

**MODERNIZATION AND STRENGTHENING OF THE CORTE DE CUENTAS
(ES-0113)
EXECUTIVE SUMMARY**

Borrower:	Republic of El Salvador	
Executing agency:	Corte de Cuentas [Court of Accounts] of El Salvador	
Amount and source:	IDB: (OC)	US\$5,044,500
	Local:	US\$1,250,000
	Total:	US\$6,294,500
Financial terms and conditions:	Amortization period:	25 years
	Disbursement period:	4 years
	Interest rate:	variable
	Credit fee:	0.75% p.a. on undisbursed balances
	Inspection and supervision:	1% of the loan amount
	Currency:	United States dollars – Single Currency Facility
Objectives:	<p>To support the process of modernization and strengthening of the Corte de Cuentas, converting it into a Contraloría General de la República [Office of the Comptroller General of the Republic], in such a way that Salvadorian society is assured that public funds are obtained and spent with transparency, strict compliance with legal requirements, efficiency and cost-effectiveness, and that effective results are achieved in the management of public affairs.</p> <p>More specifically the aim is to: (i) reform the constitutional provisions that govern the exercise of control of the public sector, promulgation of a new law consistent with that reform and its effective application; (ii) strengthen the Corte de Cuentas as an institution, converting the basic structure from a Court of Accounts into an Office of the Comptroller General; (iii) improve the management aspects of its audit procedures; and (iv) implement an integrated information system.</p>	
Description:	<p>The following components are included:</p> <ol style="list-style-type: none"> Legislation and regulations: reform of the constitutional provisions governing exercise of control of the public sector, promulgation of a new law and its implementing regulations in accordance with that reform; transfer of the Corte's jurisdictional functions to the Judicial Branch, and of 	

responsibilities in respect of the integrity of public officials from the Supreme Court to the supreme audit authority.

2. **Institutional strengthening:** (i) action plan for redefining the structure of the Corte; and (ii) support for the technical coordination of the project.
3. **Technical coordination:** creation of an executing unit, coordinated by an international principal technical advisor (PTA), to support a team made up of personnel of the present Corte de Cuentas.
4. **Strengthening of the audit function:** main activities: preparation and publication of a Government Audit Manual and support to the four audit divisions. To make the work of the audit teams more efficient and effective, the project will provide equipment such as fax machines, copiers and computers (PCs and laptops). Participation in conferences and fellowships offered by modern audit institutions will also be included. Local and international technical assistance will be provided and also training for approximately 500 internal auditors, together with training for trainers, thereby accomplishing the training of some 350 additional auditors. Finally, international assistance will be provided for on-site training for specialized audits such as environmental and performance audits.
5. **Information technology:** The following steps are envisaged: (i) develop a strategic information technology plan that must include: analysis, procurement and implementation of a flexible, modular, adaptable and easily updated application for integrating and consolidating the critical institutional operating and administrative support processes; (ii) design and implement a local communications network; (iii) design and implement an Internet site; (iv) provide the supreme audit authority with: (a) a single information technology platform for the implementation of an integrated administrative and operating support system; (b) equipment and programs for the technical personnel for the adaptation of the selected application; (c) equipment and programs for efficient performance of the audit and control functions; (d) equipment for administrative support to the different areas; and (v) design a training program for the agency's staff.

Relationship of project to the Bank's country

The main focus of the Bank's country strategy is to redefine its financing and technical cooperation support, placing less emphasis on providing large amounts of financial resources and **more on**

and sector strategy:	institutional reform and technical cooperation; less on rehabilitating infrastructure and more on supporting an improvement in government services and restructuring of the public sector's capacity to implement programs. The proposed operation is consistent with the Eighth Replenishment mandate, which supports programs targeted at modernization of the State and strengthening of civil society.
Environmental and social review:	As part of the on-site training, the Corte auditors will be trained in specific techniques, which will include environmental audits (3.8).
Benefits:	This operation complements the actions the Government of El Salvador has been undertaking to modernize the public sector agencies. The design of the project incorporates strengthening of the areas identified as weak. Successful execution would result in a supreme audit authority that functions more efficiently and effectively. In addition, the benefits of the project would extend to the public in general, creating a greater awareness of the benefits and impact of a supreme audit authority that ensures the efficient and transparent administration over the use of public funds.
Risks:	<p>If the reform is not approved, it would not be possible to accomplish the chief objective of the program and the program would have to be reformulated, a fact that the head of the Corte has been made aware of, in the course of negotiations. In that case, the program objectives would have to be modified for purposes of execution of the modules related to institutional strengthening and information systems. Though the objective of increased autonomy would be lost, much would be gained in terms of managerial capacity of an institution that is crucial for modernization of the State. However, the matter has been extensively discussed with authorities of the Corte and of the Legislative Assembly and, in the opinion of the project team, a consensus has been built regarding the proposed modification.</p> <p>Another risk for this operation, if the constitutional reform is approved, has to do with monitoring of actions that will fall to the judicial branch. The Judicial Sector Reform Program the Bank is currently carrying out will mitigate this risk.</p>
Special contractual clauses:	<p>The following conditions precedent to the first disbursement will be included:</p> <ol style="list-style-type: none">1. Submission of the action plan for the new structure of the supreme audit authority and for the new human resources administration methodology (3.4).

