

PASAI



“Pacific Auditors Working Together”

**Pacific Association of
Supreme Audit Institutions**

Annual Report 2010/11



*"Pacific Auditors Working
Together"*



PACIFIC ASSOCIATION OF SUPREME AUDIT INSTITUTIONS

Annual Report 2010/11

SECRETARY-GENERAL'S FOREWORD



Mrs Lyn Provost
Secretary-General and Controller and Auditor-General of New Zealand

As Secretary-General of the Pacific Association of Supreme Audit Institutions (PASAI), I have much pleasure in presenting the Annual Report 2010/11 of the organisation.

PASAI has adopted the outputs of the Pacific Regional Audit Initiative (PRAI) as its strategic goals. The objective is to raise the capacity of Supreme Audit Institutions (SAIs) to uniformly high levels. The strategic objectives include regional co-operation and co-ordination, capacity building, co-operative audits, and advocating accountability and transparency in the Pacific region.

Achievements in the last 12 months have been good. PASAI has a fully operational Secretariat, which manages the programmes and activities of the organisation. The new website – www.pasai.org – features information on PASAI programmes, activities, and outputs.

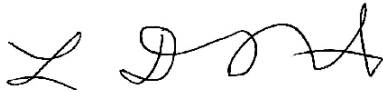
In relation to capacity building, PASAI has completed three audit manuals with two others nearing completion and under review. The contents of the manuals will be used as the basis for developing PASAI training for all employees in SAIs. Two of these are also nearing completion. PASAI has also completed a second co-operative performance audit on access to safe drinking water. Because of delays in funding, the co-operative financial audits for sub-regional groups and the second accountability and transparency study only started in June 2011.

The PASAI theme for 2012 is the *Adoption of International Best Practices* and includes completing and implementing the audit manuals, training, as well as advocacy for the introduction of International Standards of Supreme Audit Institutions (ISSAIs).

PASAI appreciates the contribution and support of the development partners during the last year.

I also like to thank the staff of the PASAI Secretariat for the hard work and my fellow Governing Board members for their leadership.

We look forward to a productive and successful 2011/12.

A handwritten signature in black ink, appearing to read 'Lyn Provost', written in a cursive style.

Mrs Lyn Provost

Secretary-General and Controller and Auditor-General of New Zealand

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Part A
Background and Highlights

1. INTRODUCTION

1.1 The Pacific Association of Supreme Audit Institutions (PASAI) is the official association of Supreme Audit Institutions (government Audit Offices and similar organisations, known as SAIs) in the Pacific region. PASAI is one of the regional working groups belonging to the International Organisation of Supreme Audit Institutions (INTOSAI).

1.2 PASAI promotes transparent, accountable, effective, and efficient use of public sector resources in the Pacific region. It contributes to that goal by helping its members improve the quality of public sector auditing to uniformly high standards. To meet that objective, PASAI's mandate is to:

- a) strengthen understanding, co-operation, and co-ordination between its members;
- b) advocate the interests of good governance, including transparency, accountability, and the need for strong and independent SAIs, to governments and others in the Pacific region;
- c) build and sustain public auditing capacity throughout the Pacific region by sharing knowledge with, and providing support to, its members;
- d) assist its members to perform their auditing functions, including through co-operative audits and similar activities;
- e) serve as a regional working group of INTOSAI, in the interests of all SAIs in the Pacific region and beyond; and
- f) encourage co-operation with other regional working groups and SAIs.

1.3 PASAI had an eventful 2010/11. During the 12 months to 30 June 2011, PASAI has produced some of the outputs of the Pacific Regional Audit Initiative (PRAI). These are summarised in this report. PASAI's outputs aim to raise the standard of public auditing in the Pacific region to uniformly high levels, enhance the impact of audit findings, assist with performance audits, and raise the capability of SAIs.

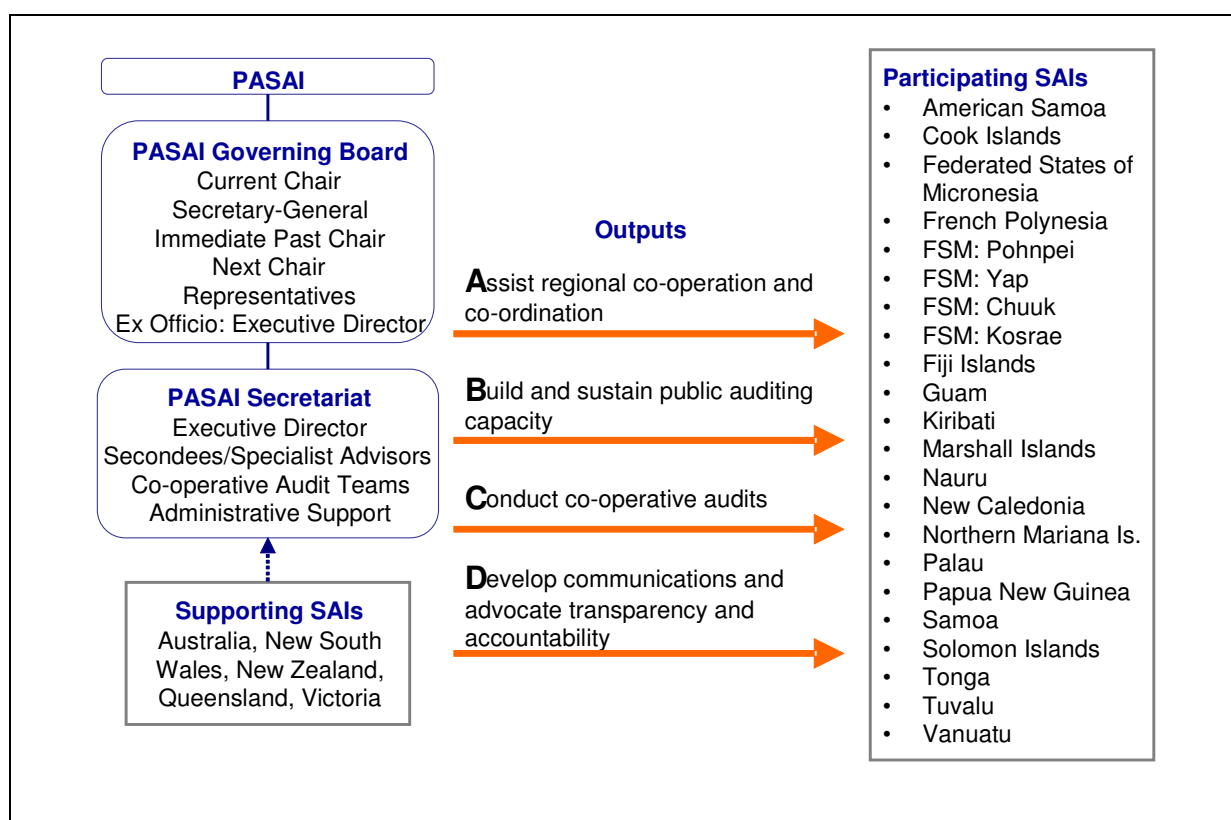
2. PACIFIC REGIONAL AUDIT INITIATIVE

2.1 PRAI, a *Pacific Plan* initiative, was developed through an extensive consultation process, over a two-year period under the guidance of PASAI and its 25 members. Support was provided by the Asian Development Bank (ADB) and the Australian Agency for International Development (AusAID) under the Pacific Island Forum (PIF) Secretariat's oversight. In 2008, the PASAI Congress in Rarotonga unanimously confirmed PRAI and this was endorsed by PIF leaders later that year.

PASAI's strategic plan

2.2 PRAI has been adopted as the strategic plan of PASAI. Its overarching objective is to raise public auditing in the Pacific region to uniformly high standards, which in turn is expected to improve transparency and accountability in managing and using public resources. Figure 1 illustrates the PRAI structure, and identifies participants and outputs.

Figure 1: The Pacific Regional Audit Initiative



2.3 PRAI will enable the public accounts of participating countries to be audited, in a timely manner, to uniformly high standards. It will also enhance the impact of audit findings and assist with performance audits, including environmental audits. Furthermore, it is intended that by the end of 2012, 80% of participating SAs will be at level three or higher

on the PASAI Capability Model. PRAI will deliver the following outputs during the initial period of the initiative (2008-12):

- assist regional co-operation and co-ordination by (a) establishing the enhanced PASAI Secretariat, (b) supporting regional co-ordination, (c) preparing strategies for common methodologies, (d) preparing programmes for co-operative audits and peer reviews, and (e) establishing an enhanced PASAI website;
- build and sustain public auditing capacity by (a) preparing guidance and training materials, (b) developing generic competencies and delivering structured training programs, (c) supporting the attainment of professional qualifications, (d) supporting peer reviews and institutional strengthening designs, (e) supporting improved contract management, (f) providing management and operational support, (g) providing technical support, and (h) facilitating secondments and attachments;
- conduct co-operative audits by (a) conducting co-operative financial audits, (b) conducting co-operative performance audits, including environmental audits, and (c) supporting a sub-regional auditing approach for Kiribati, Nauru, and Tuvalu, with the possible later inclusion of other countries who wish to join; and
- develop communications and advocate transparency and accountability by (a) educating stakeholders on the value of public auditing, (b) advocating enhanced transparency and accountability, and (c) providing editorial and communications advice.

PRAI's impact and outcomes

2.4 The expected impact of PRAI is to improve transparency and accountability in managing and using public resources in the Pacific region. The outcomes of the initiative are that the public accounts of the Pacific jurisdictions are audited in a timely manner to uniformly high standards, with enhanced audit impacts and improved audit capability. These expectations assume that:

- participating jurisdictions remain committed to improving transparency and accountability and effective public auditing;
- public financial management including accounting systems, standards, and records in the region continue to improve; and
- PASAI members continue to work collaboratively.

2.5 While it may be a little early to measure the impact and outcomes of PRAI after 18 months of operations, PASAI has made reasonable achievements to date. These achievements, against PRAI and the monitoring framework, are provided in Table 1.

Table 1: Achievements against PRAI and the monitoring framework

Design summary	Performance targets/ indicators	Achievements to date
Outcome		
The public accounts of participating countries are audited in a timely manner to uniformly high standards, with enhanced audit impacts and improved audit capability.	<p>By the end of 2012, 70% of available public accounts and their components will have been audited to internationally-accepted standards within 12 months of the end of the financial year.</p> <p>Improvement by the end of 2012 of the PEFA PI-26 indicator to an average C rating.</p> <p>By the end of 2012, 80% of participating SAIs will be at level three or higher on the PASAI Capability Model.</p>	PASAI has completed the production of some of the manuals and training materials, and conducted co-operative audits, including the sub-regional audit support (SAS), which are essentially the first steps in raising capability in the region.
Impact		
Improved transparency and accountability in managing and using public resources in Pacific island countries.	<p>Average one-step improvement by the end of 2012 of relevant public expenditure and financial accountability (PEFA) performance indicators (PI):</p> <ul style="list-style-type: none"> • PI-10: public access to key fiscal information; • PI-25: quality and timeliness of annual financial statements; • PI-26: scope, nature and follow-up of external audit; and • PI-28: legislative scrutiny of external audit reports. 	[PASAI will review the PEFA assessments in 2012]

Funding

2.6 PRAI is unique to the Pacific region as it encompasses various capacity building approaches and is supported by many donors. PASAI is indebted to its development partners for their kind financial assistance to raise the level of public auditing in the Pacific region.

