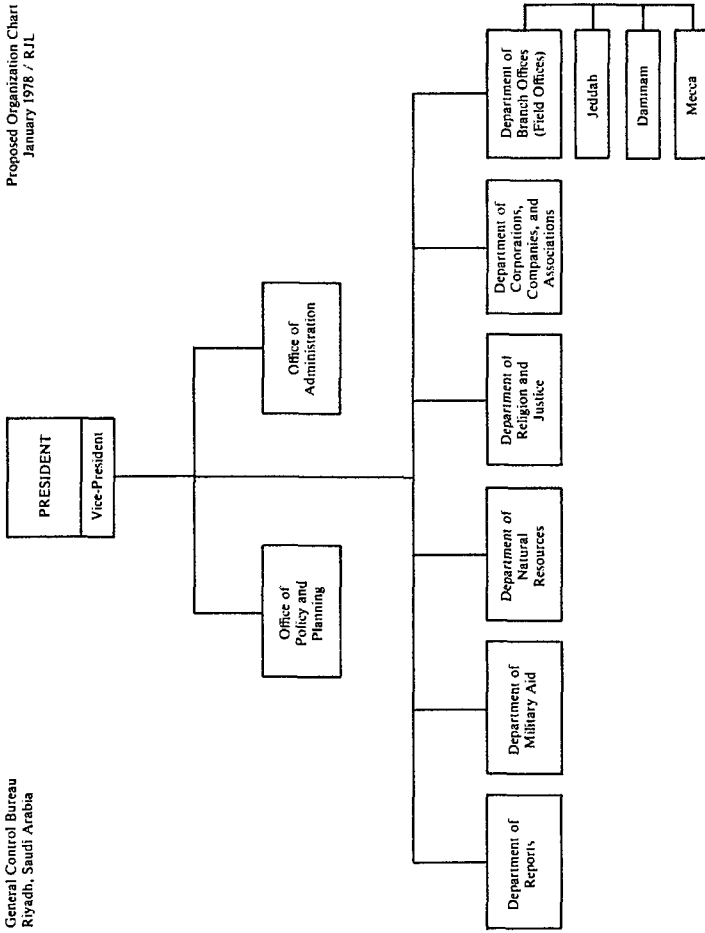


Exhibit 4.2



The current staffing as reported to the Ministry of Education in 1978 is:

Allotted positions	700
Total employees	430 (62%)
Current vacancies	270 (38%)
Professional employees	374
Saudi employees	282 (64%)
Non-Saudi employees	158 (36%)
Saudi employees with a university degree	19

Staffing requirements that are necessary:

1. Fill allotted positions with qualified personnel;
2. Train current Saudi employees (see section on Training);
3. Hire technical staff for positions other than accounting to assist in performance auditing (see also section 6.2);
4. Hire technical staff for policy and planning functions.

It appears doubtful that the GCB can acquire an adequate number of qualified staff in the near term because of the severe shortage of trained individuals available and the competitive environment that presently exists in the Saudi Arabian economy. As an interim measure, the GCB should retain the services of an independent auditing firm to perform audits of certain government-funded organizations such as private corporations which are guaranteed a profit by the Saudi Arabian government. These audits should be done under the direction of the GCB, and the firm selected to perform the work should be prohibited from other conflicting business arrangements in Saudi Arabia.

4.5. Recommendations

We recommend that the GCB:

1. Request the Council of Ministers to broaden its mission and assure its independence in areas directly related to its responsibilities; specifically,
 - a. Authorize the GCB to set audit standards for the Kingdom;
 - b. Authorize the GCB to set accounting principles for the Kingdom;
 - c. Establish the authority for review and approval of the GCB's budget with His Majesty, the King, or with the Council of Ministers;
2. Establish internal policy and procedures;
3. Reorganize by establishing new functions, narrowing the span of control of certain officials, providing for comprehensive functional audits of government-funded programs and establishing participative management;
4. Seek authorization to directly recruit and hire professional staff and management personnel;
5. Staff with qualified personnel and hire technicians to adequately provide services to be performed under the GCB's mission;
6. Retain, on an interim basis, the services of an independent auditing firm to perform audits of certain government-funded organizations.