2. Evidence that a principal technical advisor has been hired and that the personnel who will form the executing unit have been designated (3.5).
3. Notwithstanding the special conditions precedent to the first disbursement, once the conditions specified in Article 4.01(a), (b) and (e) of the general conditions of the loan contract are met, the Bank may make special disbursements of up to US\$100,000 to retain the services of the principal technical advisor and start the project activities (3.24).

If the Constitution has not been amended by April 30, 2000, to convert the Corte de Cuentas to the Office of the Comptroller General, the executing agency and the Bank will meet before May 15 that year to agree on a reformulation of the operation, so as to carry through institutional strengthening of comptroller-general activities within the current Corte de Cuentas structure (3.4 and 4.1).

**Social equity
and poverty
reduction:**

This operation does not qualify as a project enhancing social equity, as described in the indicative targets mandated by the Bank's Eighth Replenishment (3.16).

**Exceptions to
Bank policy:**

None.

Procurement:

International competitive bidding will be obligatory for procurement of goods exceeding US\$250,000 in value and international publicity will be required for consulting services exceeding US\$200,000. The program does not envision the execution of works.

I. BACKGROUND

- 1.1 As part of the support to the Government of El Salvador in the implementation of its public sector modernization program (financed by the World Bank and IDB), in 1996 the Bank approved the *fiscal administration modernization program* (941/OC-ES and 980/SF-ES), which includes: an integrated financial management system; strengthening of the Tax and Customs Administrations; and rationalization and modernization of the purchasing and contracting system. ***The modernization effort would not be complete without strengthening of the governmental audit function, to ensure that the State's resources are appropriately collected and utilized on the basis of proper budget performance and transparent conduct of public affairs.***

A. The Corte de Cuentas

- 1.2 In recent years, a transformation has been under way in the region, characterized by a singular effort to modernize the public sector to make it more efficient, reduce spending, and provide more dynamic support to the private sector as the engine of economic development. Among the most prominent aspects of this effort is the implementation of integrated government financial management systems, improvements in human resource selection and administration, and reforms in the organizational structure of public entities.

- 1.3 The foregoing has put pressure on the supreme audit authorities to undertake their own modernization efforts in order to carry out their regulatory activities more efficiently. In the case of El Salvador in particular, the modernization process has been efficient and quick, including the approval of important laws such as the Financial Management Act, the Corte de Cuentas Act, the Temporary Compensation Act for Services Delivered to the Public Sector, the law that establishes the regulatory framework for the telecommunications sector, etc. In view of the above, the Corte de Cuentas of El Salvador has requested the Bank's support for its modernization.

Vision

The object of the technical cooperation is to enable the Corte de Cuentas to achieve its vision, namely: *"The Corte de Cuentas of the Republic of El Salvador is the supreme authority of the national public administration control and audit system, which in the year 2001 will be nationally recognized for having contributed to the modernization and effectiveness of the governmental sector, fostering sustainable development for the wellbeing of all Salvadorians."*

- 1.4 As mentioned in the previous paragraph, in October 1994 the Corte de Cuentas Act was approved, which entered into effect in October 1995. The new law defined the Corte as the supreme authority of the national public administration control and audit system, and required the institution to change its organizational structure. In the course of 1996 the Corte prepared a document on the institutional modernization process, which set out its design, institutional philosophy and the development of a plan aimed at a new administrative approach. In addition it

spelled out its strategic plan for 1997-2001, including the philosophy of the Corte and the organization of its work.

- 1.5 In December 1997, the Office of the Regional Inspector General of the United States Agency for International Development (USAID) completed a quality control review of the Corte, in order to evaluate its capacity to perform audits of grants and loans to the Government of El Salvador. This review showed that the Corte had achieved significant progress in the establishment and execution of systems and procedures that was sufficient to perform a pilot financial audit of government agencies.
- 1.6 **Present situation.** At the end of 1997 the Corte had 896 employees, 208 of whom were professionals and 442 were university students and technical specialists, while 246 only had basic education. The breakdown of functions performed was as follows: audit 360, accountability 11, jurisdictional control 50 and administration and advisory services 485. Of the latter, approximately 100 were engaged in transition activities. As regards administrative organization, there is an Office of the President, with advisory and administrative support units, and an Office of Accountability. For the legal part of its work, the Corte has three Courts of First Instance and one of Second Instance.