2.7 PASAI received total funds of NZD 1,955,780 in 2010/11. The details of the funds received are:

	NZD
AusAID	\$1,315,090
INTOSAI Development Initiative (IDI)	240,447
NZAid	179,733
World Bank	220,510
	<u>\$1,955,780</u>

2.8 In addition, ADB has funded three PASAI consultants directly – the Co-operative Performance Audit Advisor, Capacity Building Expert, and Legal Advisor. ADB also funded some of the Governing Board members' costs of attending the 4th Governing Board meeting in Auckland, New Zealand, and the SAS programme when it resumed with the second round in June 2011.

3. HIGHLIGHTS OF PROGRAMMES

Regional co-operation and co-ordination

3.1 PASAI held its 13th Congress in Tarawa, Kiribati on 7-9 July 2010. The 20 participants who attended deliberated on PASAI governance issues and the results of the various PRAI programmes. The Congress also discussed with its stakeholders how to maximise the effectiveness of its findings in accountability and transparency.

3.2 The Governing Board met on two occasions during the year, on 5 July 2010 in Nadi, Fiji and on 2-3 February 2011 in Auckland, New Zealand. The meeting in Nadi marked a significant achievement for PASAI as the World Bank signed off a first financial assistance for the organisation. The meetings focused on governance issues, projects, and funding strategy issues.

3.3 The PASAI Secretariat was represented at the International Congress of Supreme Audit Institutions (INCOSAI), the meeting of the Australasian Council of Auditors General (ACAG), and the meeting of the INTOSAI Professional Standards Committee. These meetings provided opportunities for PASAI to share its achievements in audit developments in the Pacific region with the international and regional organisations.

Capacity development

3.4 To date, PASAI has produced three audit manuals – Human Resources Management (HRM), Reporting Guidelines, and Quality Assurance Guidelines – to be approved by the Governing Board when it meets in Tonga on 1 August 2011. Two other audit manuals, Performance Audit and Financial Audit, are in the review phase of completion. The development of four training manuals is progressing slower than anticipated.

3.5 The PASAI Certification Committee is exploring options to assist regional auditors to affiliate with professional bodies in the region.

Co-operative audits

3.6 PASAI has completed a second co-operative performance audit on access to safe drinking water during the last 12 months. The 10 SAIs that participated in the audit have completed their reports, sent them to auditees for their comments, and/or made them public. Once all reports have been tabled, PASAI will prepare and circulate a regional report based on the findings of the 10 national reports.

3.7 The second round of the SAS programme for Kiribati, Nauru, and Tuvalu started in June 2011.

Develop communications and advocate transparency and accountability

3.8 The second accountability and transparency study started in June 2011. A report is expected to be available in February 2012. The intention of the report is to be the basis for

periodic reporting on progress in achieving better accountability and transparency in the use of public resources in the region.

3.9 PASAI, through ADB, engaged a Communications Advisor to carry out editing and communication work for the organisation.

Part B
PASAI Programmes

4. REGIONAL CO-OPERATION AND CO-ORDINATION

4.1 PASAI's first strategic goal provides that PASAI will assist regional co-operation and co-ordination by (a) establishing the enhanced PASAI Secretariat, (b) supporting regional co-ordination, (c) preparing strategies for common methodologies, (d) preparing programmes for co-operative audits and peer reviews, and (e) establishing an enhanced PASAI website.

4.2 Following the establishment of the Secretariat in 2010, PASAI completed its website and organised various activities under the four programmes. The major activities include:

- the Kiribati Congress;
- two Governing Board meetings;
- the second capacity building conference;
- two co-operative performance audit meetings; and
- various working group meetings.

4.3 The Executive Director also attended the ACAG meeting, the INTOSAI donors co-operation meeting, INCOSAI, and the INTOSAI Professional Standards Steering Committee.

4.4 The details of the activities of the strategic goal for regional co-operation and co-ordination are provided below.

PASAI Congress – Tarawa, Kiribati

4.5 The 13th PASAI Congress was held in Tarawa, Kiribati on 7-9 July 2010. It was attended by 20 Heads of SAIs or their representatives from 15 members of PASAI. The keynote speaker was the Vice President of Kiribati, Honourable Ms Teima Onorio. She reinforced the critical role SAIs play in promoting good governance and strengthening accountability and transparency in the Pacific region. She made reference to the pooling of resources to address common objectives such as the SAS programme, which has generally improved the quality of public sector auditing in the smaller island states.



4.6 The Congress deliberated on PASAI governance issues and the results of the various PRAI programmes, making specific recommendations on the secretarial responsibilities, accountability and transparency survey report, and funding arrangements over the long term. The Congress also received reports from members on the work they performed in the various INTOSAI Committees.

4.7 The Congress discussed with its stakeholders how to maximise the effectiveness of its findings in accountability and transparency and the results of co-operative audits such as that of waste management. The Congress agreed that it was important that it worked with stakeholders such as the PIF Secretariat. Although the PASAI Secretariat is charged with pursuing this objective, the effectiveness of PRAI will be a focus of the next Congress.



4.8 The Secretary-General, on behalf of PASAI, thanked the hosts, the Kiribati National Audit Office and its Auditor General, Mr Raimon Taake, for organising a successful Congress. The excursion to Ouba Island and the attendance of the Kiribati independence celebrations rounded off a successful Congress. The Secretary-General in closing mentioned that PASAI should be proud of its achievements to date and that it was essential that the results of PASAI activities have a lasting effect on the region.

PASAI Secretariat

4.9 The PASAI Secretariat was kept busy throughout the year with the organising and running of:

- a capacity building conference;
- all the meetings of the nine working groups developing audit manuals and training materials, including two pilot training courses;
- two Governing Board meetings;
- the Kiribati Congress; and
- the second co-operative performance audit.

4.10 Most of the working group meetings were held at the Secretariat in Auckland, New Zealand. The other meetings were held in Nadi, Fiji.

Human resources

4.11 The PASAI Secretariat's four employees completed their first year in the organisation and have carried out their annual performance reviews. The reviews provided an opportunity to reflect on performances during the past year and agree on strategies to improve in the future.

4.12 PASAI consultants Ms Claire Kelly (Co-operative Performance Audit Advisor), Mr Robert Buchanan (Legal and Governance Advisor), and Ms Lin Weeks (Human Resources and Capacity Building Advisor) have been re-engaged by ADB following the expiry of the previous Technical Assistance programme. Mrs Elizabeth Tommy (Technical and Methodology Advisor) will complete her contract with PASAI on 31 July 2011.

PASAI governance and programme management

4.13 A number of significant improvements were made to PASAI's governance framework during the year.

4.14 The programme management framework was completed in late 2010, and adopted by the Governing Board at its meeting in Auckland in February 2010. The framework enables each activity under PRAI to be planned and managed in a consistent manner, using purpose-designed template documentation. The framework will also streamline activity reporting, and enable each activity to be monitored in relation to the relevant PRAI goals. The Governing Board also adopted a risk management framework for PASAI's activities, which will assist in the monitoring of risks on an organisation-wide basis.

4.15 At its February meeting, the Governing Board also decided to develop an overall performance management framework for PASAI. The framework will enable the Board to monitor organisational performance against the outcomes in PASAI's annual business plan and PRAI (PASAI's strategic plan), and its funding agreements with development partners. Work on the framework was completed by mid-2011, and is to be presented to the Governing Board at its meeting in August 2011.

4.16 Work was also completed during 2011 to define the scope of the Secretary-General's support and oversight roles in relation to the Secretariat. This will also assist in the smooth functioning of PASAI's administrative activities.

4.17 All of the above changes will be reflected in an update to PASAI's internal governance and reporting framework, which the Secretariat will be proposing at the Governing Board meeting in August 2011.

Governing Board

4.18 The Governing Board is responsible for overseeing the work of the PASAI Secretariat, especially the preparation and monitoring of the PASAI's three-year work plan and budget, and the annual business plan. It supports and assists the Chairperson and Secretary-General in performing their respective powers and responsibilities. It sets the rules and procedures of the operations of the Secretariat and monitors the performance of staff.

4.19 To date, a number of changes have been made to the membership of the Governing Board. Mr Raimon Taake, the Auditor General of Kiribati, took over as the Chair as the host of the 2010 Congress. Mr Pohiva Tuionetoa, Auditor General of Tonga, was also confirmed a member of the Board after the 2010 PASAI Congress confirmed Tonga as the host of the 2011 Congress. Mr Fuimaono Camilo Afele, Auditor General of Samoa, was appointed a member replacing Mr Tuionetoa as the Polynesian Group representative in the Board.

4.20 The following are the members of the Governing Board:

Chairperson	Mr Raimon Taake	Auditor General, Kiribati
Secretary-General	Mrs Lyn Provost	Controller and Auditor-General, New Zealand
Immediate past Chairperson	Mr Satrunino Tewid	Acting Public Auditor, Palau
Next congress Chairperson	Mr Pohiva Tuionetoa	Auditor General, Tonga
Melanesian Representative	Mr George Sullimann	Auditor General, Papua New Guinea
Polynesian Representative	Mr Fuimaono Camilo Afele	Auditor General, Samoa
Micronesian Representative	Mr Haser Hainrick	National Public Auditor, Federated States of Micronesia
Executive Director (ex officio)	Mr Eroni Vatuloka	PASAI Secretariat

Third Governing Board meeting – Nadi, Fiji

4.21 The meeting in Nadi, Fiji on 5 July 2010 was attended by all members of the Board (except Mr Satrunino Tewid, Public Auditor of Palau) and development partners, including AusAID, IDI, NZAID, and the World Bank. The Board considered and approved the PASAI Business Plan for 2010/11, Office Policies, and the business session items for the PASAI Congress in Kiribati.



4.22 The meeting marked the signing of a grant agreement with the World Bank for a sum of USD 550,000 over three years. The Secretary-General, on behalf of the Governing Board, expressed PASAI's gratitude in the assistance and assured the representative of the World Bank that the fund would be put to best use, especially for the development of audit manuals and training materials for the Pacific region.

Fourth Governing Board meeting – Auckland, New Zealand

4.23 The meeting of the Governing Board held in Auckland, New Zealand on 2-3 February 2011 was attended by all members of the Governing Board and development partners, including ADB, AusAID, and NZAID.



PASAI 4th Governing Board Meeting 2-3 February 2011
Auckland New Zealand

4.24 During the meeting, the Board considered and approved:

- PASAI's first annual report, for the financial year ending 30 June 2010;
- amendments to Office Policies;
- the PASAI Risk Register;
- the new membership fees of NZD 100; and
- updates of PASAI programmes.

4.25 It also recommended more work to be carried out on the project management framework, including the prioritisation of PASAI projects and activities.

Australasian Council of Auditors General meeting – Brisbane, Australia

4.26 The Executive Director, Mr Eroni Vatuloka, and the Secretary-General, Mrs Lyn Provost, attended the ACAG meeting in Brisbane, Australia on 4-5 November 2010. Apart from updating ACAG on the work of PASAI, Mr Vatuloka used the opportunity to thank the members of ACAG for providing copies of their manuals and training materials for use in PASAI's various projects. He also solicited further support from ACAG in the areas of staff secondment/attachment, peer review, and accreditation of staff from the region.

INTOSAI donors co-operation, steering committee meeting – Johannesburg, South Africa

4.27 The Chairman of PASAI and Auditor General of Kiribati, Mr Raimon Taake, Mrs Provost, and Mr Vatuloka attended the INTOSAI donors co-operation meeting held in Johannesburg, South Africa on 18-19 November 2010. The principles of the co-operation are based on a Memorandum of Understanding signed between INTOSAI and 15 donor partners.

4.28 The meeting deliberated on a first global SAI needs assessment, the SAI Stocktaking Report 2010, which highlighted that despite on-going support to the SAI community, there were significant needs and funding gaps facing many SAIs in developing countries. The report was approved by the Steering Committee.

