



# Mongolia: Strengthening the Supreme Audit Function

Project Name	Strengthening the Supreme Audit Function				
Project Number	52285-001				
Country	Mongolia				
Project Status	Proposed				
Project Type / Modality of Assistance	Technical Assistance				
Source of Funding / Amount	<table border="1"> <tr> <td>TA: Strengthening the Supreme Audit Function</td> <td></td> </tr> <tr> <td>Technical Assistance Special Fund</td> <td>US\$ 650,000.00</td> </tr> </table>	TA: Strengthening the Supreme Audit Function		Technical Assistance Special Fund	US\$ 650,000.00
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Technical Assistance Special Fund	US\$ 650,000.00				
Strategic Agendas	Inclusive economic growth				
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships Private sector development				
Sector / Subsector	Information and communication technology - ICT industries and ICT-enabled services - ICT strategy and policy, and capacity development Public sector management - Public administration - Public expenditure and fiscal management				
Gender Equity and Mainstreaming	No gender elements				
Description	The Government of Mongolia requested for Asian Development Bank's (ADB) knowledge and support technical assistance (TA) to support the Mongolian National Audit Office (MNAO). The TA is included in the country operations business plan, 2019-2021 for Mongolia. The proposed TA will strengthen the Supreme Audit Institution in Mongolia to improve the monitoring of the effective use of public funds. The TA will improve the capacity of the MNAO to conduct financial, performance and compliance audits by improving the timeliness and quality of audits, by enhancing staff capacity, and by using technology to improve the efficiency of the audit process.				
Project Rationale and Linkage to Country/Regional Strategy	<p>The Mongolian Law on State Audit of 2003 establishes the MNAO as the country's Supreme Audit Institution. The MNAO reports to Budget Standing Committee and is mandated to perform audits of state entities regardless of funding source and those projects funded by the international financial institutions like ADB and World Bank. In parallel, the Integrated Budget Law (IBL) requires state entities to have their financial statements audited annually. The Auditor General (AG) is appointed for six years (the current AG was appointed in December 2016). Each aimag has an audit office, headed by a lead auditor who reports directly to the AG. The MNAO currently operates on the basis of a five-year audit planning period (2019-2023) which covers: Mandatory Audits (State Budget and State Investment Program), Focus Sectors (specifically selected for each work program), Focus Themes (themes specifically raised by parliament), and government institutions and projects. MNAO is a member of INTOSAI (International Organization of Supreme Audit Institutions) and ASOSAI (Asian Organization of Supreme Audit Institutions). MNAO auditors follow the International Standards on Auditing as promulgated by the International Auditing and Assurance Standards Board of the International Federation of Accountants when conducting audits of state entities. The MNAO has a twinning relationship with the State Audit Bureau of Kuwait.</p> <p>As the external auditor of the government, MNAO conducts both systems audits and transaction reviews. The number of staff for MNAO is approved by the Budget Standing Committee of the Parliament. The current staff complement is 389, of which 100 are based in the capital Ulaanbaatar. Annually, MNAO must complete financial audits of more than 6,500 state entities, including funds, projects and programs implemented and/or managed by ministries and agencies, fully (100 percent) state-owned enterprises, and enterprises fully owned by the local governments. The timeframe for audits is set by the IBL.</p> <p>There are several important challenges facing financial audit in Mongolia. Firstly, and as explained in paragraph 4, statutory requirements dictate a very broad mandate for MNAO, which must be delivered with a limited staff contingent. When combined, these two factors result in an unrealistically high workload on MNAO staff (in the first half of 2018, for example, MNAO had already accumulated more than 27,000 hours of overtime, as filed by its staff). To still deliver on its mandate, MNAO outsources more than one third of its work load to independent auditing firms. However, low fee rates set by the Government make this an unattractive business line for private firms and results in financial audits of varying quality.</p> <p>A second major challenge relates to staff capacity. Technical auditing skills are limited by a lack of good training and professional development opportunities. Universities offer limited courses to prepare undergraduates to become auditors, whilst continuing professional development opportunities offered by the Mongolian Institute of Certified Public Accountants (MonICPA) and private firms, are limited. Auditors based outside of the capital are further hampered in their ability to access training due to physical distance and weak IT infrastructure. The industry struggles with the adoption of international standards due to delays in translation, weak English skills and a failure to regularly update accountancy standards in Mongolia. Weak IT skills also constrain the application of technology and software to realize efficiencies.</p> <p>The third challenge is the weakness of IT infrastructure. The MNAO software has limited functionality and is not accessible by contracted private organizations. Hardware is outdated, and bandwidth is limited, resulting in regular complaints that functionality is often completely wiped out during peak hours due to network traffic.</p> <p>Despite these challenges, there are significant opportunities for the MNAO to make improvements and ADB is well-placed to support. First, support provided by ADB, the World Bank, and other international institutions such as National Audit Office (NAO) of the UK and China National Audit Office (CNAO) to the MNAO offer good building blocks for further work. The World Bank provided support to develop a Learning and Development Strategy which has been adopted by the MNAO, while NAO of UK supplemented training through its long-term consultants and CNAO offered scholarship programs and training. ADB's recently approved Strengthening ICT Systems for Efficient and Transparent Public Investment and Tax Administration Project will provide opportunities for collaboration on the use of technology to strengthen public financial management. Second, developing productive partnerships will produce rich dividends. Partnering with universities, MonICPA and the private sector on the provision of certified training on the audit of state organizations will be a sound way to strengthen both quality and sustainability of training. Partnerships in the development of software will enable audited entities to submit documentation online in the required formats and granting access to private sector auditors could strengthen efficiency and audit quality. Third, audit is well suited to the application of digital interventions such as blockchain, artificial intelligence, big data and cloud technology. The commitment of the Government of Mongolia to increase e-governance further underlines this opportunity.</p> <p>The Strategic Vision of the MNAO sets out ambitious targets to strengthen audit practices, staff capacity and partnerships for a stronger supreme audit function in Mongolia. The strategic vision is underpinned by a recognition of the role of digital technology. For MNAO to capitalize on the opportunities to strengthen audit in Mongolia and to deliver on their own aspirations for the application of digital technology to financial audit, the MNAO will need to make a long-term commitment beyond the timeframe of this TA. This TA can be used to develop a digital masterplan to guide these changes and pilot some initiatives to demonstrate and test approaches. Realizing the full range of IT infrastructure and the change management will require a future lending operation and a commitment from MNAO to allocate the necessary resources to ensure appropriate operations and maintenance costs. Initial discussions with both the Ministry of Finance were positive in this regard.</p>				