A total of 354 audit actions were carried out during 1998, of which 306 were special examinations, 45 financial audits and 3 environmental audits. The aggregate budget figure audited was C 6,436,595,009.76, of which it was determined that C 761,134,677.83 was affected by irregularities due to deficiencies in internal control, financial aspects and applicable legal provisions.

B. Strengthening needs

- 1.7 Since the approval of the 1994 law some important changes have been made. However, some areas still remain where it would be essential to continue the process of modernization and strengthening in order to properly meet the standards set and implement the audit authority's vision.
- 1.8 For development of a solid public administration control and audit system (modern, efficient, economical and effective) at the service of the administration in general, it is the intention of the audit authority to: (i) promote the definition of constitutional, legal and regulatory changes; (ii) improve the service to society, to the Legislative Assembly and to the public agencies; (iii) strengthen actions aimed at preventing corruption, by means of performance and comprehensive audits and determination of accountability; (iv) implement institutional architecture designed to serve the client; and (v) develop the abilities and skills of human resources. However, to achieve these objectives the following problems will need to be overcome. Hence, the technical cooperation loan proposed herein would focus its activities and goals in these areas:

1. Legal framework

- 1.9 Three of the principal components of the legal framework are not coordinated or aligned: (i) the Corte de Cuentas Act, approved in 1994, does not totally eliminate *ex ante* control; (ii) the process for electing the President should be modernized in order to introduce greater autonomy (the main change to be made is the term of office for which the President is elected); and (iii) the functions that are not directly connected with a modern control function should be transferred to the appropriate agencies; this would entail converting the current Corte de Cuentas to an Office of the Comptroller General of the Republic.

2. Institutional strengthening

- 1.10 In converting itself into a Comptroller's Office, the present Corte de Cuentas will need a structure that is consistent with its new functions. If the constitutional reform goes through and it is decided to organize the Corte as a comptroller general's office, it will be essential to devise structures and develop processes for its implementation. If the reform is not approved, even under the current legislation there is a pressing need to strengthen the Corte de Cuentas' oversight. Notwithstanding the progress made, the Corte still has a structure that lacks flexibility. Specifically, almost all actions (including administrative actions) have to be approved by the President of the Corte, which renders swift responses difficult and adds red tape to the work of the institution. There is still a problem concerning its human resources: the level of professionalism remains below what is required for efficient operation and the ratio of administrative personnel to professionals and technical specialists is still excessive.

3. Audit function

- 1.11 For effective performance of the audit function that the Constitution of the Republic assigns to the audit authority, the latter is required to audit not only the financial aspects but also performance. The audit exercise requires qualified professionals who carry out their duties competently and are capable of advising the public agencies and their staff in the implementation and strengthening of control systems. In effect what is needed is a group of technical specialists who combine expertise and experience in government audit that equips them to make audit analyses and recommendations that really are the product of multidisciplinary teams and enable the Corte *to arrive at a more well-founded opinion as to the legality, efficiency, cost-effectiveness, general effectiveness and transparency of the activities and operations under examination.*

The Audit Divisions are expected to produce a minimum of 350 annual reports on financial audits and special examinations; 80 accountability reports for audits conducted for periods prior to the entry into force of the Law; and 100 tax clearance reports. This all entails major movement of audit personnel throughout the country.

4. Information systems

- 1.12 The role played by the audit authority in the auditing of the government agencies requires development of an integrated information system that will serve to bring it abreast of a public sector that is in process of modernization (see 1.1), and of the technological advances achieved by other institutions that it is required to audit. The existing information systems (there is no one integrated system) were developed on a platform that is now obsolete (WANG). Consequently, it would not be efficient to design the integrated information system on the present platform. Moreover, the audit functions are being performed without the appropriate tools. The institution's auditors do not have the tools they need (hardware and software) for carrying out efficient audits in the organizations that have incorporated advanced technology. The tasks of the professional and administrative personnel are carried out manually for the most part, since the existing equipment is not only inadequate but also unsuited for the information-processing needs.

C. Bank strategy

- 1.13 The main focus of the Bank's country strategy is to redefine its financing and technical cooperation support, placing less emphasis on providing large amounts of financial resources and **more on institutional reform and technical cooperation**; less on rehabilitating infrastructure and **more on supporting an improvement in government services and restructuring of the public sector's capacity to implement programs**.
- 1.14 The proposed operation is consistent with the Eighth Replenishment mandate, which supports programs targeted at modernization of the State and strengthening of civil society. Specifically, the proposed operation concentrates on the strategic areas of: institutional strengthening and human resource development through technical assistance and basic and advanced training.