4.29 The PASAI representatives emphasised the benefits of multi-lateral funding support for organisations such as PASAI in addition to bilateral funding. The committee also approved an action plan for the period 2010-11. The plan has a dual focus on:

- short-term actions that provide effective SAI support with demonstrable outcomes; and
- developing a practical framework for effective SAI support in the medium- to long-term that is consistent with the principles of the Memorandum of Understanding.¹

4.30 The survey indicated two short-term projects for PASAI – a strategic planning workshop and developing a peer review framework. In the medium- to long-term, the general awareness and implementation of International Standards of Supreme Audit Institutions (ISSAIs) was proposed.

4.31 The committee also adopted a Joint Work Programme for 2011, which includes, among other things, the establishment of a databank of SAI support, voluntary review of SAIs' strategic and development action plans, research of SAI funding levels, and the establishment of a pooled fund.

20th International Congress of Supreme Audit Institutions – Johannesburg, South Africa

4.32 The 20th INCOSAI was held in Johannesburg on 22-27 November 2010. It was attended by about 500 participants from 152 SAIs, including 12 delegates from PASAI members. The triennial congress approved the INTOSAI strategic plan for the 2011-13, which focuses on the independence of SAIs, strengthening capacity building, and extending the fight against corruption.

¹ INTOSAI Donor Community Co-operation, Press Release.



4.33 INCOSAI deliberated on two themes:

- the value and benefits of SAIs; and
- environmental auditing and sustainable development.

4.34 The discussion on value and benefits of SAIs centred on two objectives:

- to be recognised as an institution that makes a difference in the lives of citizens; and
- to be recognised as an independent model institution.

4.35 The congress resolved that to be recognised as an institution that makes a difference in the lives of citizens, SAIs must:

- be responsive to changing environments and stakeholder expectations, without compromising independence;
- ensure that government is accountable for using resources;
- empower the public to hold the government accountable;
- enable those charged with governance to discharge their responsibilities effectively;
- and
- follow up on audit findings.

4.36 For SAIs to be recognised as an independent model institution, it must:

- be independent;
- be transparent and accountable;
- observe a code of ethics;
- implement service excellence and quality considerations;
- display good governance;

- facilitate learning and knowledge sharing; and
- adopt effective communication.

4.37 The second theme, environmental auditing and sustainable development, focused on SAIs' practical experiences and results in carrying out environmental audits as well as how to advance sustainable development.

4.38 The discussion on the theme centred on SAIs' environmental audits and sustainable development issues that were prevalent from those audits and the importance of addressing threats to natural resources and citizens. The audits covered topics such as climate change, water, waste management, forestry, and protected areas. Mr Paul Allsworth, Director of Audit of the Cook Islands, on behalf of PASAI, shared the special challenges of the small island states in the Pacific region.

INTOSAI Professional Standards Committee

4.39 PASAI's Secretary-General, Mrs Lyn Provost, hosted the INTOSAI Professional Standards Committee meeting in Wellington, New Zealand on 22-23 June 2011. It was attended by 25 participants from 15 SAIs of the various INTOSAI regions. The Executive Director of PASAI attended as an observer.



4.40 The meeting focused on the work of the various sub-committees including compliance, financial, performance, accounting and reporting, accountability and transparency and how they fit within the ISSAIs framework.

PASAI website

4.41 The enhanced PASAI website (www.pasai.org) was launched on 15 October 2010. It features PASAI's various programmes and activities and some of the outputs that have been produced to date. PASAI hopes to include more products of the organisation in the future.

Achievements against performance targets

4.42 A summary of the sub-outputs and performance targets in PRAI and PASAI achievements to date are provided in Table 2.

Table 2: Assist regional co-operation and co-ordination – Achievements against performance targets

Design summary	Performance targets	Achievements to date
Establish enhanced PASAI Secretariat	<ul style="list-style-type: none"> - PASAI Governing Board and Secretary-General appointed by August 2009. - Enhanced PASAI Secretariat established by August 2009. 	<ul style="list-style-type: none"> - The Governing Board and Secretary-General were appointed in August 2009 during the Palau Congress. - The PASAI Secretariat was established in Auckland, New Zealand in January 2010.
Support regional co-ordination	<ul style="list-style-type: none"> - Support for three PASAI Congresses and [four] PASAI Governing Board meetings as well as participation in regional and international meetings. 	<ul style="list-style-type: none"> - Two congresses have been completed (Palau, August 2009; and Kiribati, July 2010), and a third in Tonga will be held in August 2011. - Four meetings of the Governing Board have been completed (Palau, August 2009; Papua New Guinea, November 2009; Fiji, July 2010; New Zealand, February 2011). A fifth meeting is being organised, to be held in Tonga on 1 August 2011.
Prepare strategies for common methodologies	<ul style="list-style-type: none"> - Strategy and plan for moving toward common audit methodologies prepared by [March 2010]. 	<ul style="list-style-type: none"> - The strategy and plan for moving towards common audit methodologies was prepared and approved at the Palau Congress. The production of five manuals and nine training materials started after the two capacity building conferences (June and November 2010). See capacity building programme results in Chapter 5.
Prepare programmes for co-operative audits and peer reviews	<ul style="list-style-type: none"> - Rolling programme for co-operative audits and peer reviews approved by [August 2009] and updated annually. 	<ul style="list-style-type: none"> - A programme of co-operative performance audits was approved in the Palau Congress and audits started in October 2009 (discussed in Chapter 6). A peer review framework is planned to be developed in 2012.
Establish PASAI website	<ul style="list-style-type: none"> - PASAI website operational by [September 2009]. 	<ul style="list-style-type: none"> - An enhanced PASAI website (www.pasai.org) was launched on 15 October 2010.

5. BUILD AND SUSTAIN PUBLIC AUDITING CAPACITY

5.1 PRAI provides that PASAI will build and sustain public auditing capacity by (a) preparing guidance and training materials, (b) developing generic competencies and delivering structured training programmes, (c) supporting the attainment of professional qualifications, (d) supporting peer reviews and institutional strengthening designs, (e) supporting improved contract management, (f) providing management and operational support, (g) providing technical support, and (h) facilitating secondments and attachments.

5.2 The objective of PASAI's overall capacity development programme is to address PASAI's organisational and individual capacity in terms of:

- guidelines/manuals supporting standards, practices, and methodologies;
- education, training, and certification; and
- quality assurance and peer review.

5.3 In 2010/11, the capacity building programme focused on producing audit manuals, guidelines, and training materials, with related on-the-job training being carried out through the SAS programme and co-operative performance audits.

Production of manuals, guidelines, and training materials

Background

5.4 In 2009, nine working groups were established to produce PASAI's manuals and guidelines. The manuals include samples, templates, checklists, and other tools based on best practices in implementing auditing standards. Most (if not all) of the content was adapted from the best manuals that already exist with PASAI members or other regional working groups. The working groups also ensured that the manuals and guidelines are consistent with ISSAIs and other appropriate professional standards. As specified by PRAI, these included:

- manuals and guidelines:
 - (i) Human Resource Management (HRM);
 - (ii) Financial Auditing;
 - (iii) Performance Auditing;
 - (iv) Quality Assurance; and
 - (v) Reporting Guidelines;
- training materials:
 - (vi) Tier 1 – *Fundamentals of government auditing*;
 - (vii) Tier 2 – *Intermediate government auditing*;
 - (viii) Tier 3 – *Supervisory roles*; and

(ix) Tier 4 – *Management of audits.*

5.5 The members of the working groups and SAIs confirmed sharing their resource materials, but over the course of the year some changes were made in the composition of the groups. Appendix 1 lists the current members of the working groups.

5.6 The members of the working groups attended two capacity building “kick-off” conferences. As reported previously, the first conference was held in Auckland, New Zealand on 21-29 June 2010. The second group met in Nadi, Fiji on 15-19 November 2010. The second conference included working groups for the Quality Assurance Manual and Reporting Guidelines and Tier 1 and Tier 4 training materials. The conference prepared the 16 participants from 12 SAIs to begin their work.

5.7 PASAI’s Executive Director opened the conference by discussing the importance of their work and the value it will bring to SAIs as PASAI strives to ensure that SAIs in the region work to uniformly high standards. He also noted the special challenges that PASAI faces in terms of distance between SAIs and the need to work collaboratively to ensure the success of this region-wide initiative. He acknowledged that this would be a challenge that they would need to meet in completing their tasks, and pledged that the PASAI Secretariat would be working with them to achieve the groups’ objectives.



5.8 All manuals and training materials go through various stages of review by:

- the working group leader;
- the Technical and Methodology Advisor (for manuals) and Capacity Building Advisor (for training materials);
- the subject matter expert;
- the Champion and member of the Governing Board;
- the Technical Methodology Advisor and Capacity Building Advisor; and
- the Communications Advisor/ Editor.

5.9 Significant progress has been made with regards to the completion of these manuals. The intention is to table at least three manuals at the Governing Board meeting in August 2011.

Accomplishments

5.10 The working groups responsible for producing the manuals and training materials were assisted by the Technical and Methodology Advisor and the Capacity Building Advisor respectively.

5.11 The status of these manuals to date is:

Manual	Status
HRM	Being prepared for approval by the Governing Board
Financial Audit	Review by Subject Matter Experts
Performance Audit	Review by Governing Board Champion
Quality Assurance	Being prepared for approval by the Governing Board
Reporting Guidelines	Being prepared for approval by the Governing Board
Tier 1 – <i>Fundamentals of government auditing</i>	Materials are being developed and will be piloted in due course
Tier 2 – <i>Intermediate government auditing</i>	Materials are being completed for review by Governing Board Champion
Tier 3 – <i>Supervisory roles</i>	Materials are being finalised based on feedback and evaluation from pilot training participants
Tier 4 – <i>Management of government audits</i>	Materials are currently being developed

5.12 PASAI members will not be obligated to adopt the manuals. However, the manuals and guidelines have been, and will be, used as basis for the career path training programmes (Tiers 1-4) and for on-the-job training associated with the SAS programme and co-operative performance audits. At the 2011 Congress, SAIs will also be encouraged to adapt and modify their own manuals to meet their needs and assist them in improving their operations and products. They will foster knowledge sharing within the PASAI community.

5.13 The working groups for Tier 2 and Tier 3 training materials developed and piloted their courses. On 14-25 February 2011, 16 participants from 13 SAIs attended the Tier 2 training in Auckland, New Zealand. On 14 -25 March 2011, 14 participants from 13 SAIs attended the Tier 3 training in Nadi, Fiji. Following these pilots, evaluation data was reviewed and revisions are being made.

5.14 The Tier 1 and Tier 4 materials are being finalised, and the pilots will be held on 11-22 July 2011 and 28 November – 9 December 2011 respectively. When all four courses have

been piloted, reviewed, and revised, a schedule will be developed so that they can be offered on a regular basis.

5.15 The contents of the training materials are provided in Appendix 2.

5.16 The career path training programme, which was approved by the Governing Board in 2009, was based on the premise that each SAI had its own appropriate induction programme. Therefore, the Technical and Methodology Advisor conducted some work in this area. An analysis of an initial survey indicated that six SAIs felt that their induction materials and/or programmes needed to be improved. At the direction of the Governing Board, the Technical and Methodology Advisor prepared an induction manual template for the SAIs. To date, only two SAIs (Fiji and Papua New Guinea) have submitted their revised induction manuals/materials to the Technical and Methodology Advisor for comments and suggestions.