5.0. OPPORTUNITY TO IMPROVE EFFICIENCY AND EFFECTIVENESS THROUGH PLANNING

5.1. Introduction

Careful comprehensive planning is essential for successful accomplishment of an organization's mission. Our assessment of the General Control Board's planning practices

indicated a need for reassessment by the Board in light of the changing environment in Saudi Arabia and the new demands on Board resources. This section of the report addresses several aspects of planning which should be evaluated by the Board for implementation including audit planning, personnel management, management information system, management by objectives and budgeting.

5.2. *Audit Planning*

Standards for Audit of Governmental Organizations, Programs, Activities and Functions, promulgated by the Comptroller General of the United States and published in 1972, and Federal Management Circular 73-2, dated September 27, 1973, provide authoritative support and policy guidance in designing the planning system for governmental audit organizations. Audit planning standards place upon the audit organization the responsibility for performing sufficient advance planning to provide a basis for an effective audit.

5.2.1. *Defining the Audit Universe*

The purpose of an audit universe is to reflect all programs and operations subject to audit, establish priorities and appropriate audit cycle and estimate resources. Annual audit plans should be based on the audit universe with specific programs and operations being designated for audit based on established priorities and available staff resources. The audit universe should be described in writing to provide in broad terms effective communication of audit plans and priorities, to facilitate control of the audit work and to provide a permanent record of programs and operations subject to audit.

Careful analysis of programs and operations to be audited is important to gain optimum coverage of government functions with limited resources. Although productivity in terms of the number of areas covered is an important means of measuring audit program effectiveness, a relatively greater value must be placed on the impact, significance, and results of the audit reporting process. The quality of the audit product must rank first among audit program objectives. Government programs and operations should be selected for audit based on the following factors:

- Newness; changed conditions, or sensitivity of the organization, program, activity, or function;
- Its dollar magnitude and duration;
- Extent of government participation either in terms of resources or regulatory authority;
- Management needs to be met, as developed in consultation with the responsible program officials;
- Prior audit experience, including the adequacy of the financial management system and controls;
- Timeliness, reliability, and coverage of audit reports prepared by others;
- Results of other evaluations;
- Mandatory requirements of laws or regulations; and
- Availability of audit resources.

Audit priority of each program or operation should be determined based on its significance and impact on the overall accomplishment of the government's mission. After analyzing each program and operation subject to audit in light of legal requirements and impact on government efficiency and effectiveness, an audit cycle should be assigned to each audit and an estimate prepared of the cost of performing the audit in terms of staff resources.

5.2.2. *Planning the Audit*

Planning in intergovernmental auditing is especially important because, in many instances, the audit work performed at one level of government should be correlated with

work performed at other levels. Various levels of government may have an interest in, or statutory requirement to review, the discharge of financial, management, or program accountability of a single organization, function, activity, or program. When such correlation is necessary, it is essential that planning be done by some central agency which will set the objectives of the work so that the scope of the participatory audits done at individual program sites will be comparable and the results can be consolidated.

Where the required work includes reviews into the efficiency, economy, or achievement of desired results, adequate planning is especially important because the procedures employed in such audits are more varied and complex and, thus, more care is needed to select the appropriate procedures for the case at hand. Planning is essential to ensure that the results of the audit will satisfy the objectives of the audit.

In governmental auditing there frequently is a need for participatory audit work by groups of auditors at different locations who often are associated with an entity other than the one directing the auditors planning the audit work. This situation frequently arises when a central audit agency, such as the GCB, having several field offices, makes an audit of a program or activity that is being carried out at various locations and uses its field offices to make the audits at specific locations. Careful planning by the central agency directing the audit is necessary if such audits are to be performed effectively and economically.

Planning for such coordinated audits must be tailored to the specific objectives of the audit. Ordinarily the central agency should specify such things as the laws and regulations that are to be considered by the auditor in reviewing compliance; the goals, objectives, and criteria of the programs that are to be used in the review of program results; and the particular aspects of economy and efficiency that are to be considered in that part of the audit. Unless such planning is carefully performed and communicated to the participating audit staffs, the results of the audit may not meet the needs and expectations of the central agency. Unplanned audit efforts will offer difficult problems in comparing and consolidating the results of audits from various locations.