II. OBJECTIVES

- 2.1 The main objective is to support the process of modernization and strengthening of the Corte de Cuentas, converting it into an Office of the Comptroller General of the Republic, in such a way that the Salvadorian public is assured that public funds are obtained and spent with transparency, strict compliance with the legal requirements, efficiency and cost-effectiveness; and that effective results in the management of public affairs are achieved.
- 2.2 More specifically, the aim is to: (i) reform the constitutional provisions that govern the exercise of control of the public sector, promulgation of a new law consistent with that reform, and its effective application; (ii) strengthen the Corte as an institution, transforming its basic structure from that of a Court of Accounts into

that of an Office of the Comptroller General; (iii) improve the management aspects of its audit procedures; and (iv) implement an integrated information system.

III. DESCRIPTION

A. Activities

- 3.1 To accomplish the above-described objectives, the project has been designed to include the following components:

1. Legislation and regulations (US\$200,000)

- 3.2 This component includes preparation of materials for reform of the constitutional provisions that govern the exercise of control of the public sector, the promulgation of a new law and its implementing regulations consistent with that reform; transfer of the Corte's judicatory functions to the Judicial Branch; total elimination of *ex ante* control by transferring to the Executive Branch the responsibilities in respect of budget approval (public-sector purchasing); and transfer of the oversight of public officials' integrity from the Supreme Court to the supreme audit authority. It also includes annual training for the Legal Division in appropriate topics, such as administrative law, in order to ensure a modern legal framework that will enable swift responses and integration. By transferring the judicatory functions to the Judicial Branch, the Corte will depend on the latter to legally enforce the decisions on the audits performed. Although this is a positive move, it does entail a risk as far as monitoring these actions is concerned. However, the Bank is concurrently carrying out a Judicial Branch modernization and strengthening program, one objective of which is to make the system operate more efficiently.

2. Institutional strengthening (US\$500,000)

- 3.3 This component comprises two subcomponents: (i) implementation of the action plan for redefining the structure of the Corte, including: a new Office of Government Ethics; new techniques, methods and tools for financial, administrative and human resources management; disclosure of the duties and activities of the audit authority; and (ii) support for the technical coordination of the project.
- 3.4 **Structure of the audit authority:** The conversion of the Corte de Cuentas into an Office of the Comptroller General of the Republic entails transferring the functions of the Courts of First and Second Instance to the Supreme Court; and incorporating into the audit authority (from the Supreme Court) the Office of Integrity, converting the latter into an Office of Government Ethics. The foregoing will require a constitutional amendment that will have to be approved by the present Legislative Assembly and ratified by the next one. The project will provide the consulting services and support necessary for the creation of the new Office of Government

Ethics and for the above-mentioned reform. ***Human Resource Administration:*** the supreme audit institution needs, in addition to a team of highly qualified auditors, a dynamic structure staffed with suitable personnel. While this subcomponent will be carried out during execution of the project, the intention is to move to a high degree of decentralization of authority, transferring decisions and responsibilities concerning performance and accomplishment of objectives, budget formulation and performance and personnel hiring to the different area chiefs. The objective is to boost the audit authority's operating efficiency and to gradually equip the institution with the personnel needed for efficient operation. ***Submission, and approval by the Bank, of the action plan for the new structure of the supreme audit authority and for the new administration methodology, will be a condition precedent to the first disbursement.***

- 3.5 **Technical coordination subcomponent:** The audit authority has not had experience with the execution of projects such as the one proposed here. Its experience is limited to certain individual efforts financed by USAID. Consequently, an executing unit will have to be set up, that will be coordinated by an international principal technical advisor (PTA) working with a team made up of personnel from the present Corte de Cuentas. A structure has been designed that will make it possible to have, in addition to the PTA, coordinators for each subprogram and for procurement and training. All the foregoing personnel will be supported by an office assistant, two secretaries and the necessary equipment. ***Contracting of the PTA and appointment of the personnel for the executing unit will be conditions precedent to the first disbursement.***

3. Strengthening of the audit function (US\$2 million)

- 3.6 In order to strengthen the institution's audit function, the auditors will have to be given the training and tools necessary for efficient performance of their activities. Despite the fact that the Corte has increased its audit coverage by 60% since 1996, the audit divisions operate under very difficult circumstances and with limited resources (for example, one copy machine for the four divisions). Consequently, the main activities under this component of the project are the drafting of a Government Audit Manual and support for the four audit divisions – Administrative, Justice and Citizenship, Social and Economic, and Municipal – in the form of training and equipment.
- 3.7 The audit authority is using the U.S. Generally Accepted Government Audit Standards (known as the "Yellow Book"). However, to strengthen the "corporate culture" all the technical handbooks will have to be adapted to the Salvadorian context. Examples of the types of manuals that will have to be produced are: government audit standards, audit planning and evaluation of internal control, audit supervision, quality control, audit reports, etc. Once these handbooks are finalized they will have to be compiled into a Government Audit Manual that would be used throughout the public sector.