Certification

5.17 The PASAI Certification Committee, which is exploring the certification of regional auditors with a professional body in the region, has made some progress in its work. The result of a stocktake survey conducted in November 2011 was a good basis for making decisions on the steps to take in the certification initiative. The Committee has explored the various professional bodies that could be used by PASAI for certification.

A report of the Committee's work will be presented to the Governing Board and the PASAI Congress in August 2011.

Summary of achievements against performance targets

5.18 A summary of the sub-outputs and performance targets in PRAI and PASAI achievements to date are provided in Table 3.

Table 3: Build and sustain public auditing capacity – Achievements against performance targets

Design summary	Performance targets	Achievements to date
Prepare guidance and training materials	- Guidance materials on co-operative audits prepared by [August 2009].	- Co-operative audits guidance material yet to be produced.
Develop generic competencies and deliver structured training programme	- Generic set of competencies and job descriptions confirmed by [September 2009].	- Generic set of competencies and job descriptions were completed in 2009.
	- PASAI Governing Board endorses structured training programme by [December 2009].	- The Governing Board endorsed the structured training programme when it met in Papua New Guinea in November 2009

	<p>- Guidance materials/manuals prepared by [June 2010], covering financial and performance audits, investigations, operations, and peer reviews.</p>	<p>- Guidance materials (manuals) for HRM, performance auditing, audit reporting, and quality assurance will be tabled in the Governing Board meeting in August 2011. The Financial Audit Manual is being finalised. Work on guidance materials for investigations and peer reviews are yet to start.</p> <p>- Conducted a survey of the existence of induction/orientation material in SAIs. Out of the 21 SAIs surveyed, 13 did not have induction material. Designed a template of the generic requirements to be included in an induction manual and sent these out to SAIs to populate.</p>
	<p>- For each structured training program, [20] regional training courses for [200] participants conducted by [December 2012].</p>	<p>- Two pilot training courses have been completed, with attendance by 30 participants from 20 SAIs. Furthermore, six training courses (including two pilots) are being scheduled in the next 12 months.</p>
Support attainment of professional accountancy qualifications	<p>- Barriers to professional qualifications reduced by December 2012.</p>	<p>- A PASAI committee is exploring the certification of regional auditors with a professional body in the region.</p>
Prepare institutional assessments and strengthening programmes	<p>- Institutional assessments and development plans prepared for [eight] SAIs by [December 2012].</p>	<p>- Work on institutional assessments and development plans is yet to start.</p>
Support improved contract management	<p>- Contracting-out model prepared by [March 2010] and contract management support provided to [21] SAIs by [December 2012].</p>	<p>- Contracting-out model has not been developed and contract management support is yet to start.</p>
Provide management and operational support	<p>- Management and operational support provided to [21] SAIs by [December 2012].</p>	<p>- Based on needs identified by the SAIs, management and operational support will be provided to SAIs after the HRM Manual,, Reporting Guidelines, and Quality Assurance Guidelines and relevant training materials have been produced and implemented.</p>
Provide technical support	<p>- Technical support provided to [21] SAIs by [December 2012].</p>	<p>- Technical support will be provided after the manuals for financial and performance audits and the respective training materials have been produced and implemented.</p>

Co-ordinate and support peer reviews

- Peer reviews supported for [12] SAls by [December 2012].

- Peer reviews will be provided after PASAI has developed a peer review framework. IDI has indicated that it will fund the preparation of the framework.

6. CONDUCT CO-OPERATIVE AUDITS

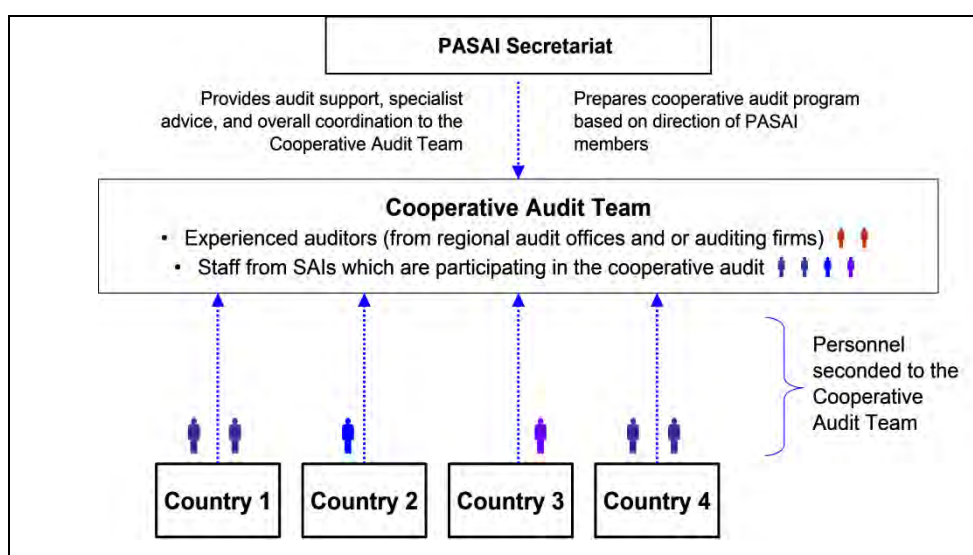
6.1 PRAI provides that PASAI will conduct co-operative audits by (a) conducting co-operative financial audits, (b) conducting co-operative performance audits, including environmental audits, and (c) supporting a sub-regional auditing approach for Kiribati, Nauru, and Tuvalu, with the possible later inclusion of other countries who wish to join.

6.2 Co-operative audits involve multiple audit institutions working together on the same audit for two purposes:

- to raise the auditing capacity of individual SAIs; and
- to produce individual national reports to improve public administration in respective jurisdictions and a high-quality regional report. The regional report may be used to identify common regional issues that regional governments, PIF, development partners, and other stakeholders may wish to address through regional co-operation.

6.3 Figure 2 illustrates the co-operative audit approach.

Figure 2: The co-operative audit approach



6.4 Although co-operative audit team members work mainly in their own jurisdiction, the team comes together at the planning and reporting stages to obtain maximum guidance from the experts.

6.5 The SAS programme for the SAIs of Kiribati, Nauru, and Tuvalu enables these SAIs to audit their public accounts to uniformly high standards in a timely manner. The programme involves co-operative financial audits of identified entities in the three countries, with the team visiting each country and completing the audits within a period of 10 weeks each.

Co-operative performance audit programme

6.6 Following a survey in 2009, PASAI members selected a number of performance audit topics to be conducted on a co-operative basis. The Palau Congress in 2009 endorsed the following topics:

- management of solid waste;
- access to safe drinking water; and
- sustainable fisheries.

Management of solid waste

6.7 PASAI has completed the first co-operative performance audit on the management of solid waste. The majority of SAIs (seven of ten) have released their countries' specific audit reports in their respective jurisdictions. These reports have had varying positive impacts – the most recently reported being the adoption by the Guam legislature of a recommendation from the Guam Office of the Public Auditor's report to establish a new legislative framework for the management of solid waste. This law will put in place a Guam Solid Waste Authority to oversee solid waste management operations, which is expected to occur in August 2011.

6.8 A regional report has been drafted and will be released at the PASAI Congress in Tonga in August 2011. It is important to note that the report cannot be made public until each individual SAI report has been tabled, as these reports include audit-in-confidence information relevant to each audited country. To ensure audit-in-confidence requirements are not compromised, the regional report will be released without identifying the three countries that have not yet published their country audit report.

Access to safe drinking water

6.9 The specific objective of the second co-operative performance audit is to assess the effectiveness of the actions (taken by key agency/agencies) to improve access to safe drinking water within the audit jurisdictions of the participating SAIs by examining:

- Is there a legal and policy framework to ensure access to safe drinking water?
- Has the framework been implemented?
- Is the effectiveness of the implementation monitored and can improvements be demonstrated?

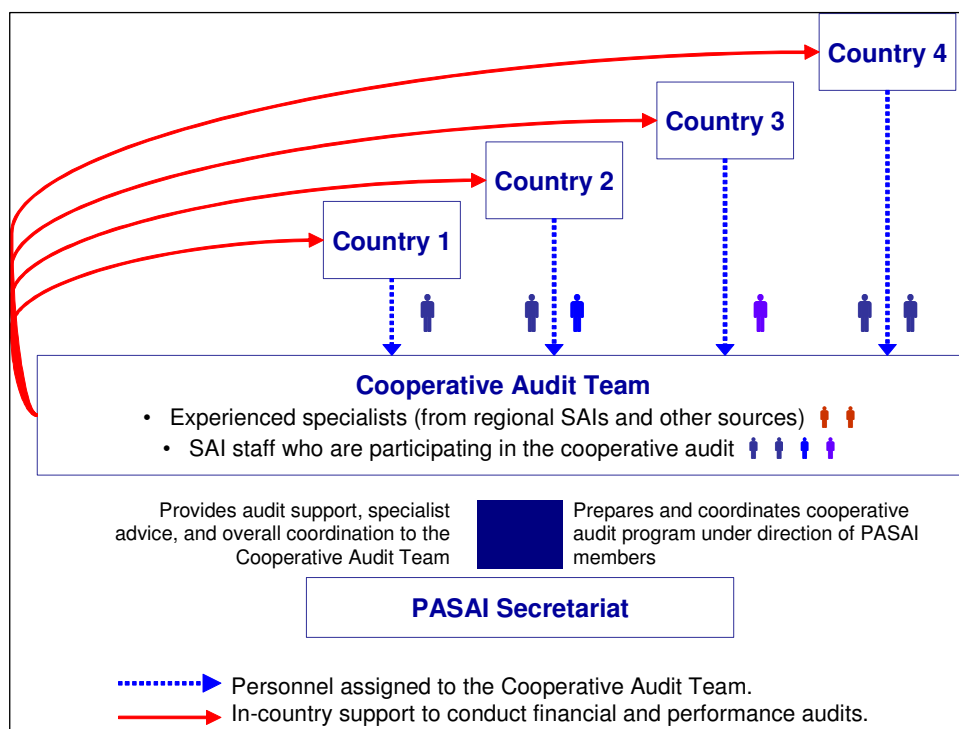
6.10 The audit topic and high-level lines of enquiry, endorsed by Heads of SAIs at the PASAI Congress in Kiribati in July 2010, take a similar approach to that agreed for the first co-operative performance audit on the management of solid waste.

6.11 A core of SAIs that participated in the first co-operative performance audit also participated in the second audit. They include the Cook Islands, the Federated States of Micronesia (FSM) – State Audit Offices of Kosrae and Yap, Fiji, Kiribati, Palau, Papua New

Guinea (PNG), Samoa, Tonga, and Tuvalu. Three new SAIs participated in the second audit: FSM – Kosrae, FSM – Yap, and Kiribati. In addition, more experienced SAIs adopted a range of strategies to increase their performance auditing capability by including the involvement of a number of auditors new to performance auditing – two each from the Cook Islands, Kiribati, and PNG and one each from Kosrae, Samoa, Tonga, Tuvalu, and Yap. This exposure to performance auditing is helping to build a critical mass of performance auditors in the PASAI region. Figure 3 illustrates the co-operative performance audit approach.

Figure 3:
co-

The



operative performance audit approach

Performance audit stages

Planning

6.12 Audit teams attended a planning meeting in Nadi Fiji in August/September 2010. At this meeting, participants developed audit criteria to support the assessment of the audit objective and lines of enquiry, and formulated an audit work plan. At the end of the exercise, each audit team had completed their audit work plan for endorsement by their Head of SAI so that the audit could start.

Fieldwork and analysis

6.13 Audit fieldwork was conducted between October/November 2010 and late January 2011. The audit teams convened again in Fiji in April 2011 to finalise their audit reports.

