



*"Pacific Auditors Working  
Together"*

# **Annual Report 2012/13**





## PACIFIC ASSOCIATION OF SUPREME AUDIT INSTITUTIONS



## SECRETARY-GENERAL'S FOREWORD



It has been another busy and productive year for PASAI as this report shows. Of particular significance however is the fact that the first Pacific Regional Audit Initiative, the PRAI, is coming to an end. On behalf of PASAI, I take this opportunity to thank our development partners and stakeholders for the support they have provided over the last four years and look forward to their continued support in the future.

PASAI has adopted the Pacific Regional Audit Initiative as its strategic plan with the PRAI outputs making-up PASAI's strategic goals. The best way to view the performance of PASAI over the 2012-13 financial year is to consider its performance against the four goals.

### **Assist regional cooperation and coordination**

This was an active area for PASAI over the year. Highlights included:

- the New Caledonia PASAI Congress;
- two Governing Board meetings;
- support visits by the Executive Director to Kiribati, Tuvalu and Vanuatu;
- participation in a range of other regional and international meetings.

The 15<sup>th</sup> PASAI Congress in Noumea, New Caledonia on 2-5 October 2013 was well attended, drawing delegates from INTOSAI, the Chinese National Audit Office and the French Court of Accounts. Both Mr Terence Nombembe, the Chair of INTOSAI and Dr Josef Moser, the INTOSAI Secretary General, addressed the Congress.

### **Build and sustain public auditing capacity**

The Performance Audit Manual has been distributed to all PASAI members.

Agreement was reached with AFROSAI-E for PASAI to adopt the AFROSAI-E Regularity Audit Manual as its own Financial Audit Manual. Separate Guidance Notes have been prepared to accompany the manual and serve as a link between PASAI's training programs and other in-house training.

The Tier 1, 2, 3 and 4 training programs and the *Communicating Effectively* workshop were conducted during the year, drawing 93 participants and ten coordinators.

A Strategic Management and Operational Guidelines (SMOG) has been finalised. The SMOG Advisor also provided strategic management support to SAIs of Nauru, Kiribati, Solomon Islands, Tuvalu, Vanuatu.

### **Conduct cooperative audits**

Work on the fourth cooperative performance audit on Climate Change Adaption and Disaster Risk Reduction was completed in June 2013 and the regional report is expected to be produced later this year. Ten SAIs participated in the project. They were from Cook Islands, Federated States of Micronesia (FSM) (National Office), the FSM State of Kosrae and the FSM State of Pohnpei, Fiji, Palau, Samoa, Solomon Islands, Tonga and Tuvalu.

### **Develop communications and advocate transparency and accountability**

The 2011 Accountability and Transparency Report was published in July 2012, and is available on PASAI's website. Responses to the report were very encouraging. It was well received at PASAI's 2012 Congress in Noumea, with indications from several SAIs of steps they would be taking to embrace the recommendations and draw the report to the attention of their respective governments.

The Governing Board then adopted a follow-up strategy for the report at its February 2013 meeting. The focus of the strategy is on establishing regional links with other organisations that have an interest in promoting accountability and transparency, and on gathering information from SAIs about progress in their jurisdictions under each focus area.

The third round of the *Communicating Effectively* workshop was held in Nadi, Fiji on 24-28 September 2012. The workshop was attended by 19 participants from 13 SAIs. The main focus of the workshop is to ensure that auditors are capable of communicating audit results effectively to the users of audit reports. The workshop will be run again in early November 2013.

### **PASAI Financial statements**

The PASAI Incorporated financial statements for the year ended 30 June 2013 have been completed. Our audit has been completed and the auditors have issued an unqualified audit report. The financial statements, including the audit report, are included in Part C of this report.

In the current year the financial statements show a deficit position at the end of the year of \$1,081,459. This result is due to our accounting policy to recognise development partner funding when it is received. As a large amount of our development partner funding was received at the beginning of our funding agreements most of the funding we have received for PRAI was received in previous years. This has been reflected in cumulative surpluses in the past three years amounting to \$3,884,000. As we reach the end of current funding agreements it was expected that expenditure for programmes would exceed revenue inflows in the current year. The general funds balance at 30 June 2013 of \$2,274,164 reflects the assets of PASAI at balance date. A focus of the coming year in conjunction with the new strategy will be reaching new funding agreements for the next phase of the PRAI with our development partners.