Impact	Economy, efficiency and effectiveness of state budget enhanced
Outcome	Quality and efficiency of audits of state organizations in Mongolia modernized and strengthened
Outputs	Institutional, organizational and business process arrangements in the MNAO modernized and improved Digital Master Plan and action items for ICT Improvements in Audit and Financial Management prepared Institutionalized arrangements for sustainable capacity development of audit staff
Geographical Location	Nation-wide

Summary of Environmental and Social Aspects	
Environmental Aspects	
Involuntary Resettlement	
Indigenous Peoples	
Stakeholder Communication, Participation, and Consultation	
During Project Design	
During Project Implementation	

Responsible ADB Officer	Magee, Declan F.
Responsible ADB Department	East Asia Department
Responsible ADB Division	Mongolia Resident Mission
Executing Agencies	Mongolian National Audit Office Chingeltei District, Baga Toiruu-3, Government Building 1Y, Ulaanbaatar City Mongolia 15160

Timetable	
Concept Clearance	13 Nov 2018
Fact Finding	01 Apr 2019 to 05 Apr 2019
MRM	-
Approval	-
Last Review Mission	-
Last PDS Update	27 Mar 2019

Project Page	<a href="https://www.adb.org/projects/52285-001/main">https://www.adb.org/projects/52285-001/main</a>
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