6.14 Online support during the fieldwork and analysis stage was provided by the Co-operative Performance Audit Advisor, Ms Claire Kelly, and the PASAI Capacity Building Programme Advisor, Mr Allen Parker. The two advisors also provided some on-site assistance. Ms Kelly provided support to audit teams from FSM – Kosrae, Palau, and FSM – Yap. Mr Parker supported the Kiribati audit team.

6.15 The on-site support consisted of reviewing individual audit teams' findings and evidence base against the audit work programme developed. It also identified gaps in evidence and these were addressed with the teams. Teams were introduced to the draft report format (if new to performance auditing) and "walked through" the essential nature of reporting.

Reporting

6.16 At the report meeting in April 2011, draft reports were completed by the teams with support provided by the advisors, the PASAI Secretariat, and the IDI Project Manager. In addition, a number of common audit themes were identified from the individual audit reports to assist in the compilation of the regional overview report.

6.17 The PASAI Secretariat agreed with Heads of SAIs on the completion and release of the second co-operative audit report in individual jurisdictions so that the regional report can be compiled and released in a timely manner for regional stakeholders and development partners. As at 14 June 2011, eight SAIs have issued their audit reports to the audited agencies for their comments, while the remaining two are yet to do so.



6.18 Ms Kelly will develop a second regional overview report on the audited topic, which again will depend on the timely release of individual country reports.

Results of the co-operative performance audit programme

6.19 The success of the co-operative audit approach can be measured through increased capability and improved performance by the audit teams that participated. This will take time and cannot be fully assessed until PRAI is evaluated after its completion in 2012.

6.20 However, results to date indicate that audit team members with performance audit experience have improved their skills – many now holding positions of Audit Team Leader in the second co-operative audit. Those with no previous experience now have some experience and a greater understanding of the performance audit process. This level of skill and confidence in carrying out performance audits will increase over time as a core of experience is developed through, and supported by, the co-operative audit approach.

6.21 Performance audit skills gained by participants in the second co-operative audit built on skills gained in the first audit and were extended to more Pacific island auditors. These include:

- developing a detailed audit work plan/methodology from the broad audit objective and high-level lines of enquiry;
- peer review support for other teams;
- presentation skills for audit plans and reports;
- fieldwork, evidence gathering, and testing the adequacy of evidence;
- analysis of audit evidence and translating this into audit findings and potential recommendations; and
- report writing, focusing on key messages.

6.22 Audit team members also provided valuable reflection on, and insight into, the audit approach. These lessons will be useful in the design of the third co-operative performance audit.

Performance Audit Manual

6.23 During the second co-operative performance audit, a parallel process was put in place to further enhance the performance auditing capabilities of SAIs in the region. This was the production of the PASAI Performance Audit Manual. The manual is designed to support performance audit activities amongst PASAI members and will also be a useful addition and support for the co-operative performance audit approach. To support local experience and learning, the manual heavily relies on the use of, and adherence to, ISSAIs. It also provides relevant Pacific examples drawn from audit approaches developed by SAIs involved in the co-operative approach as well as examples from other SAIs within the region.

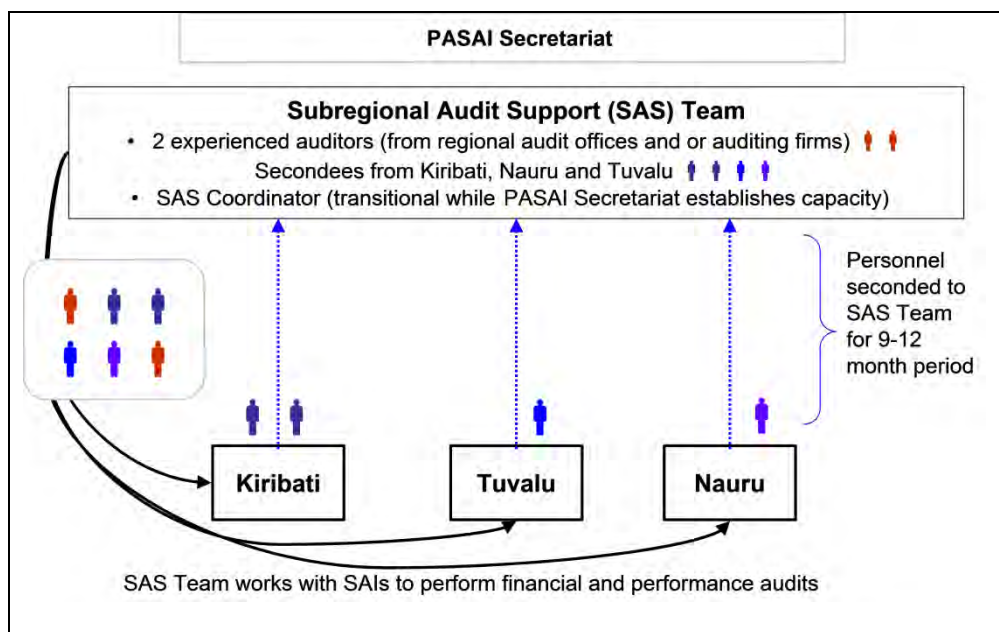
Sub-regional audit support programme

Objective and approach

6.24 The objective of the SAS programme is to enable the public accounts of Kiribati, Nauru, and Tuvalu to be audited to uniformly high standards in a timely manner. The programme involves co-operative financial audits of specified entities in the three countries, with the team visiting each country and completing the audits in a period of 10 weeks each.

6.25 Figure 4 illustrates the SAS approach.

Figure 4: The sub-regional audit support approach



6.26 The following timetable has been confirmed for the second round of the SAS programme:

- planning and preparation meeting, 13-17 June 2011;
- Kiribati phase, 20 June – 2 September 2011;
- Nauru phase, 19 September – 25 November 2011;
- Tuvalu phase, 23 January – 30 March 2012; and
- SAS evaluation meeting, 2-5 April 2012.

6.27 The second round of the programme, unlike the first round, has allowed for breaks in between the phases.

Second round of the SAS programme

6.28 PASAI started the second round of the SAS programme in June 2011, following the appointment of the SAS Co-ordinator, Mr Ross Hilton and the SAS Expert, Mr Matt Major.

6.29 With the assistance of Mrs Beulah Daunakamakama (the first round SAS Expert), the SAS Co-ordinator and Expert attended a planning meeting at the PASAI Secretariat in Auckland, New Zealand, to prepare for the programme. The planning meeting provided an opportunity to reflect on the success and the deficiencies of the first round and prepare for what to expect in the second round.

6.30 The SAS programme team comprises of:

Name	Position
Mr Ross Hilton	SAS Programme Co-ordinator

Mr Matt Major	Audit Expert
Mr Tematang Raimon	Seconded, Kiribati
Ms Teaaau Rereneti	Seconded, Kiribati
Ms Gillian Itsimaera	Seconded, Nauru
Mr Mase Tumua	Seconded, Tuvalu

6.31 It is expected that while in each country, the SAS team will be supplemented by local audit staff to ensure more staff are trained in the audit framework.

6.32 In the first round, the three countries had adopted the CARKEYS audit framework currently utilised by Audit New Zealand (operating arm of the New Zealand SAI). The framework is risk-based and focuses on controls, analytical reviews, and key items in the financial statements.

6.33 While in each country, the SAS team will be engaged in the following activities:

- workshop style training for audit staff and local finance counterparts;
- meeting with local development partners;
- providing auditing support to other local audit teams;
- providing public financial management advice, as needed;
- providing feedback to audit staff based on PASAI competency framework; and
- completing financial audits within a common audit framework.

6.34 The SAS Committee decided that the team audits where possible the same entities audited in the first round. The 2011 audits will be:

Entity	Country	Sector	Financial year
Tuvalu Whole of Government	Tuvalu	Government	2009/2010
Philatelic Board	Tuvalu	SOE	2010
Kiribati Public Utilities Board (PUB)	Kiribati	SOE	2009
Kiribati Provident Fund (KPF)	Kiribati	SOE	2007
Ronphos Limited	Nauru	SOE	2007
Central Utilities	Nauru	SOE	2009

Challenges

6.35 One of the challenges encountered in the first round of the programme was the quality of the accounts prepared by the government entities. This is expected to be

alleviated with the recruitment of an “accounting and financial reporting expert” who will go ahead of the SAS team to assist the entities’ finance teams to prepare financial statements and year-end audit file information.

Summary of achievements against performance targets

6.36 A summary of the sub-outputs and performance targets in PRAI and PASAI achievements to date are provided in Table 4.

Table 4: Conduct co-operative audits – Achievements against performance targets

Design summary	Performance targets	Achievements to date
Conduct co-operative financial audits	- Conduct [four] co-operative financial audits involving an average of [six] SAIs by [December 2012].	- PASAI will carry out a co-operative financial audit in 2012 if funding permits.
Conduct co-operative performance audits	- Conduct [five] co-operative performance audits involving an average of [eight] SAIs by [December 2012].	<p>- PASAI has completed a co-operative performance audit on management of solid waste involving 10 SAIs. Only three SAIs have yet to make their reports public.</p> <p>- A regional overview report has been produced.</p> <p>- PASAI is also conducting a second co-operative performance audit on access to safe drinking water. Eight of the 10 participating SAIs have sent their reports to auditees and stakeholders for comment.</p> <p>- A third co-operative performance audit on sustainable fisheries will begin with a planning meeting in August 2011. All three audits are funded jointly by ADB and IDI.</p> <p>- PASAI estimates that only three co-operative performance audits will have been completed by 2012. However, each audit has involved ten SAIs, which exceeds the performance target of an average of eight SAIs per audit. In addition, in excess of 25 auditors have received training and on-the-job experience in performance auditing.</p> <p>- A range of performance audit skills have been gained by individual auditors and there is a demonstrated improvement in SAI capacity to carry out performance audits throughout the PASAI region.</p>

		- The challenges of the programme include the lack of support from SAIs to complete the audits quickly, the late tabling of the reports, and the lack of commitment by some participants.
Undertake sub-regional audit support programme	- By December 2012, audits of public accounts of participating sub-regional countries are completed and presented to Public Accounts Committees.	- Only one round of the SAS programme was completed, which started in August 2009 and ended in April 2010. A report of the project has been completed and a knowledge product document is being developed. A second round of the programme started in June 2011. - Audits were completed for six entities, two from each country. Only Tuvalu Whole of Government was audited. Therefore, it was not possible to get all the accounts of government audited and submitted to the PAC.

7. DEVELOP COMMUNICATIONS AND ADVOCATE TRANSPARENCY AND ACCOUNTABILITY

7.1 PRAI provides that PASAI will develop communications and advocate transparency and accountability by (a) educating stakeholders on the value of public auditing, (b) advocating enhanced transparency and accountability, and (c) providing editorial and communications advice.

7.2 With the assistance of ADB, PASAI engaged a Communications Advisor to carry out editing and communication work for the organisation, and this is envisaged to facilitate the production and release of a number of PASAI publications.

Accountability and transparency project

7.3 In 2009, PASAI carried out a survey of its members to determine the status of accountability and transparency in the Pacific region, with particular emphasis on the use of public resources. PASAI used this feedback to produce the Accountability and Transparency Report, which measured a number of accountability mechanisms against available best practices. The report's intention was to become the basis for periodic reporting on progress in achieving better accountability and transparency for public resources, while at the same time meeting the objective of educating stakeholders on the value of public auditing as one of the key mechanisms of accountability.

7.4 The Governing Board reaffirmed the importance of this work at its meeting in Auckland in February 2011. It agreed to sponsor a further study to be carried out in consultation with key stakeholders during 2011. The resulting report will have multiple uses, including trend monitoring, regional advocacy, and use by Heads of SAIs as a tool to influence the development of accountability institutions (such as PACs) and the strengthening of SAIs' independence in their own countries.