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

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# **Part A**

## **Background and Highlights**

## CHAPTER 1: INTRODUCTION

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).

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;
- f) encourage co-operation with other regional working groups and SAIs.

During the 12 months to 30 June 2013, 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.

The report is structured as follows. Chapter 2 discusses the PRAI together with a summary of achievements under its performance measurement framework. Chapters 3 to 6 provide the details of the programs and activities conducted during the year. The report closes with chapter 7 on future challenges.

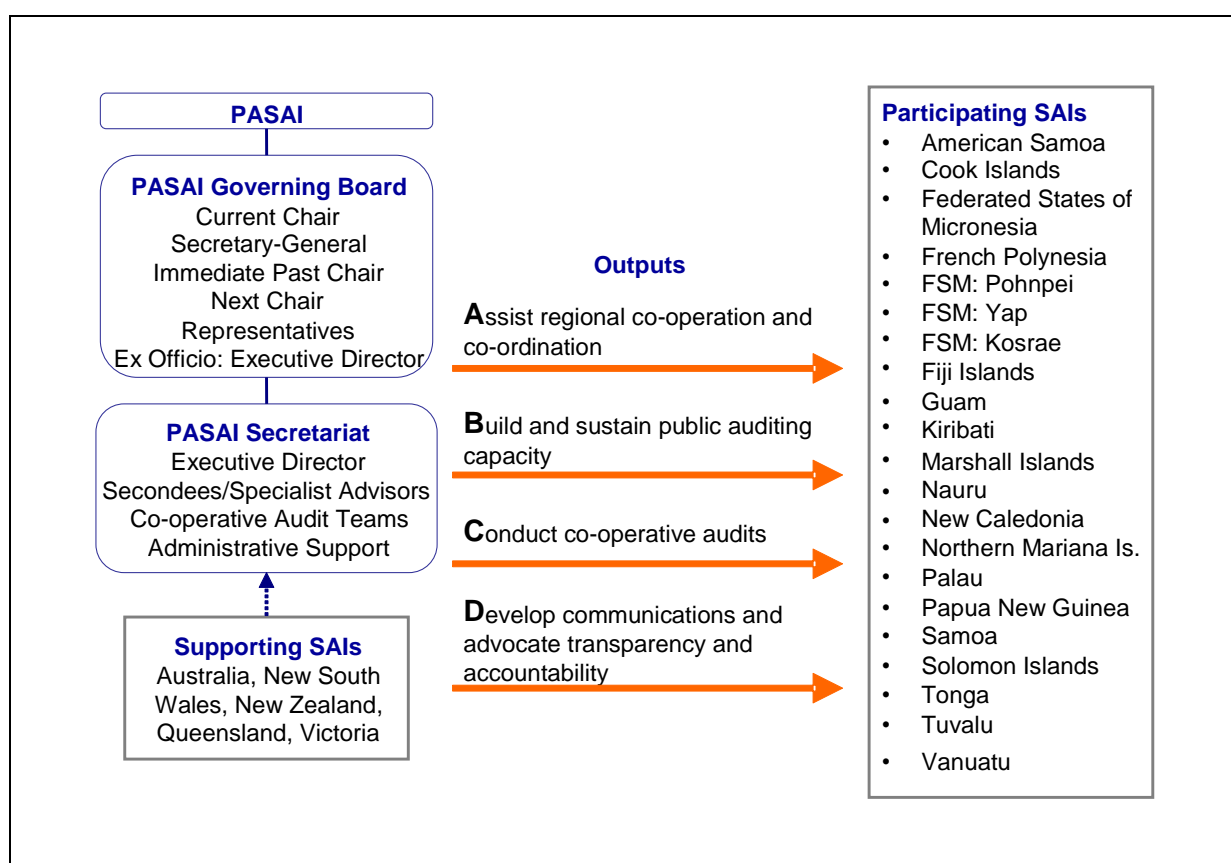
## CHAPTER 2: PACIFIC REGIONAL AUDIT INITIATIVE

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 Strategic Plan

2.2 The 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 2.1 illustrates the PRAI structure, and identifies participants and outputs.