Furthermore, much of the planning necessary for a coordinated audit can only be done efficiently and economically at the central agency level. Researching the laws and regulations applicable to a program and presenting clear, concise audit objectives is challenging and time-consuming work. To leave such work to each participating audit staff would result in excessive duplication and hence unacceptable additional cost. Moreover, some audits in which part of a transaction must be audited at one location and part at another require even closer coordination if more than one audit staff does the work. Whenever practicable, planning for audits should include planning for the requirements of all levels of government with the objective of making one audit serve the needs of all interested governmental levels.

Planning for the efficient use of personnel is another essential ingredient for sound, effective planning. Consideration should be given to:

- Assigning qualified staff having education and experience commensurate with the nature of the audit work required to be performed;
- Efficiently employing the staff, including the assignment of a sufficient number of experienced workers and appropriate numbers and levels of supervisors. The planning should also include securing the services of outside consultants when necessary;
- Providing appropriate on-the-job training for inexperienced personnel.

A written audit program should be prepared for each audit to provide for effective communication of the objectives of the audit to all staff members, to facilitate control of the audit work during the review phase, and to provide a permanent record of the audit plan. The information needed by the auditor to prepare a satisfactory audit program should vary with the types of audit and the entities to be audited; however, in most cases it is

advisable to precede the preparation of the audit program with a survey of the entity to be audited to obtain basic working information about its operation and practices.

A skillfully performed survey should provide information about the size and scope of the entity's activities. Any areas in which there may be weaknesses in internal controls, uneconomical or inefficient operations, lack of effectiveness in achieving prescribed goals, or tests to determine the significance of such matters are to be performed in the detailed audit work and should be carefully set out in the audit program.

The audit program should ordinarily provide such information as purpose and scope, background, definition of terms, objectives of the audit, procedures for the auditor to follow in achieving the audit objectives, and format and type of information desired to be included in the report.

5.2.3. *Recommendation*

We recommend that the General Control Board establish an audit planning system to enable efficient and effective accomplishment of the GCB's mission.

5.3. *Personnel Management Planning*

During our assessment, we observed that the important area of personnel management planning appeared to be nonexistent. Careful study and design of an organizational strategy for recruiting, training and developing a to-flight management cadre and staff with the potential to move into responsible positions is an essential element to the success of any professional audit organization.

Consideration must be given to the long-term as well as the short-term needs of the organization in developing personnel plans. Clear articulation of organizational career plans accompanied by the methodology for implementation will enhance recruitment efforts and reduce employee turnover to a manageable level. Career plans should describe the steps and opportunities which staff members and executives can expect to be available to them during their careers with the organization.

Opportunities must be available for upward mobility based on merit. A professional organization such as the Board is selling its expert services. The quality of these services will be determined by the quality and dedication of its personnel. Without clearly defined opportunities and incentives to enable growth and progress in the organization, stagnation and apathy will endure.

The personnel management plan should include short- and long-range goals and objectives designed to meet those goals. Recruiting standards and qualifications must be established as well as guidelines for evaluating individual qualifications for the various levels within the Board including education, experience and performance. The personnel management plans should be divided into executive, middle management, and staff programs designed to fit the special needs of each group. The overall plan should provide for movement of personnel through the staff into middle management and, under certain conditions, into the executive levels based on the individuals' potential and performance.

5.3.1. *Recommendations*

We recommend that the General Control Board establish a system of personnel management planning to assure that present and future personnel needs are met.

5.4. *Management by Objectives and Budgeting*

Effective management and control of an organization the size of the GCB requires a formalized system of objective setting and monitoring to assure that organizational goals are accomplished. Observations and discussions with GCB officials demonstrated a definite need for establishing an integrated management by objectives and budget system.

The management by objectives system should be designed to enable participation by personnel at all levels of the organization and thereby help assure success. Objectives should be initiated at the lowest level of supervision based on goals and general parameters established by top management officials. Objectives are analyzed and evaluated for implementation as they move upward through the management hierarchy. Objectives should be quantifiable in order to make their accomplishment measurable in objective terms.

Objectives selected for implementation and the steps necessary to accomplish them should be reflected in the budget formulation process. Application of budget resources should reflect the relative importance of accomplishing the various goals and objectives of the organization. Careful monitoring of progress toward objective accomplishment by the various levels of management selected for this function will help assure success.