7.5 The 2011 accountability and transparency project started in May 2011 with the kind financial assistance of NZAid.

PASAI Bulletins and media releases

7.6 The PASAI Secretariat had produced and circulated its Bulletins and media updates of PASAI activities to the PIF Secretariat for inclusion in its media releases. Media organisations in the region and internationally were also provided with similar media releases.

Summary of achievements against performance targets

7.7 A summary of the sub-outputs and performance targets in PRAI and PASAI achievements to date are provided in Table 5.

Table 5: Develop communications and advocate transparency and accountability – Achievements against performance targets

Design summary	Performance targets	Achievements to date
Educate stakeholders on the value of public auditing	<ul style="list-style-type: none"> - Brochure on the value of public auditing prepared and disseminated by June 2010. - At least [six] media articles published widely each year on public auditing from 2010 to December 2012. 	<ul style="list-style-type: none"> - PASAI has produced media articles following the congresses (two) and the SAS meetings (three). It has also produced articles for other media outlets regionally and internationally. More of these media releases are expected in the future with the appointment of the PASAI Communications Advisor.
Advocate enhanced transparency and accountability	<ul style="list-style-type: none"> - PASAI report on regional accountability and transparency issues (covering the regional status of SAI independence, audit finding follow-up, and other issues of concern) released annually from 2009 to 2012. 	<ul style="list-style-type: none"> - An accountability and transparency report was produced in 2009 and was made public in 2010. The 2011 work has just started.
Provide editorial and communications advice	<ul style="list-style-type: none"> - [Three] communications training courses for [80] participants conducted by [December 2012]. - Editorial support provided on [80] SAI reports by December 2012. 	<ul style="list-style-type: none"> - The first of the communications training courses is proposed to be conducted in October/November 2011. The training will, amongst other things, cover the Reporting Guidelines and Quality Assurance Guidelines. Editorial support has not started.

8. FUTURE CHALLENGES

8.1 The objective of the PRAI is to raise the standard of public auditing in the Pacific region to uniformly high levels. The PRAI was initially set up with a 3 year action plan. However the assumption is that the PRAI needs to be sustainable over the long term to enable on going capacity development. The challenge for PASAI is to facilitate and work with its development partners to continue to finding support of the PRAI and other developments in SAIs in the region. The challenge includes alternative funding arrangements and alternative support such as “SAI-to-SAI” support.

8.2 The sustainability of PRAI beyond 2014 is a matter for PASAI to seriously consider. The organisation will not be able to operate strategically with a long-term vision if funding of PRAI programmes is not guaranteed. Unlike other regional organisations, PASAI funding agreements with development partners expire in 2012 and there are no indications that partners will continue their support beyond the expiry of these agreements.

8.3 The monitoring of PRAI, especially the achievement of performance targets is a challenge when assumed funding is delayed or funding is not sufficient to complete planned programmes. Therefore, there is a need to revise the targets to be more realistic and achievable. This is essential in the interest of development partners who will evaluate PASAI’s performance. The development of a project and performance management framework will facilitate the process. The application of the framework will ensure measurable results from PASAI activities.

8.4 Sustainable development requires the commitment of the Pacific jurisdictions. The PRAI programmes and activities will only be effective and demonstrate measurable impacts and outcomes if there are concerted efforts from Pacific governments to support developments in SAIs. The appropriation of sufficient resources, enhancements of independence and general support of the work of SAIs in the region are some initiatives that Pacific governments should consider.

8.5 The challenges remain substantial in raising the accountability and transparency of the management of public resources in the Pacific region. PASAI has successfully completed a second year in the task of supporting SAIs develop their own skills and practice. We recognise that in conjunction with our development partners and other stakeholders within the Pacific region that there is much yet to do.

9. APPENDICES

Appendix 1: Members of the working groups and SAIs sharing their resource materials

Human Resources Management Manual

Leader: FSM-National [Haser Hainrick]

Members: Cook Islands [Margret Numanga], FSM-Kosrae [Stoney Taulung], Samoa [Sinaroseta Palamo Iosefo]

Materials from: Australia – National Audit Office (ANAO), New South Wales (NSW), Queensland (QNS); FSM-Pohnpei, Yap; Fiji; New Zealand; PNG; Tonga

Financial Audit Manual

Leader: Kiribati [Maketara Metutera]

Members: FSM-Yap [Maria Mitrad], Tuvalu [Selai Managreve]

The group was assisted by ADB-PFM Co-ordinator, Beulah Daunakamakama.

Materials from: Australia – ANAO, NSW, QNS; FSM-National, Pohnpei; Fiji; New Zealand; Palau; Tonga

Performance Audit Manual

Leader: Solomon Islands [Peter Johnson]

Members: Guam [Vincent Duenas, Llewelyn R Terlaje], Marshall Islands [Atmita Johnathan], Tonga [Sepiuta Moala]

Materials from: Australia – ANAO, NSW, QNS; Cook Islands; FSM-Yap; Fiji; Kiribati; New Zealand; Palau

Reporting Guidelines

Leader: Tuvalu [Isaako Kine]

Members: FSM-National [Erwhine David], Solomon Islands [Peter Robinson], PNG [Jeremiah Ten]

Materials from: Australia – NSW, QNS; Cook Islands; FSM-Pohnpei, Yap; Fiji; Palau; Tonga

Quality Assurance Guidelines

Leader: PNG [Thomas Holland]

Members: FSM-National [Evelyn Paul], Fiji [Finau Nagera], Tonga [Maamaloa Fotofili]

Materials from: Australia – ANAO, NSW, QNS; Cook Islands; FSM-Pohnpei, Yap; Guam; Palau

Peer Review Manual

SAIs will be requested to sign up for membership of this working group during the 2011 Tonga Congress as the production of the Peer Review Manual will not start until late 2011.

Tier 1 – *Fundamentals of government auditing*

Leader: Fiji [Atish Kumar]

Members: Marshall Islands [Karen Joklur], Samoa [Jaslyn Mariner], PNG [Peter Siperau]
Materials from: Australia – NSW, QNS; Cook Islands; FSM-Pohnpei, Yap; New Zealand; Palau; Solomon Islands; Tonga

Tier 2 – *Intermediate government auditing skills*

Leader: Tonga [Lotomo'ua Faleafa]

Members: Fiji [Esala Niubalavu], Samoa [Violet Roebeck Faasavalu], Solomon Islands [Randal Noda]

Materials from: Australia – ANAO, NSW, QNS; FSM-Pohnpei, Yap; New Zealand

Tier 3 – *Supervisory roles in government auditing*

Leader: Fiji [Atunaisa Nadakuitavuki]

Members: Tonga [Kolopeaua], PNG [Joseph Felix Wak], Palau [Jowas Wasisang], Fiji [Mere Waqanicagica]

Materials from: Australia – ANAO, NSW, QNS; FSM-Pohnpei, Yap; New Zealand; Solomon Islands

Tier 4 – *Managing government audits*

Leader: Tonga [Fatafehi Fonua]

Members: PNG [Joel Wia Wak], Kiribati [Toromon Metutera], Solomon Islands [Scott Milne]

Materials from: Australia – ANAO, NSW, QNS; FSM-Pohnpei, Yap; Fiji; New Zealand; Solomon Islands

Tier 5 – *Leadership in government accountability*

No working group is required.

Heads of SAIs will be invited to seminars/workshops during congresses on topics such as developing strategic and corporate plans, assessing the quality of contracted-out audits, ethical decision-making, conducting peer reviews, effective leadership styles, and leading change.

Appendix 2: Outline of the training courses

The outline and content of each training material are specified under each training material for individual target groups.

Tier 1 – Fundamentals of government auditing

A two-week introductory course in the legal and regulatory requirements for fundamentals of government auditing and how to apply the auditing standards.

Topics covered include:

- 1.1 Learning contract
- 1.2 Role of the government auditor
- 1.3 Structure and content of auditing standards (ISSAIs)
- 1.4 Applying the standards to the audit process
- 1.5 Brief overview – steps or phases in conducting an audit
- 1.6 Designing audit programmes
- 1.7 Effectiveness and efficiency, waste and a lack of probity or financial prudence
- 1.8 Audit documentation
- 1.9 Working papers – indexing and referencing working papers
- 1.10 Evidence – types, sources, standards, and limitations
- 1.11 Basic interview skills
 - preparing interview write ups
 - taking notes and summarising information
- 1.12 Good administrative practices
- 1.13 Security and confidentiality requirements
- 1.14 Basic briefing skills
- 1.15 Report writing principles
 - structure and purpose of audit reports
 - overcoming common sentence level problems
 - developing unified and coherent paragraphs
- 1.16 Individual development plans
- 1.17 Independence – issues of independence, competence, due care, conflicts of interest
- 1.18 Time management – managing your time
- 1.19 Code of Conduct – what is expected of them

Tier 2 – Intermediate government auditing skills

Pre-requisite: 2-3 years of Level 2 experience or completion of Tier 1 training (or its equivalent).

A two-week training course covering advanced auditing skills and more complex tasks and concepts (includes reviewing and applying learning from Tier 1).

New topics covered include:

- 1.1 Learning contract
 - Financial Audit*

- 2.1 Understanding the auditee's entity
- 2.2 Developing audit objectives/assertions and scope
- 2.3 Determining materiality and tolerable error
- 2.4 Assessing risk
- 2.5 Preparing an audit plan
- 3.1 Designing the audit programme
- 3.2 Determining audit approach
- 3.3 Assessing control procedures
- 3.4 Analytical review procedures
- 3.5 Determining sampling approach
- 3.6 Performing substantive procedures
- 3.7 Performing audit evaluations
- 4.1 Preparing audit reports
- 4.2 Management letter
- Performance Audit*
- 5.1 Introduction to performance audit
- 5.2 Understanding the auditee's entity
- 5.3 Determining audit objectives and scope
- 5.4 Establishing lines of enquiry
- 5.5 Audit criteria
- 5.6 Audit approach and developing audit programmes
- 5.7 Gathering audit evidence
- 5.8 Structuring the audit report
- Other*
- 6.1 Fraud, waste, and abuse
- 6.2 Identifying data collection strategies
- 6.3 Interviewing skills
- 6.4 Assessing the reliability of computer processed data

Tier 3 – Supervisory roles in government auditing

Pre-requisite: 4-5 years of Level 3 experience and completion of Tier 2 training (or its equivalent).

A two-week training course concentrating on applying advanced auditing skills, dealing with clients and auditees, and developing the skills of others.

New topics include:

- 1.1 Learning contract
- 1.2 Role of the supervisor – characteristics of a good supervisor
- 2.1 Planning an audit – audit risk, materiality, and tolerable error
- 2.2 Planning an audit – overview of preparing the audit planning memorandum (APM)

- 2.3 Case study materials – conducting a planning meeting
- 2.4 Writing the APM
- 2.5 Reviewing the APM sections
- 2.6 Going through a model APM
- 2.7 CARKEYS – audit approach
- 2.8 Financial audit – audit highlights memorandum (AHM)
- 2.9 Financial audit – review of working papers
- 2.10 Financial audit – management letter
- 2.11 Financial audit – audit opinion
- 3.1 Presentation skills
- 3.2 Providing effective feedback
- 3.3 Managing poor performance
- 3.4 Motivating and retaining employees
- 4.1 Defining performance audit
- 4.2 Planning the performance audit – audit objectives and scope
- 4.3 Planning the performance audit – lines of enquiry
- 4.4 Planning the performance audit – audit criteria
- 4.5 Planning the performance audit – audit approach
- 4.6 Planning the performance audit – development of the audit programme
- 4.7 Executing the performance audit – gather audit evidence
- 4.8 Executing the performance audit – document and analyse audit evidence
- 4.9 Executing the performance audit – derive preliminary audit conclusions
- 5.0 Reporting on the performance audit – discuss with the auditee
- 5.1 Reporting on the performance audit – preparing the audit report
- 5.2 Time management
- 5.2 Ethical leadership

Tier 4 – Managing government audits

Pre-requisite: 4-5 years of Level 4 experience and completion of Tier 3 training (or its equivalent).