- 3.8 Two additional objectives of the audit authority are: (i) to qualify the Corte's auditors by means of on-site training to perform comprehensive audits, performance audits and eventually – and in the context of the capabilities of the Office of the Comptroller – environmental audits; and (ii) development and application of management and advanced audit techniques, methods and tools. The proposed project will assist the supreme audit authority, through the contracting of consultants with expertise in the different areas who will work with groups involving various sectors in classroom settings and in the field. This would ensure that the latest methods and techniques are used and integrated into the auditors' working habits. To make the work of the teams of auditors more efficient and effective, the project will provide equipment such as fax machines, copiers and computers (PCs and laptops).
- 3.9 For the purpose of maintaining and improving the training and making proper use of the new tools, the project will also provide financing for the procurement of technical material for setting up a technical library. The project will further include: participation in conferences, fellowships offered by modern audit institutions such as the Puerto Rico Comptroller's Office or the U.S. General Accounting Office; courses offered by OLACEFS [Latin American and Caribbean Organization of Supreme Audit Institutions] and OCEFS [Central American Organization of Supreme Audit Institutions] at their regional training centers. For example, OLACEFS is currently offering a course on techniques for detecting and investigating fraud.
- 3.10 The Corte has designed a plan for strengthening the internal audit function by means of auditor training, promoting development of internal control systems, promoting the professional development of auditors and developing effective coordination between the audit authority and the internal audit departments of the central and municipal governments. The plan requires provision of local and international technical assistance and the training of approximately 500 internal auditors, together with the training of trainers, through which some 350 additional auditors will be trained.

4. Information technology (US\$1.2 million)

- 3.11 Development of a strategic information technology plan and of related programs is envisaged, including:
- (i) Analysis, procurement and implementation of a flexible, modular, adaptable and easily updated application for integrating and consolidating the critical institutional processes of operating and administrative support in a single computation environment, with the aim of keeping operating, administrative and maintenance costs to a minimum and ensuring consistency and efficiency in the information processed for the institution.

- (ii) Design and implementation of a local communications network that will facilitate communication and transparency in institutional performance and enable the application of new technologies to support the institutional work and promote collaboration among the different areas of the institution.
- (iii) Design and implementation of an Internet site that will:
 - (i) publicize the institution's objectives;
 - (ii) promote collaboration between professionals and academics in aspects of control and audit work;
 - (iii) expand intercommunication with civil society; and
 - (iv) enable contacts with other supreme audit institutions.
- (iv) Equipping of the control agency with:
 - (i) a single information technology platform for the implementation of an integrated administrative and operating support system;
 - (ii) hardware and software for the technical personnel for adaptation of the selected application;
 - (iii) hardware and software for efficient performance of the audit and control functions; and
 - (iv) equipment (fax machines, copiers, etc.) for administrative support to the different areas.
- (v) Design of a training program for the agency's staff, aligned on the needs of the four above-listed components.

B. Organization and execution

- 3.12 **Coordination:** The executing agency will be the supreme audit authority (present Corte de Cuentas of the Republic of El Salvador). For implementation of the project the President of the Corte will set up a technical coordinating unit (TCU) made up of the institution's area chiefs (Administration, Legal, Information Technology and one for each Audit Division). He will select one of their number to be project coordinator, who will represent the Corte in all acts connected with execution of the project. This coordinator will be responsible for approving the work plans of the PTA and those of each area and for periodically evaluating the progress of execution. In addition, the TCU will have consultant support in the areas of legislation and regulations, institutional strengthening, audit, information technology, and training and procurement, plus administrative support consisting of an office assistant and two secretaries.
- 3.13 **Area chiefs:** As indicated above and on the basis of the design, each area chief will prepare an action plan for execution of the project. Based on these plans, the coordinator, supported by the TCU, will prepare the *audit authority's action plan*. The area plans will include: a list of the activities to be carried out; the time required for each activity; consulting services needed and terms of reference for same; and final and interim goals (for each year of execution).

- 3.14 **Principal technical advisor (PTA):** The PTA will be an international consultant who will be contracted for the project execution period. Contracting of the PTA will be a condition precedent to the first disbursement. He will be responsible for, among other things, supporting the TCU to meet the conditions precedent to the first disbursement and to organize the executing unit. Accordingly, as a minimum during the first year of execution he will support the audit authority on a full-time basis. Although a period of three years has been budgeted for the PTA, the Corte, the PTA and the Bank may negotiate less intensive (i.e. part-time) support during the second and third years of project execution, with the corresponding budget adjustment. Any understanding or negotiated agreement will have to be approved by the Bank before it can enter into effect.