An example of an objective that would be beneficial would be to train 15 percent of qualified staff in the techniques of contract auditing over the next 2 years. The cost of this effort would be estimated and included in budget plans formulated for the implementation period. Careful consideration should be given to the broad goals of the GCB in designing and adopting objectives.

5.4.1. *Recommendation*

We recommend that the General Control Board consider using the management by objectives technique integrated with budget formulation to achieve the goals of the organization.

5.5. *Management Information System*

Our assessment showed that the GCB is in need of a management information system to provide decision makers with valid, relevant and timely information upon which to base decisions. Planning efforts discussed in this section of our report cannot be effective without collecting pertinent data and statistics on the past experience and performance of the GCB and its various units. Data which will measure the efficiency and effectiveness of GCB activities will provide the needed facts to enable evaluation of accomplishments, design of plans, establishment of goals and objectives and accomplishment of the GCB's mission.

The management information system should be designed to meet the needs of the GCB in light of its special challenges. Executive and middle management personnel should participate together in defining their needs. The collection and use of management information requires a team effort and commitment by all segments of an organization. In designing such a system, it may be appropriate to consider automatic data processing applications which offer advantages in data analysis and timeliness.

A management information system for the GCB should include, but not be limited to, statistics on manpower availability and application by organizational unit and function, detailed information on the education, experience and performance of all personnel and appropriate payroll information. In addition, data should be collected on the areas audited, results of audits, nature of findings and monetary value, and actions taken on reports. Analysis of this information should enable management to improve planning for audits, personnel management, budget formulation and objective setting.

5.5.1. *Recommendation*

We recommend that the General Control Board consider establishing a management information system to collect and analyze internally generated data to enhance the decision-making process.

6.0. PERSONNEL AND TRAINING POLICIES SHOULD BE EVALUATED IN LIGHT OF THE CHANGING ENVIRONMENT IN SAUDI ARABIA

6.1. *Personnel*

This assessment showed that the ratio between professional Saudi and non-Saudi employees of the General Control Board was unacceptable. The GCB must utilize large numbers of non-Saudi professional employees to perform their audit work because of a shortage of trained professional Saudi citizens, and the opportunities to grow professionally are greater in other government agencies and the private sector.

Some 270 approved positions remain unfilled because of the shortage of trained Saudis previously mentioned and because of a less than professional image enjoyed by the GCB. In addition, the Saudi Arabian Civil Service Bureau handles the hiring for all government agencies and therefore restricts the ability of the GCB to directly recruit employees.

In addition to the establishment of a personnel management planning system discussed in section 5 of this report, there needs to be special attention given to enhancing the image of the GCB as a potential employer of highly trained Saudi Arabian accounting and auditing professionals. Organizational, planning, data management and special audit enhancements discussed in this report will make a significant contribution toward resolving the image problem of the GCB. We believe also that there is a need to consider adoption of personnel policies and procedures which encourage and enable training of staff and management personnel, rotation of staff and management personnel between units to enhance diversification of experience, establishment of a career ladder for staff auditors and professional development through membership and participation in professional accounting and auditing organizations. Consideration should also be given to seeking authority to recruit and hire directly to fill GCB positions. This would enhance management control over the evaluation of candidates being considered for employment. In recruiting professional employees, consideration should be given to diversifying the disciplines of the staff in accordance with the demands of the audit work. For example, the GCB may wish to consider a mix of professional staff with backgrounds in accounting and auditing, engineering, computers, finance and economics.

6.1.1. *Recommendations*

We recommend that the General Control Board consider establishing management policies which enhance the GCB's image as a professional audit organization and enable it to meet its staffing needs through management initiatives.

6.2. *Training*

Our assessment indicated that there is a need for training of Saudi employees of the General Control Board. A training program should be designed to include in-house training by consultants and qualified Saudi professional employees of the GCB, and on-the-job training as well as professional schooling in the United States.

U.S. General Accounting Office government auditing standards require that auditors assigned to perform audits collectively possess adequate professional proficiency for the tasks required. This standard places upon the audit organization the responsibility for ensuring that the audit is conducted by personnel who collectively have the skills necessary for the type of audit that is to be performed.