**Figure 2.1: 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. 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 programs 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;
- 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:

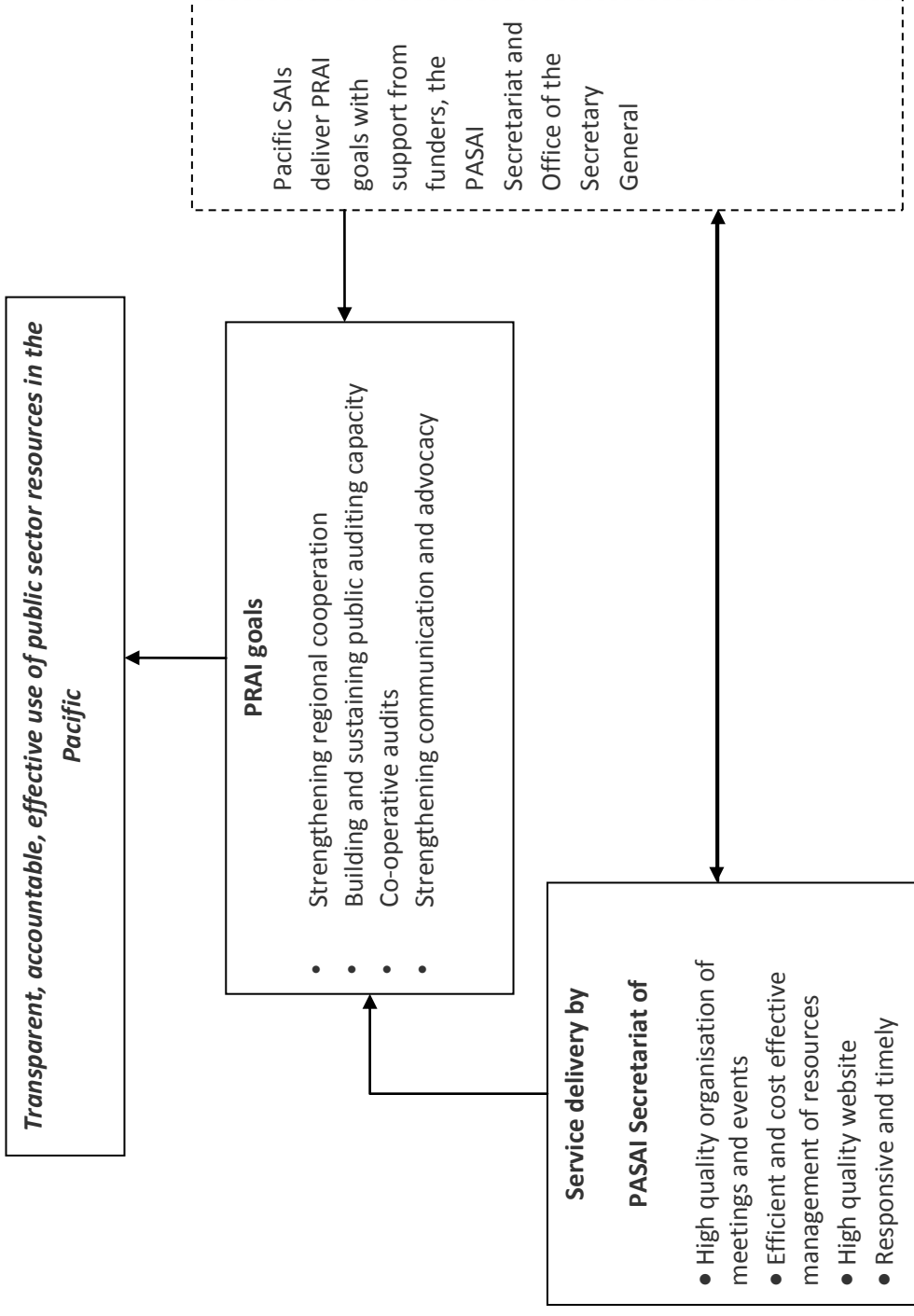
- participating jurisdictions remain committed to improving transparency and accountability and effective public auditing;
- public financial management including accounting systems, standards, and records in the region continue to improve;
- PASAI members continue to work collaboratively.