C. Procurement of goods, works and consulting services

- 3.15 The procurement of goods and consulting services will be done in accordance with the procurement policies and procedures specified in Annexes B and C to the loan contract. International competitive bidding will be required for procurement of goods costing over US\$250,000 and international notices will be required for consulting services costing in excess of US\$200,000. Execution of works is not envisioned in the program. These limits are justified by the fact that in similar projects, international bidders tend to participate when the amounts involved are above said limits. For procurement contracts below the said limits, national legislation will in principle apply. The procurement plan for the project is presented in Annex I.

D. Social equity and poverty reduction

- 3.16 This operation does not qualify as a social equity enhancing project as described in the indicative targets mandated by the Bank's Eighth Replenishment. Neither does the operation qualify as a poverty-targeted investment (PTI).

E. Execution period and disbursement schedule

- 3.17 The proposed period for execution of the project and disbursement of the loan is four years. The tentative disbursement schedule is as follows:

Table III-1
Disbursement Schedule
(Millions of U.S. dollars)

Source	Year 1	Year 2	Year 3	Year 4	Total
IDB/OC	1.75	1.50	1.00	0.75	5.00
Local	0.35	0.30	0.20	0.15	1.00
Total	2.10	1.80	1.20	0.90	6.00
%	35%	30%	20%	15%	100%

F. Monitoring

- 3.18 In addition to the reports required by the Bank and the Country Office in El Salvador's own functions, the project team will participate directly in the interim and final evaluations (see 5.1). The team will also participate in all inspection and/or support visits required by the executing agency and/or the Bank's Country Office in El Salvador.

G. Accounting and audit

- 3.19 The Corte de Cuentas (henceforth Office of the Comptroller General of the Republic) will establish and maintain appropriate accounts and books in accordance with established accounting practice and the Bank's rules. These books will be audited at the close of each fiscal year by a qualified firm of independent auditors acceptable to the Bank. The cost of this audit has been included as part of the financing.

H. Expected outcomes

- 3.20 **Legislation and regulations:** (i) supreme audit authority restructured and functioning as Office of the Comptroller General of the Republic; (ii) Office of Integrity transferred to the new Comptroller's Office, converted into the Office of Government Ethics and in operation.
- 3.21 **Institutional strengthening:** (i) structure of the audit authority modified in accordance with chapter II of this document; (ii) responsibilities in respect of performance, budget formulation and execution and recruitment delegated to the area chiefs; and (iii) personnel trained in new techniques and responsibilities.
- 3.22 **Strengthening of the audit function:** Taking 1997 as a benchmark: (i) 100% increase in the number of audit reports; (ii) 100% increase in the number of special examinations; (iii) prompt processing of reports (within 90 days); (iv) biannual issuance of Reports of Citizen Accusations; (v) 100% coverage in execution of the audit plan; (vi) updating and approval of the regulations and Manual for the Performance of Audits; and (vii) auditors trained in modern audit techniques,

especially those connected with public-sector procurement processes and procedures (including bidding).

- 3.23 **Information technology:** (i) integrated information system established; (ii) all personal computers in critical areas interconnected; (iii) Internet presence implemented; and (iv) users trained in the office applications.

I. Cost and financing

- 3.24 The cost of the technical cooperation is estimated at US\$6,294,500; the Bank financing would be US\$5,044,500, from the Ordinary Capital. The local counterpart will be US\$1,250,000.

Table III-2
CONSOLIDATED BUDGET BY COMPONENT
(in US\$ thousands)

Budget category	IDB/OC	GOES	Total	%
Legislation and regulations	156.0	10.5	166.5	2.6%
1. Consulting services	78.0		78.0	
2. Equipment	60.0		60.0	
3. Training	18.0	10.5	28.5	
Institutional strengthening	456.0	682.0	1,138.0	18.1%
1. Consulting services	456.0	54.0	510.0	
2. Executing unit		576.0	576.0	
3. Equipment		52.0	52.0	
Strengthening of audit function	1,844.0	143.5	1,987.5	31.5%
1. Consulting services	263.0		263.0	
2. Equipment	500.0		500.0	
3. Training	520.0	21.0	541.0	
4. Fellowships, internships, etc.	453.0	35.0	488.0	
5. General support and services	108.0	87.5	195.5	
Information technology	1,063.0	102.0	1,165.0	18.5%
1. Consulting services	63.0	54.0	117.0	
2. Equipment	1,000.0	48.0	1,048.0	
Travel and per diem	350.8		350.8	6.0%
1. Travel	22.5		22.5	
2. Per diem	328.3		328.3	
Project audit	50.0		50.0	0.7%
1. Contingencies	340.2	62.0	402.2	6.3%
SUBTOTAL	4,260.0	1,000.0	5,260.0	--
1. Finance charges				
a. Interest	724.7	176.3	901.0	14.3%
b. Credit fee		73.7	73.7	1.1%
c. Inspection and supervision (1%)	59.8		59.8	0.9%
GRAND TOTAL	5,044.5	1,250.0	6,294.5	100%
Percentages	80%	20%	100%	