The qualifications of the staff assigned to the audit should be commensurate with the scope and complexities of their audit assignments. Audits vary in purpose and scope. Some require an opinion on financial statements and the evaluation of compliance with specific laws and other requirements; others require reviews of efficiency and economy or effectiveness in achieving program results; still others require some or all of these three elements of audit work. Performing all three elements of audit work, in some cases,

will require a wide variety of skills. The need for diverse skills may require cooperative audits by different audit organizations whose personnel collectively have the required capabilities.

Because there are variations in program objectives and organizational forms, as well as differences in laws, rules, and regulations applicable to such programs, the qualifications mentioned here should apply to the skills of the audit organization as a whole and not necessarily to individual auditors. Thus, if an organization possesses personnel or consultants with acceptable skills in accounting, statistics, law, engineering, actuarial science, and related skills, each individual member of the organization need not possess all of these skills.

Requirements for staffs performing governmental audits, as prescribed by the Comptroller General of the United States, which we believe are appropriate for application to the General Control Board of Saudi Arabia, are:

1. A basic knowledge of auditing theory and procedures and the education, ability, and experience to apply such knowledge to the type of auditing work required for the task at hand;
2. A basic knowledge of governmental organization and operation. This knowledge may be acquired by appropriate education, study, or experience;
3. Skills appropriate for the work required in the audit. For auditing financial reports which lead to an opinion, the auditor must be proficient in accounting. For other types of auditing work, the skills of the auditors must be appropriate for the work to be done. For instance:
 - a. If the work requires use of statistical techniques, the audit staff must include persons having the appropriate statistical skills. These skills may be possessed by members or by consultants to the staff;
 - b. If work requires extensive review of computerized systems, the audit staff must include persons having the appropriate computer skills. These skills may be possessed by staff members or by consultants to the staff;
 - c. If the work involves review into complex engineering data, the audit staff must include persons having the appropriate engineering skills. These skills may be possessed by staff members or by consultants to the staff.

The General Control Board finds itself today in a position of needing extensive training for many of its staff and supervisory personnel. New challenges arising from the massive involvement by foreign companies in the Saudi economy have raised language problems which must be overcome. We believe the GCB should encourage and enable its professional employees to take advantage of educational opportunities within Saudi Arabia and in the United States. In addition, aspects of the GCB's mission on which we believe a concentrated training effort should be focused are audit management, computer and contract auditing, audit standards and procedures, program results, auditing and audit reporting standards and techniques.

6.2.1. *Recommendation*

We recommend that the General Control Board provide for the undergraduate university education in the United States of all professional Saudi employees within the next 5 years. The objective of this education program should be to upgrade the staff capabilities by providing all Saudi professional employees with a 4-year degree in accounting, financial management, engineering or computer science. In addition, training in specialized audit techniques should be provided to selected Saudi staff members. This training can be provided through in-house training using consultants or external training.

We recommend also that an executive development program be initiated as soon as possible. Such a program should provide for the development of senior managers over

the next 3 years. This executive development program should be designed to meet the needs of the GCB and should include such aspects of management science as organizational behavior, dealing with stress, principles of planning and organization and management theories. The GCB should contract with a private organization which has the expertise to design and provide executive development such as the American Management Association and Sterling Institute.

Educational, training and executive development efforts should be coordinated through the Saudi education organization in Houston, Texas. The training matrix in exhibit 6.1 shows the education and training program we believe should be adopted.

Exhibit 6.1

MATRIX OF TRAINING REQUIREMENTS

Description	Years to accomplish				
	1st Year	2nd Year	3rd Year	4th Year	5th Year
1. Education of Saudi employees to undergraduate level in the United States (Percent of staff year)	20%	20%	20%	20%	20%
2. Train Saudi employees with undergraduate degrees in specialized techniques	20%	20%	20%	20%	20%
3. Executive development	33%	33%	33%		

7.0. DATA MANAGEMENT

7.1. Background

Audits, inspections and reports are the main functions of the GCB at the present time.

7.1.1. Audits

Audits consist primarily of the review of about 40 percent of all financial transactions of all Ministries and public agencies. Approximately 150 professionals examine financial documents. Most of these employees are of Egyptian nationality. Government agency and contract source documents are delivered to the GCB in small sealed burlap bags or large metal boxes of one cubic meter. Within these bags or boxes, documents governing single transactions are grouped together. A total calculation of transactions is also included.