### **Performance Measurement Framework**

2.5 The PASAI Congress held in Tonga in August 2011 approved a Performance Measurement Framework for the organisation. The framework is intended to provide an annual account to the PASAI Governing Board and PASAI development partners on the impact PASAI has towards improving accountability in the Pacific and the progress of the PRAI strategic goals. The framework will also provide reports on the efficiency and effectiveness of the PASAI Secretariat and the value it adds to PASAI.

2.6 The framework takes its structure from the PASAI design. See Figure 2.2.

**Figure 2.2 The PASAI Performance Measurement Framework**



2.7 There are three tiers to the framework:

Tier 1: The outcome of PASAI: transparent, accountable, effective and efficient use of public sector resources in the Pacific

Tier 2: The achievement of the four strategic goals of the Pacific Regional Auditing Initiative

Tier 3: The service delivery and cost effectiveness of the PASAI Secretariat.

2.8 The following details the three tiers of the framework and the achievements under each of them in financial year 2012/13.

### **Tier 1 Transparent, accountable, effective and efficient use of public sector resources in the Pacific**

2.9 The intended outcome of PASAI is transparent, accountable, effective and efficient use of public sector resources in the Pacific. This outcome will be measured by four key performance indicators:

- improved accountability and transparency in the Pacific, measured by the PRAI accountability and transparency project;
- improved governance rankings for Pacific countries, measured by the Asian Development Bank, Transparency International and the World Bank surveys. Targets will be established following a benchmark of 2011-12 performance;
- improved capability of SAIs in the Pacific, measured by the PASAI capability model;
- a reduced audit backlog in Pacific countries that allows for greater transparency in the use of public funds.

2.10 The PASAI outcomes under Tier 1 of the performance framework are provided in Table 2.1.

### **Tier 2 The achievement of the four strategic goals of the Pacific Regional Auditing Initiative**

2.11 PASAI is implementing the PRAI four strategic goals: strengthening regional cooperation; building and sustaining public auditing capacity; conducting cooperative financial and performance audits; and strengthening communication and advocating transparency and accountability. Table 2.2 shows the PASAI achievements under Tier 2 of the framework or the PRAI strategic goals.

### **Tier 3 Service delivery and cost effectiveness of the PASAI Secretariat**

2.12 The PASAI Secretariat was established in 2009 as 'PASAI's administrative organ'. Its role is to:

- keep PASAI's records and files;
- administer its financial affairs;

- disseminate information to members;
- provide logistical support for meetings of the Congress, the Governing Board and PASAI's work programs more generally.

2.13 Table 2.3 illustrates the achievements of the Secretariat.

#### **Approach to Measurement Against the Framework**

2.14 The Secretariat will work to ensure formal reporting systems (ideally auditable systems) are established to enable measurement of all performance targets and indicators in the future. For the purposes of providing progress information for the 2012/13 year, information included in the tables below has been drawn from various projects completed during the year and other sources to provide indicative data on achievements to date. As a result, in a number of cases the data differs from that indicated in the framework and is used as a proxy.

**Table 2.1: Outcome of PASAI - Transparent, Accountable, Effective and Efficient Use of Public Sector Resources in the Pacific**

Design summary	Performance targets/indicators	Achievements to date
<b>Outcome</b>		
<p>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>	<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>	<p>PASAI has completed the production of all but one 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.</p> <p>8/15 SAIs provided the PEFA assessments<sup>1</sup> in the 2013 survey. Five of these indicated a minimum rating of C while two were at D. The SAIs were not able to provide the assessment for the specific PI-26. A summary of the survey report is provided in Appendix I.</p> <p>As at the end of 2012, the capability level of 8/15 SAIs (or 53%) were assessed at level three or higher. The other SAIs rated themselves lower than 3 or did not assess their capability.</p>
<b>Impact</b>		
<p>Improved transparency and accountability in managing and using public resources in Pacific island countries.</p>	<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"> <li>• PI-10: public access to key fiscal information;</li> <li>• PI-25: quality and timeliness of annual financial statements;</li> </ul>	<p>No SAI has shown an improvement in their PEFA assessment in 2012. However, the financial audits completed by SAIs for current year were between 5% and 100%, or an average of 73%. In addition, after 4 regional cooperative performance audits, SAIs have been able to complete 121 other audits on their own. These results were achieved amidst various challenges such as high staff turnover and delays in preparation and submission of quality accounts for audits.</p>

<sup>1</sup> The PEFA assessments of the 6 countries relate to 2005 to 2010 and are the most current.