J. Special disbursement for starting the program activities

- 3.25 Notwithstanding the special conditions precedent to the first disbursement, once the conditions specified in Article 4.01(a), (b) and (e) of the general conditions of the loan contract have been met, the Bank may make special disbursements of up to

US\$100,000 for retaining the services of the principal technical advisor and starting the project activities.

- 3.26 If the Constitution has not been amended by April 30, 2000, to convert the Corte de Cuentas to the Office of the Comptroller General, the executing agency and the Bank will meet before May 15 that year to agree on a reformulation of the operation, so as to carry through institutional strengthening of comptroller-general activities within the current Corte de Cuentas structure (3.4 and 4.1).

IV. BENEFITS AND RISKS

- 4.1 This operation complements the actions that the Government of El Salvador is undertaking in order to modernize the public sector agencies. The successful execution of the proposed project will depend on the necessary constitutional reform being approved to change the current structure of the Corte de Cuentas into an Office of the Comptroller General of the Nation. If the reform is not approved, it would not be possible to accomplish the chief objective of the program and the program would have to be reformulated, a fact that the head of the Corte has been made aware of, in the course of negotiations. In that case, the program objectives would have to be modified for purposes of execution of the modules related to institutional strengthening and information systems. Though the objective of increased autonomy would be lost, much would be gained in terms of managerial capacity of an institution that is crucial for modernization of the State. However, the matter has been extensively discussed with authorities of the Corte and of the Legislative Assembly and, in the opinion of the project team, a consensus has been built regarding the proposed modification. Successful execution would result in an audit authority that functions more efficiently and effectively.
- 4.2 Another risk for this operation, if the constitutional reform is approved, has to do with monitoring of actions that will fall to the judicial branch. The Judicial Sector Reform Program the Bank is currently carrying out will mitigate this risk.
- 4.3 In addition, the benefits of the project would extend to the public in general, creating a greater awareness of the benefits and impact of a supreme audit authority that ensures efficient and transparent administration of the use of public funds.

V. EVALUATION

- 5.1 In addition to the final evaluation, which will serve to measure the accomplishment of the preestablished benchmarks and the benefits of the project, an interim evaluation will be conducted when 50% of the funds have been committed.

**MODERNIZATION AND STRENGTHENING OF THE CORTE DE CUENTAS
(ES-0113)**

PROCUREMENT PLAN

Main Procurement Items	Financing	Type	Prequalification	Publicity
Component 1. Legislation US\$200,000 - Average individual contracts: US\$26,000 - Equipment	94.5% IDB 5.5% GOES	DC	-	-
Component 2. Institutional strengthening US\$500,000 - Average individual contracts: US\$85,000	40% IDB 60% GOES	ICB (*) DC	Yes	Yes 4 th quarter 1999
Component 3. Technical coordination US\$700,000 - Average individual contracts: US\$72,000 - Equipment	100% GOES	DC	-	
Component 4. Strengthening audit function US\$2.2 million - Average individual contracts: US\$36,000 - Equipment	93% IDB 7% GOES	DC	-	
Component 5. Information technology US\$1.3 million - Average individual contracts: US\$23,000 - Equipment	92% IDB 8% GOES	DC ICB (**)	Yes	Yes 3 rd quarter 1999

(*) PTA = US\$360,000 (ICB)