This form of auditing, sometimes referred to as voucher examination, is not uncommon, although it does require the transportation of a significant amount of paper work. The U.S. General Accounting Office performed a similar task until about 1950.

GCB audits indicate the lack of a large proportion of source documentation. Telephone calls and letters are required to trace documentation so audits can be completed. In an effort to alleviate the transportation of source documents and increase the efficiency and effectiveness of audits, a functional change in the method of auditing was initiated by the GCB. Field audits were conducted at the offices of the agencies. Field audits did not prove practical and were discontinued primarily because of a lack of adequate supervision at the audit site. The GCB officials believe that field audits should be pursued more cautiously and selectively in renewing the function in the future.

7.1.2. *Inspections*

Inspections are basically field audits of government agencies. Inspections deal primarily with the inventory of funds, supplies and materials an agency possesses to determine if this agrees with reported amounts. The GCB has a staff of approximately 35-40 inspectors of Saudi nationality to perform these inspections.

7.1.3. *Letters and Reports*

Letters are the primary method of informing government agencies of audit and inspection findings. Internal reports or back-up documentation are developed, but these are not provided to the agency being audited. These letters may be sent to a government agency by any one of several officials. The severity or magnitude of the deficiency determines who signs the letter.

Audit reports are extremely important documents. These reports are developed to discuss and document the financial health of the Kingdom. Basically the documents are statistical in nature.

7.1.4. *Performance Audits*

It has only been within the past 2 years that there has been any semblance of performance auditing. Such audits are comprehensive and determine not only the correctness of financial transactions but the effectiveness of a program.

The GCB made performance audits on the need for a water tower and the effectiveness of a school lunch program. Both audits resulted in significant findings, and the school lunch program was canceled.

Performance audits are essential to the effectiveness of the GCB. The suggested functional reorganization of the GCB, noted in section 4.0, should enhance the ability of the GCB to conduct performance audits.

7.2. *Use of Electronic Calculators*

For speed and efficiency, electronic calculators should be purchased and employees trained in their use. The cost of machinery increases less than the cost of personal services (salaries, etc.). Modern machines do the work quickly and some can be programmed to perform numerous functions that otherwise have to be performed manually. Such machines will allow individuals to perform more work in less time, increasing employee efficiency. The types of machines that should be purchased immediately are electronic calculators, all with a memory component and some that can be programmed. Manufacturers and suppliers of electronic calculators will work with the GCB to determine the best equipment for their need and the types of programs to be developed for certain machinery. Generally the manufacturers/suppliers will instruct the GCB in the use of electronic equipment. Electronic calculators are generally inexpensive.

7.3. *Computer Technology*

The science of computer technology, including the use of remote intelligent terminals, has advanced tremendously in the last 10 years. Cost has remained constant, or more technology can be purchased for the same cost as 10 years ago. Machines perform more work, retain more information and react quicker. There are more and better standard pre-programmed packages for a wide variety of uses.

Two definitions are important before proceeding further regarding computers:

1. **Hardware**—Computer equipment consisting of memory (CPU), tape drives, and remote terminals.
2. **Software**—The intelligent programs, procedures that are used to operate a computer or data processing system.

7.4. *Use of Computers or Electronic Data Processing by the GCB*

Computers, remote intelligent terminals, and their use are intimately related to the work of the GCB. This equipment is required in the conduct of the mission of the GCB and for its own internal operation.

To accomplish its mission the GCB must have a knowledge of computers to set standards for the design and application of accounting systems. The GCB will also have to develop the capability to audit computer-based accounting systems of government agencies and private companies.

The GCB may require access to a computer for its own planning and management information system. This requirement is described in section 5.5.

Standard, pre-programmed software exists to audit and review the accounting systems and financial transactions of government agencies and private companies. Standard, pre-programmed software has been developed for management information and planning systems.

7.4.1. *GCB Computer Equipment or Hardware*

Computer processing capability should not be acquired until the GCB has defined its requirements. The advisability of acquiring computer capability should be examined in light of mission requirements and management needs. Once the requirements of the GCB for computer applications have been defined and computer processing is determined to be justified, alternatives including time-sharing, leasing and purchasing of computer capability should be considered.