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<b>Design summary</b>	<b>Performance targets/indicators</b>	<b>Achievements to date</b>
	<ul style="list-style-type: none"><li data-bbox="247 609 319 1153">• PI-26: scope, nature and follow-up of external audit;</li><li data-bbox="247 609 434 1153">• PI-28: legislative scrutiny of external audit reports.</li></ul>	

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**Table 2.2 Achievements of the PRAI Strategic Goals**

Strategic goals	Key performance indicators	Outputs	Output measures and targets	Achievements 2012-13
<p><b>Strengthened regional cooperation between SAIs</b></p>	<p><b>At least 90% of SAI heads in the Pacific agree that regional co-operation has strengthened year on year</b></p>	<p>Common audit methodologies for SAIs for both financial and performance auditing.</p> <p>The peer review program is delivered.</p>	<p>Shared audit methodologies are issued, updated and used by SAIs.</p> <p>Technical assistance is increasingly provided by SAIs, rather than external consultants.</p> <p>There is a trend of reduced expenditure on external consultancy for technical advice and assistance by SAIs and PASAI.</p>	<p>Four manuals (Human Resources Management, Quality Assurance Guidelines, Reporting Guidelines and Performance Audit) have been produced and released to SAIs in 2011-12. Copies are also available from the PASAI website <a href="http://www.pasai.org">www.pasai.org</a>. The Financial Audit Manual will be finalised soon and will be released at the Guam Congress.</p> <p>The peer review program has been included in the long-term strategy to be tabled at the Guam Congress in September 2013.</p> <p>Some SAIs will continue to use consultants to improve their audits (e.g. Papua New Guinea, Solomon Islands, Tuvalu and Vanuatu) because of lack of expertise. There are others that will still need some support from the PASAI Secretariat in view of the difficulty in retaining qualified and experienced staff.</p>

Strategic goals	Key performance indicators	Outputs	Output measures and targets	Achievements 2012-13
Public auditing capacity is strengthened	<p>SAI capability improves year on year, measured by the PASAI capability model</p> <p>(individual SAls to establish appropriate targets)</p>	<p>Core competencies for audit staff are agreed and supported by an effective training program and the Sub regional Audit Support Program (SAS).</p> <p>An increase in the attainment of professional accountancy qualifications.</p>	<p>Core competencies for financial and performance audit are agreed and implemented in all SAls by 2013.</p> <p>SAl heads agree that training has demonstrably strengthened skills and auditing (measured by SAI survey).</p> <p>There is an increase in the number of qualified staff across the Pacific SAls (baseline study in 2012).</p>	<p>A generic set of competencies and job descriptions were completed in 2009. The PASAI Governing Board endorsed a structured training program in November 2009.</p> <p>The 2013 survey revealed an increase in professionally qualified staff in SAls in the region from an average of 23% in 2011 to 40% in 2012. Staff holding graduate qualifications is an average of 77%.</p> <p>The peer review program has been included in the long-term strategy to be tabled at the Guam Congress in September 2013.</p>

Strategic goals	Key performance indicators	Outputs	Output measures and targets	Achievements 2012-13
		Improved contract management.	90% of audit and consultancy contracts are completed on time and to budget.	Contract management is included in the Strategic Management and Operational Guidelines (SMOG) that was released at the PASAI Congress in Guam in September 2013.  The 2013 survey revealed that four SAIs outsource all their financial audits, one outsources 60% while eight outsource less than 50% their audits, with one undertaking all their mandated financial audits.
		Better strategic and corporate planning.	Each SAI has a fully costed business plan, approved by its parliament.	The SMOG management workshop conducted on 6-14 December 2012 unfortunately did not go as far as having a fully costed business plan for SAIs. The heads of SAIs decided to delay this to allow members of their staff to be part of the development of their strategic and business plans. The 2013 survey revealed that five SAIs would appreciate assistance in the development of their strategic plans, five on corporate plans and six on operational plans.
		SAIs are responsive to financial reporting and auditing developments	Financial auditing is completed according to international accounting standards, as adopted in each SAI country/jurisdiction.  Pacific SAIs are represented or actively participating on international working groups.	The roll-out of the International Standards of Supreme Audit Institutions (ISSAIs) in the region commenced with a management workshop for SAIs on 3-5 December 2012.  PASAI's Financial Audit Manual is ISSAI compliant and will be rolled out in 2013/14 and integrated into the Tiers training.  A number of SAIs in the region are represented in the INTOSAI committees and working groups, and a list of these can be accessed from the PASAI website.