A one-week training course covering increasingly complex management tasks and concepts (includes reviewing and applying learning from Tier 3).

New topics include:

- 1.1 Learning contract
- 1.2 Expectations, roles, and responsibilities of senior managers
- 1.3 Role of senior managers in planning
- 1.4 Role of senior managers in quality assurance
- 1.5 Managing poor performance
- 1.6 Time management
- 1.7 Dealing effectively with the media and the public
- 1.8 Components of a strategic plan

- 1.9 Components of an operational plan
- 1.10 Linking the operational plan to the strategic plan
- 1.11 Role of senior managers in post audit process
- 1.12 Leadership imperatives
- 1.13 Knowledge, skills, and abilities for senior managers

Tier 5 – Leadership in government accountability

Pre-requisite: more than 12 years of experience and completion of Tier 4 training (or its equivalent).

The training topics at this level would be presented in one or two day seminars that could be included in or appended to PASAI congresses or other conferences.

Topics to be addressed include:

- Developing strategic audit and corporate plans
- Assessing the quality of contracted-out audits
- Ethical decision-making
- Conducting peer reviews
- Effective leadership styles.

Part C

Financial Statements

**Pacific Association of Supreme Audit Institutions
Incorporated**

Financial Statements

For the Year Ended 30 June 2011

Pacific Association of Supreme Audit Institutions Incorporated

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For the year ended 30 June 2011

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Pacific Association of Supreme Audit Institutions Incorporated

Directory

For the year ended 30 June 2011

Nature of Business	Facilitation of support to audit offices in the Pacific in order to improve quality and build capacity.
Address	PASAI Secretariat 1 st floor, 46 Parnell Road PO Box 37276 Parnell Auckland 1151 www.pasai.org
Auditor	CST Nexia Audit Level 3 CST Nexia Centre 22 Amersham Way Manukau City 2104 New Zealand
Bankers	Westpac Bank 46 Parnell Rd Auckland New Zealand

Pacific Association of Supreme Audit Institutions Incorporated

Directory (Cont'd)

For the year ended 30 June 2011

Office Holders

Chairperson

Satrunino Tewid
Public Auditor
Palau
(to 7 July 2010)

Raimon Taake
Auditor General
Kiribati

Secretary-General:

Lyn Provost
Controller and Auditor-General
New Zealand

Governing Board:

Raimon Taake – Kiribati (Chair)
Satrunino Tewid – Palau (Past Chair)
Pohiva Tuionetoa- Tonga (Host of next Congress)
George Sulliman – Papua New Guinea (Melansian rep)
Haser Hainrick – Federated States of Micronesia
(Micronesian rep)
Fuimaono Camillo Afele (Polynesian rep)
Lyn Provost – New Zealand (Secretary-General and other
Rep)

Executive Director:

Eroni Vatuloka

PASAI Members	
	American Samoa
	Australian National Audit Office
	Cook Islands
	Federated States of Micronesia
	Fiji Islands
	French Polynesia
	Guam
	Kiribati
	Kosrae
	Marshall Islands
	Nauru
	New Caledonia
	New South Wales State Audit Office

PASAI Members	
	New Zealand
	Northern Mariana Islands
	Palau
	Papua New Guinea
	Pohnpei
	Queensland State Audit Office
	Samoa
	Solomon Islands
	Tonga
	Tuvalu
	Vanuatu
	Victoria State Audit Office
	Yap

Pacific Association of Supreme Audit Institutions Incorporated

Statement of Responsibility For the year ended 30 June 2011

The Governing Board is responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The independent external auditors, CST Nexia Audit, have audited the financial statements and their report appears on page 7.

The Governing Board is also responsible for the systems of internal control. These are designed to provide reasonable but not absolute, assurance as to the reliability and integrity of the financial statements, and to adequately safeguard, verify and maintain accountability for assets, and to prevent and detect material misstatements. Appropriate systems of internal control have been employed to ensure that all transactions have been executed in accordance with authority and correctly processed and accounted for in the financial records. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the Governing Board to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The financial statements are prepared on a going concern basis. Nothing has come to the attention of the Governing Board to indicate that the association will not remain a going concern in the foreseeable future.

In the opinion of the Governing Board:

- the statement of financial performance is drawn up so as to give a true and fair view of the surplus of the association for the financial year ended 30 June 2011
- the statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the company as at 30 June 2011, and
- there are reasonable grounds to believe the association will be able to pay its debts as and when they fall due.

Signed on behalf of the Governing Board by:

	
Raimon Taake Auditor General of Kiribati, Chair PASAI	Date:
	
Lyn Provost Controller and Auditor-General of New Zealand	Date:
	
Eroni Vatuloka Executive Director	Date:



INDEPENDENT AUDITORS' REPORT

To the Members of Pacific Association of Supreme Audit Institutions Incorporated

We have audited the financial statements on pages 8 to 20 which comprise the Statement of Financial Position as at 30 June 2011, the Statement of Financial Performance and Statement of Movements in Equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Governing Board's Responsibilities for the Financial Statements

The Governing Board is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting practice in New Zealand and for such internal control as the Governing Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institution's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Pacific Association of Supreme Audit Institutions Incorporated's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for audit opinion.

The firm has no other relationship with, or interest in, Pacific Association of Supreme Audit Institutions Incorporated.

Opinion

In our opinion, the financial statements on pages 8 to 20 present fairly, in all material respects, the financial position of Pacific Association of Supreme Audit Institutions Incorporated as at 30 June 2011, and its financial performance for the year then ended in accordance with generally accepted accounting practice in New Zealand.

CST Nexia Audit

**CST Nexia Audit
Chartered Accountants
Manukau City**

1 August 2011

Pacific Association of Supreme Audit Institutions Incorporated

Statement of Financial Performance For the year ended 30 June 2011

2009/10		2010/11
NZ\$	Notes	NZ\$
	Revenue	
1,813	Membership subscriptions	2,600
1,723,191	Development Partner Contributions 3	1,977,627
1,817	Interest	22,983
2,076	Other Income 4	16,654
<u>1,728,897</u>	Total Revenue	<u>2,019,864</u>
	Less Expenses	
91,480	Personnel Expenses 5	372,177
340,858	Program Participant Costs	623,580
73,140	Secretariat Operational Expenses 8	256,938
20,478	Contractors and Consultants	113,883
3,461	Bank Fees	3,089
0	Bad Debts	0
(79)	Doubtful Debts	0
0	Foreign Exchange Losses	357
11,419	Depreciation 10	54,876
<u>540,757</u>	Total Expenses	<u>1,424,900</u>
<u>1,188,140</u>	Surplus/(Deficit) before tax for Year	<u>594,964</u>
343	Tax expense	4,735
<u>1,187,797</u>	Net Surplus/(Deficit) for Year	<u>590,229</u>

The accompanying notes form part of these financial statements. The above information must be read subject to the Independent Auditors' Report on page 7.

Pacific Association of Supreme Audit Institutions Incorporated

Statement of Movements in Equity For the year ended 30 June 2011

2009/10		2010/11
NZ\$		NZ\$
12,174	General Funds at Start of Year	1,199,971
1,187,797	Surplus/(Deficit) for Year	590,229
<u>1,187,797</u>	Total Recognised Revenues and Expenses for the Year	<u>590,229</u>
<u>1,199,971</u>	General Funds at End of Year	<u>1,790,200</u>

The accompanying notes form part of these financial statements. The above information must be read subject to the Independent Auditors' Report on page 7.

Pacific Association of Supreme Audit Institutions Incorporated

Statement of Financial Position As at 30 June 2011

30/6/10		Notes	30/6/11
NZ\$			NZ\$
1,199,971	General Funds		1,790,200
<u>1,199,971</u>	General Funds – 30 June 2011		<u>1,790,200</u>
	Represented by:		
	Current Assets		
1,057,446	Cash and Bank	6	1,557,342
1,550	Accounts Receivable	7	61,956
154	Sundry Debtor-NZ Withholding Tax		0
13,513	Prepayments		76,828
<u>1,072,663</u>	Total Current Assets		<u>1,696,126</u>
	Current Liabilities		
35,274	Trade Creditors & Accruals		14,696
9,690	Employee Entitlements		14,841
24,115	Income In Advance	4	13,348
<u>69,079</u>	Total Current Liabilities		<u>42,885</u>
	Non-current Assets		
<u>196,387</u>	Property, Plant and Equipment	10	<u>158,055</u>
	Non-current Liabilities		
0	Income in Advance	4	21,096
<u>1,199,971</u>	Net Assets		<u>1,790,200</u>

The accompanying notes form part of these financial statements. The above information must be read subject to the Independent Auditors' Report on page 7.

Pacific Association of Supreme Audit Institutions Incorporated

Statement of Financial Position (Cont'd)

As at 30 June 2011

Raimon Taake



1/8/11

Auditor General of Kiribati, Chair PASAI

Date:



Lyn Provost

1/8/11

Controller and Auditor-General of New Zealand

Date:



Eroni Vatuloka

1/8/11

Executive Director

Date:

Pacific Association of Supreme Audit Institutions Incorporated

Statement of Accounting Policies For the year ended 30 June 2011

1. STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

The financial statements are for the Pacific Association of Supreme Audit Institutions (PASAI). PASAI's goal is to promote transparent, accountable, effective, and efficient use of public sector resources in the Pacific. PASAI contributes to this goal by helping its members improve the quality of public sector auditing in the Pacific to uniformly high standards.

At the 2008 PASAI Congress in Rarotonga, Cook Islands, members agreed to change the name of the Association to PASAI from SPASAI (South Pacific Association of Supreme Audit Institutions). PASAI established an incorporated society, Pacific Association of Supreme Audit Institutions Incorporated (PASAI Inc), as a legal entity through which PASAI can operate in New Zealand to provide legal capacity to manage the Pacific Regional Audit Initiative (PRAI), operate a secretariat, employ staff and engage consultants. PASAI Inc was incorporated under the New Zealand Incorporated Societies Act 1908 on 18 November 2009. Prior to this PASAI was constituted under the 1988 Establishment Agreement of PASAI.

Statutory Base

The financial statements of PASAI have been prepared in accordance with the requirements of the Financial Reporting Act 1993.

Measurement Base

The financial statements have been prepared on the historical cost basis. Reliance is placed on the fact that the Association is a going concern.

Financial Reporting Framework

These financial statements have been prepared under the existing New Zealand Financial Reporting Standards Framework, which is one of the two frameworks for generally accepted accounting practice currently available to be applied in New Zealand for qualifying small entities. The other framework for generally accepted accounting practice is "New Zealand Equivalents to International Financial Reporting Standards", (NZ IFRS). The time line and criteria applicable to small entities and incorporated societies for mandatory conversion to NZ IFRS is yet to be announced by the Accounting Standards Review Board.

Differential Reporting

PASAI is a qualifying entity within the New Zealand Institute of Chartered Accountants differential reporting framework.

The Association qualifies for differential reporting as it is not publicly accountable and is not considered large. The Association has taken full advantage of all differential reporting exemptions.