7.4.2. *Computer Requirements of the GCB*

It appears that the greatest need of the GCB is to:

1. Establish a computer-oriented technical group in the Office of Policy and Planning. This group would have responsibility for determining and planning for the GCB's requirements in computers and computer applications;
2. Train a select group of individuals in computer science so that they can analyze the applications required by the GCB. This group would be responsible for translating the general requirements into more concrete terms;
3. Develop a group of individuals who would be responsible for determining computer applications for government accounting systems and how to audit the computerized accounting systems of government agencies and private corporations.

7.5. *Recommendations*

We recommend that the General Control Board:

1. Purchase electronic calculator equipment (some with programmable memory) and train personnel in the use of this equipment;
2. Establish a computer-oriented technical group (experts) in the Office of Policy and Planning;
3. Train a select group of individuals in computer science to analyze computer applications required by the GCB;
4. Develop a staff responsible for determining computer applications for government accounting systems and method of auditing computerized accounting systems of government agencies and private corporations;
5. Define requirements and needs for possible future acquisition of computer processing capability.

8.0. SCOPE OF AUDIT WORK SHOULD BE EXPANDED

8.1. *Audit Overview*

Our assessment of the audit program and procedures followed by the GCB indicated the need to consider expanding the scope of audit work. Although progress has been made in broadening the audit scope and some program type reviews have been accomplished since the current President of the GCB was appointed, there is a need and desire on the part of management to broaden the audit scope. We were informed, for example, that most financial documents are submitted by the various Ministries to the GCB for examination at a central location. The documents are sampled, examined and returned for filing by the submitting agency. The audit of these documents amounts to a voucher examination and falls far short of meeting the requirements of a professional audit. The capability to perform full-scope field audits at the operating locations of government is essential to achieve effective audit coverage. The lack of supervisors and functional organization has hampered the GCB's past efforts to establish a strong field audit force.

Governmental auditing standards prescribed by the Comptroller General of the United States require that the full scope of an audit of a governmental program, function, activity, or organization encompass:

1. An examination of financial transactions, accounts, and reports including an evaluation of compliance with applicable laws and regulations.
2. A review of efficiency and economy in the use of resources.
3. A review to determine whether desired results are effectively achieved.

In determining the scope for a particular audit, responsible officials should give consideration to the needs of the potential users of the results of the audits.

This audit scope standard places on officials who authorize and prescribe the scope of governmental audits the responsibility for providing for audit work that is broad enough to fulfill the needs of all potential users of the results of such audits. The standard is not intended to prevent such officials from authorizing specific assignments of parts of the total scope of the audit work required by the standard or from authorizing special audits, nor is it intended to prevent auditors from performing such audits. However, those responsible for authorizing governmental audits are charged with the knowledge that, for most governmental programs, their full responsibility for obtaining audit work is not discharged unless the full scope of audit work set forth in the standard is performed.

The general objectives of the categories of audit work are:

1. Examinations of financial transactions, accounts, and reports and compliance with applicable laws and regulations shall include sufficient audit work to determine whether:
 - a. The audited entity is maintaining effective control over revenues, expenditures, assets, and liabilities;
 - b. The audited entity is properly accounting for resources, liabilities, and operations;
 - c. The financial reports contain accurate, reliable, and useful financial data and are fairly presented;
 - d. The entity is complying with the requirements of applicable laws and regulations.
2. A review of efficiency and economy shall include inquiry into whether, in carrying out its responsibilities, the audited entity is giving due consideration to conservation of its resources and minimum expenditure of effort. Examples of uneconomical practices or inefficiencies the auditor should be alert to include:
 - a. Procedures, whether officially prescribed or merely followed, which are ineffective or more costly than justified;
 - b. Duplication of effort by employees or between organizational units;

- c. Performance of work which serves little or no useful purpose;
- d. Inefficient or uneconomical use of equipment;
- e. Overstaffing in relation to work to be done;
- f. Faulty buying practices and accumulation of unneeded or excess quantities of property, materials, or supplies;
- g. Wasteful use of resources.

Efficiency and economy are both relative terms and it is virtually impossible to give an opinion as to whether an organization has reached the maximum practicable level of either. Therefore, it is not contemplated in these standards that the auditor will be called upon to give such an opinion.