(**) ICB for equipment procurement

Abbreviations

DC = Direct Contracting

ICB = International Competitive Bidding

LCB = Local Competitive Bidding

**MODERNIZATION AND STRENGTHENING OF THE CORTE DE CUENTAS
(ES-0113)**

LOGICAL FRAMEWORK

VE DESCRIPTION OF BJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
the process of modernization ng in order to fulfill the s vision.	<ul style="list-style-type: none"> - 100% increase in audit capacity, taking as parameter audits completed and pending discussion. - Prompter application of control (within 90 days). 	<ul style="list-style-type: none"> - Annual report on work done. - Audit reports. 	<ol style="list-style-type: none"> 1. Desire of new comptroller continue the process of m and strengthening the inst
process of modernizing and he Corte de Cuentas, to an Office of the eneral of the Republic in e Salvadorian society is erency, strict compliance legal provisions, cost-effectiveness in the use of public funds; and the effective results in the public affairs.	<ul style="list-style-type: none"> - Audit authority restructured and functioning as a Comptroller General's Office. - A dynamic structure staffed with suitable personnel. - Strengthening of external auditing with on-site training in the four audit divisions. - Integrated information system established. 	<ul style="list-style-type: none"> - The Constitution of the Republic. - Draft law. - Annual budget law. - Organization chart of Corte. - Audit reports. - Annual reports. 	<ol style="list-style-type: none"> 1. Desire of new comptroller continue the process of m and strengthening the inst 2. Political will of the legisla study and approve the ame the Constitution and laws. 3. A citizen culture that is fa control in general and to th exercised by the audit auth particular.
l framework enabling swift ity and integration of t control activities in the nstitution. unctional organization that the levels of authority and	<ul style="list-style-type: none"> - Preliminary version of reforms to the Law Governing the Corte de Cuentas. - Six round tables/workshops on external ex post control activities and the law. - Organization chart. - Office of Government Ethics. - Audit handbooks. - Government Audit Manual. - New Five-Year Plan of the audit institution. 	<ul style="list-style-type: none"> - Draft Law. - Annual budget law. - New organization chart. - Office of Government Ethics. - Government Audit Manual. - Audit work quality control reports. - Action plans. - Training plan. - Audit reports. 	<ol style="list-style-type: none"> 1. Political will to change the a Comptroller General's O 2. Political will for regulator centralization and operatin decentralization. 3. There are formal and infor for bringing about favorab 4. Coordination between the responsible for control of p funds.

DESCRIPTION OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
resource, materials and information systems, with the provisions. y trained for the their functions. logical equipment and items for carrying out the s work.	<ul style="list-style-type: none">- Human Resource Administration Manual.- Financial Administration Manual.- Manual of Administration and Control of Correspondence and Archives.- Training plan for the next two years.- No fewer than four annual audits with on-site training.- One annual fellowship for international programs.- Two annual conferences for inculcating, maintaining and evaluating the corporate culture.- Integrated information system established.- Internet presence established.- PCs in the critical areas interconnected.	<ul style="list-style-type: none">- Report of work done.- Conference reports.- Internet site.- Communication system.	
tion and regulations tional reform /or regulations ing of public awareness onal strengthening ing organic structure ing the Human Resource tration System ing the Financial ment System ing the Administration Plan	BUDGET Legislation and regulations Consultants US\$78,000 Training 28,500 Equipment 60,000 Contingencies <u>20,000</u> 186,500 Institutional strengthening Consultants 1,086,000 Equipment 52,000 Contingencies <u>106,000</u> 1,244,000	<ul style="list-style-type: none">- Expenditure reports.- Reports to IDB.- Financial Management System.	<ol style="list-style-type: none">1. Suitable international and consultants are available for2. Capable officials are available to participate in training courses

VE DESCRIPTION OF BJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Strengthening of audit function</p> <p>ion of technical handbooks</p> <p>ment Audit Manual</p> <p>training in Admin. Sector</p> <p>training in auditing and justice</p> <p>training in auditing of and economic sectors</p> <p>training in municipal sector</p> <p>auditing</p> <p>ing fellowships, internships</p> <p>inars</p> <p>Information technology</p> <p>hment of a flexible</p> <p>ion for integrating and</p> <p>lating the institutional</p> <p>es</p> <p>hment of local</p> <p>nication system</p>	<p>Strengthening of audit function</p> <p>Consultants 263,000</p> <p>Training 628,500</p> <p>Equipment 608,000</p> <p>Fellowships, internships, seminars 488,000</p> <p>Contingencies <u>196,000</u></p> <p>2,183,500</p> <p>Information technology</p> <p>Consultants 117,000</p> <p>Equipment 1,048,000</p> <p>Contingencies <u>107,000</u></p> <p>1,262,000</p> <p>Travel and per diem</p> <p>Travel 22,500</p> <p>Per diem 328,320</p> <p>Contingencies <u>23,180</u></p> <p>374,000</p>		

PROPOSED RESOLUTION

EL SALVADOR. TECHNICAL COOPERATION LOAN ___/OC-ES
TO THE REPUBLICA DE EL SALVADOR
(Modernization and Strengthening of the Superior Court of Accounts Program)

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such agreements as may be necessary with the República de El Salvador and to adopt such measures as may be pertinent for the execution of the plan of operations with respect to a Modernization and Strengthening of the Superior Court of Accounts Program, referred to in Document PR- .
2. That up to the sum of US\$5,044,500, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, is authorized for the purpose of this resolution.
3. That the above-mentioned sum is to be provided on a reimbursable basis.