Pacific Association of Supreme Audit Institutions Incorporated

Statement of Accounting Policies (Cont'd) For the year ended 30 June 2011

2. PARTICULAR ACCOUNTING POLICIES

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The accounting policies that materially affect the measurement of financial performance and financial position are set out below.

Revenue Recognition

PASAI derives revenue from member subscriptions that are recognised when invoiced. Members' subscriptions were previously invoiced in US dollars and any foreign exchange gain or loss is recognised at the time of receipt or at balance date. The membership fees from the 2010/11 year onwards have been invoiced in New Zealand dollars at the equivalent level to previous years.

Grants and contributions received from development partners are recognised in the statement of financial performance when they become receivable unless there is an obligation to return the funds if conditions of the grant are not met. If there is such an obligation, the grants are initially recorded as grants received in advance and recognised as revenue when conditions of the grant are satisfied.

All other revenue is recognised on an accrual basis.

Donated Services

The work of PASAI is dependent on the services of its members. Since these services are not normally purchased by PASAI and because of the difficulty of determining their value with reliability, donated services are not recognised in these financial statements.

Receivables

Accounts receivable are stated at their estimated realisable value, after providing against debts where collection is doubtful.

Income Tax

PASAI is exempt paying income tax on income generated within its circle of membership and income outside its circle of membership less than \$1,000 under New Zealand Income Tax Act 2007.

Foreign Currency

Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date of the payment or receipt.

Monetary assets and liabilities or overseas borrowings are translated at the exchange rate applicable at balance date. Gains and losses due to currency fluctuations on these items are included in the Statement of Financial Performance for the period, whether realised or not.

Pacific Association of Supreme Audit Institutions Incorporated

Statement of Accounting Policies (Cont'd) For the year ended 30 June 2011

Cash and bank

Cash and bank is considered to be cash on hand and current accounts in bank, net of bank overdrafts.

Property, Plant and Equipment

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

Depreciation of property, plant and equipment is calculated on a straight line basis so as to expense the cost of the assets to their residual values over their useful lives. The useful lives and associated depreciation rates of major asset classes have been estimated as follows:

Office Furniture and Equipment	10 years (10%)
Computer Equipment	2-3 years (40%)
Office fit out	4 years (25%)

Operating Leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight line basis over the lease term.

Lease incentives received are recognised in the surplus or deficit over the lease term as an integral part of the total lease expense.

Employee Entitlements

Employee entitlements to salaries and wages, annual leave, long service leave and other benefits are recognised when they accrue to employees. The liability for employee entitlements is carried at cost.

Goods and Services Tax (GST)

As PASAI is not registered for GST purposes, these financial statements have been prepared on a GST inclusive basis.

Changes in Accounting Policies

Other than the change noted above regarding the membership subscriptions now being invoiced in New Zealand dollars for which there is no significant impact on the financial statements, the above accounting policies have been applied on a basis consistent with those used in the prior year.

Pacific Association of Supreme Audit Institutions Incorporated

Notes to the Financial Statements For the year ended 30 June 2011

3. DEVELOPMENT PARTNER CONTRIBUTIONS

2009/10 NZ\$		2010/11 NZ\$
262,698	Asian Development Bank	21,847
231,429	INTOSAI Development Initiative (IDI)	282,690
1,254,590	The Australian Governments Aid program (AusAID)	1,315,090
0	The World Bank	220,510
0	The New Zealand Governments Aid program (NZAid)	179,733
(25,526)	Returned Funds	(42,243)
<u>1,723,191</u>		<u>1,977,627</u>

As at 30 June 2011 PASAI had on hand funding from The Australian Governments Aid Program (AusAid), The World Bank, and The New Zealand Aid Program (NZAid) amounting to \$1,478,733 in total. With respect to the funds on hand provided by NZAid of \$123,073 these have been specifically provided to meet the costs of completing the Accountability and Transparency project that commenced in June 2011 and is expected to report to the Governing Board in February 2012.

Note that following completion of programs funded by IDI funds amounting to \$42,243 (2010: \$25,526) that were unused were returned.

4. OTHER INCOME

The lease agreement for the Secretariat premises at 46 Parnell Road includes an incentive payable by the landlord in recognition of the fitout costs incurred by the PASAI as the tenant. The amount of the incentive payment was agreed with the landlord during the year ended 30 June 2011 following the finalisation of the costs incurred. The total incentive payment is \$51,073. The incentive payment is to be recognised over the duration of the lease agreement. The incentive income has been recognised in the current year as follows:

0	Revenue in 2010/11	16,654
0	Income in Advance – current	13,323
0	Income in Advance - term	21,096
<u>0</u>		<u>51,073</u>

Other income in prior years relates to minor sources of revenue that have not recurred in the current year.

Pacific Association of Supreme Audit Institutions Incorporated

Notes to the Financial Statements (Cont'd) For the year ended 30 June 2011

5. PERSONNEL EXPENSES

Personnel expenses are made up of the following:

83,980	Payroll	371,469
<u>7,500</u>	Relocation and recruitment	<u>708</u>
<u>91,480</u>		<u>372,177</u>

6. FUNDS HELD IN TRUST

The Office of the Controller and Auditor-General was appointed Secretary-General of PASAI. Prior to the establishment of the Secretariat in January 2010, all monies received were held in trust for PASAI. Following the establishment of the Secretariat separate bank accounts were opened. As at 30 June 2011 there are no funds held by the Office of the Auditor-General on behalf of PASAI Inc.

At balance date, a total of \$nil (2010: \$9,236) was held in trust.

7. ACCOUNTS RECEIVABLE

0	General debtors	59,524
331	Interest Receivable	705
1,292	Membership fees outstanding	1,800
<u>73</u>	Less: Provision for Doubtful Debts	<u>73</u>
<u>1,550</u>		<u>61,956</u>

Accounts receivable represent NZ\$100 membership fees outstanding as at 30 June 2011. A portion of this balance relates to fees outstanding for year prior to the current reporting period.

Pacific Association of Supreme Audit Institutions Incorporated

Notes to the Financial Statements (Cont'd) For the year ended 30 June 2011

8. SECRETARIAT OPERATIONAL EXPENSES

2009/10		2010/11
NZ\$		NZ\$
3,272	Internet web hosting	3,708
1,748	IT Support	4,820
1,241	Equipment lease	4,709
1,557	Cleaning	4,060
4,695	Telephone	7,102
5,271	Stationary and office supplies	8,317
958	Accounting	529
9,200	Auditing costs	9,200
1,372	Printing, posting and publishing costs	1,088
21,277	Secretariat staff travel	84,579
21,355	Rent	89,705
0	Staff training	472
1,001	Insurance	2,161
193	Other consumables and catering	36,488
<u>73,140</u>		<u>256,938</u>

9. TECHNICAL ASSISTANCE GRANT

During the year the Asian Development Bank (ADB) (under Technical Assistance Grant 6499-REG: Strengthening Governance and Accountability in Pacific Island Countries (Phase 2) co-financed by the Japan Special Fund and the Government of Australia) has supported the implementation of the Pacific Regional Audit Initiative, principally through funding the remuneration and associated expenses of consultants (including travel, per diem and other expenses) \$US216,666 (Approximate New Zealand dollar conversion \$263,100) and the cost of meetings and workshops \$US57,537 (Approximate New Zealand dollar conversion \$69,900). Consultants have been recruited and contracted directly by ADB for audit, legal, capacity development, project management and administrative support and advice. These transactions have occurred directly between the Asian Development Bank and the respective consultants or other third parties and have not been recognised in these financial statements.

In addition to these transactions the Asian Development Bank provided funding, also through Technical Assistance Grant 6499-REG, for the establishment of the PASAI Secretariat. As this funding was received directly by PASAI these transactions have been recognised in these financial statements and are reflected in Note 3.

Pacific Association of Supreme Audit Institutions Incorporated

**Notes to the Financial Statements (Cont'd)
For the year ended 30 June 2011**

10. PROPERTY, PLANT AND EQUIPMENT

The property, plant and equipment are made up as follows:

2009/10		2010/11
NZ\$		NZ\$
	Office Furniture and Equipment	
47,717	Cost	47,717
-1,508	Accumulated Depreciation	-6,280
<u>46,209</u>	Closing balance	<u>41,437</u>
	Computer Equipment	
37,184	Cost	47,246
-7,351	Accumulated Depreciation	-25,243
<u>29,833</u>	Closing balance	<u>22,003</u>
	Office Fit out	
122,905	Cost	129,387
-2,560	Accumulated Depreciation	-34,772
<u>120,345</u>	Closing balance	<u>94,615</u>
<u>196,387</u>		<u>158,055</u>

Depreciation is made up as follows:

1,508	Office Furniture and Equipment	4,772
7,351	Computer Equipment	17,892
2,560	Office Fit out	32,212
<u>11,419</u>		<u>54,876</u>

11. RELATED PARTY TRANSACTION

Prior to the establishment of the Secretariat the Office of the Auditor-General of New Zealand paid certain costs on behalf of PASAI. These costs have been subsequently reimbursed by PASAI. During the current year no payments of this nature have been made.

Pacific Association of Supreme Audit Institutions Incorporated

Notes to the Financial Statements (Cont'd)

For the year ended 30 June 2011

12. FINANCIAL INSTRUMENTS

PASAI is party to financial instrument arrangements as part of its everyday operations. These financial instruments include bank balances, accounts receivable and accounts payable.

13. CREDIT RISK

In the normal course of its business, PASAI incurs credit risk from receivables and from transactions with financial institutions.

PASAI has no significant concentrations of credit risk. No collateral or security is held or given to support instruments.

14. INTEREST RATE RISK

The interest rate risk on funds held is considered minimal, as all cash funds are managed as part of the normal banking arrangements and the financial instruments are not interest rate sensitive.

15. CURRENCY RISK

Prior to the 2010/11 year PASAI invoiced membership fees in US dollars. As a result PASAI incurred currency risk for the conversion of these foreign currency receivables to New Zealand dollars at the time of receipt or balance date. The currency risk associated with these balances was considered minimal and therefore PASAI did not hedge its foreign currency exposure. From 2010/11 year onwards membership fees have been invoiced in New Zealand dollars therefore this risk has been eliminated.

16. FAIR VALUES

The estimated fair values of all financial assets and liabilities are equivalent to the carrying amounts disclosed in the Statement of Financial Position.

17. POST BALANCE DATE EVENTS

There were no significant post balance date events. (2010: \$Nil)

Pacific Association of Supreme Audit Institutions Incorporated

Notes to the Financial Statements (Cont'd) For the year ended 30 June 2011

18. CONTINGENT LIABILITIES

a. Bank Guarantee – Premise Lease Undertaking

As a condition of the lease of the Secretariat premises at 46 Parnell Road a deposit of \$41,604 has been made with PASAI Inc's banker and it held by the bank on behalf of the landlord until such time as the lease expires or the landlord notifies the bank that in writing that the undertaking is no longer required.

b. Make Good Provision

The premise at 46 Parnell Road have a "make good obligation" (reinstatement works), which the Association has to comply with at the end of the lease or when the lease is terminated. The application of this clause in the lease agreement is at the discretion of the landlord. The Association's next renewal date is March 2014, with an expiry date of March 2018.

There were no contingent liabilities other than those listed above in 2010.

19. COMMITMENTS

There were no capital commitments at balance date (2010: \$Nil).

The Association has the following operating lease commitments (in relation to the premise and photocopier lease)

2009/10 NZ\$		2010/11 NZ\$
62,697	Current	88,059
165,583	Non Current	137,786
<u>228,280</u>	Total	<u>225,845</u>