3. A review of the results of programs or activities shall include inquiry into the results or benefits achieved and whether the programs or activities are meeting established objectives. The auditor should consider:
 - a. The relevance and validity of the criteria used by the audited entity to judge effectiveness in achieving program results;
 - b. The appropriateness of the methods followed by the entity to evaluate effectiveness in achieving program results;
 - c. The accuracy of the data accumulated;
 - d. The reliability of the results obtained.

In some cases an auditor may be asked to participate in a program evaluation effort by accumulating data himself for evaluation of a program or activity under audit. When such work is to be done on a coordinated basis, the evaluation techniques should be uniformly prescribed for the whole program at some central level. The auditors at the various program sites should only be required to accumulate data and compare it with the prescribed measures. To do otherwise would be economically unfeasible and would lead to wide variations in the measurements applied to similar projects by different auditors.

We believe that the GCB should expand its audit scope to encompass the categories of audits discussed above. Functional reorganization of the GCB suggested in section 4 of this report will lend itself to efficient and effective full-scope auditing. Special attention should be directed to developing the GCB's audit program covering economy, efficiency and effectiveness reviews of major financial and program data, contract standards procedures and performance, and government and contracts accounting systems. Success of any efforts to expand the GCB's audit scope will be dependent on the degree of independence of the GCB from outside interference and the extent of management initiatives in the areas of planning, organization, policy setting, data management and training.

8.2. Recommendation

We recommend that the General Control Board expand its scope of audit work to encompass full scope auditing of Saudi Arabian funded programs, functions, activities and organizations.

APPENDICES

Appendix A.1

OFFICIALS OF THE GENERAL CONTROL BOARD INTERVIEWED DURING THE COURSE OF THE ASSESSMENT

- Mr. Omar A. Faqih, Ph.D., President;
- Mr. Abdul-Aziz Daghistani, Vice President;

Mr. Muhammad Sumbul, Director General;
 Mr. Muhammad Sharif, M.A., General Director, Department of Inspections;
 Mr. Abdel-Aziz A. Shetway, M.A., Expert in Administration;
 Mr. Ghaith, Comptroller General, Department for Government Corporations (Public Agencies and Private Companies);
 The Comptroller General, Department of Municipalities (37) and Ministries (24);
 The Comptroller General, Department of Major Ministries (Communications, Education, Finances, Religion);
 The Section Chief, Department of Municipalities and Ministries;
 The Section Chief, Department of Major Ministries;
 The Chief, Office of Annual Reports and Final Accounts.

Appendix A.2

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A N N E X 2

WORKING EXPERTS REQUIRED BY THE BOARD

1. *Principal Audit Advisor*

A senior advisor to the President of the Board in all audit affairs. This advisor, experienced in U.S. General Accounting Office and U.S. Federal Government agency audit procedures, administration and organization, will be needed to:

- A. Assist in overall planning and programming of Board activities, including training;
- B. Coordinate the activities of experts and consultants;
- C. Provide general supervision of expert staff and evaluation of performance; and
- D. Maintain liaison between senior staff and experts.

2. *Auditor*

A working audit expert is needed to provide the additional technical skills required to improve the scope and method of Board audits.

The technical audit expert is required to assist:

- A. In the development of internal Board audit policies and procedures;
- B. The setting of government-wide audit standards;
- C. The setting of government-wide accounting standards;
- D. The setting of standards for computer based accounting and auditing;
- E. Developing procedures for contract performance and full-scope audit; and
- F. In the development of procedures and methods for audit training and education.

3. *Management Consultants/Analysts (2)*

Management advisors are required to:

- A. Assist in establishing an Office of Policy and Planning;
- B. Develop planning procedures;
- C. Develop an internal management system;
- D. Develop a budget-oriented management-by-objective system;
- E. Develop new internal Board policies and procedures;
- F. Assist in reorganizing the Board around functional audits;
- G. Assist in the development of education and training matrices for Saudi personnel;
- H. Assist in the development of requirements for data management and equipment that might be used; and
- I. Assist in the establishing and assist in the work of a technically-oriented Board staff to analyze requirements of the Board and computer applications for government accounting systems.

4. *Short-term Advisors*

During the life of this project it is expected that the services of experts will be required to assist the Advisory Team in Riyadh on a short-term basis in specialized areas. The timing and need for these services will be determined through the implementation of this Agreement.