Strategic goals	Key performance indicators	Outputs	Output measures and targets	Achievements 2012-13
Regional financial and performance audits are undertaken	Co-operative audits are completed on time to a high quality, measured by the SAI survey and SAI stakeholder survey and peer reviews	<p>There are regular cooperative financial audits</p> <p>There are regular cooperative performance audits.</p> <p>Enhanced and more timely financial audits of public accounts.</p>	<p>There is an annual program of cooperative financial audits</p> <p>One cooperative performance audit is completed annually.</p> <p>90% of financial audits are completed on time and to budget across the Pacific.</p>	<p>The first cooperative financial audit (CFA) on foreign aid will commence in March 2014.</p> <p>Since 2009, PASAI has completed four cooperative performance audits (CPA); solid waste management, access to safe drinking water, sustainable tuna fisheries and climate change adaptation. The regional reports of the waste, water and fisheries audits are available from the PASAI website. The climate change regional report will be released once the 10 participating SAIs make their reports public.</p> <p>PASAI started another CPA on sustainable public debt management during the year. A reporting meeting will be held in the Cook Islands in February 2014.</p> <p>The 2012 SAI review survey revealed that the delays in financial audits were due to the non-provision of accounts and/or lack of supporting documentation by the entities, the lack of government support to employ appropriately qualified staff, inadequate budget, effective management of audit portfolios and poor work ethics.</p> <p>In the 2013 survey, SAIs were to report on the percentage of financial audits that were completed on time and to budget. Except for three SAIs, all other SAIs provided that between 60% to 100% of the audits were completed on time and to budget.</p>

Strategic goals	Key performance indicators	Outputs	Output measures and targets	Achievements 2012-13
<p>There is strengthened communication, transparency and accountability in the public sector</p>	<p>Annual stakeholder survey shows year on year improvement in transparency and accountability</p>	<p>Stakeholders know about public auditing.</p> <p>There is advanced transparency and accountability.</p>	<p>The annual stakeholder survey shows that key public officials are aware of public auditing.</p> <p>The annual stakeholder survey found that key public sector officials agree that there is greater transparency (including amongst parliamentarians).</p>	<p>The stakeholder survey was carried out in the six countries (Guam, FSM, New Caledonia, Samoa, Solomon Islands and Tonga) during the 2011 accountability and transparency project and the report mentions that key officials were aware of public auditing.</p> <p>The PMF survey conducted in 2013 disclosed that all but one of the 69 stakeholders are aware of public auditing because it's a requirement under law for the accounts to be audited. However, the stakeholders proposed various means whereby awareness of public auditing could be enhanced.</p> <p>The 2011 Accountability and Transparency Report noted some improvements since the 2009 study. The report is available from the PASAI website.</p> <p>The 2013 survey disclosed mixed responses from the stakeholders. Some are seeing greater transparency and accountability but there still needs to be improvements. This is probably due to the updating of late audits, enactment of certain legislation and training/education of government officials. There is more publicity and exposure in the past couple of years with sessions of the legislature now televised live. Certain public officials are now being held accountable for misconduct in office and misuse of government resources.</p> <p>A newspaper company mentioned that in the past it had great difficulty obtaining copies of audit reports. Now, the SAI hand-delivers audit results to the company for publication.</p> <p>Others thought transparency and accountability in the region had declined while a few cannot say. The current state of affairs: significant delays in the reporting of audits by agencies and on-going repeat findings represent no</p>

Strategic goals	Key performance indicators	Outputs	Output measures and targets	Achievements 2012-13
		There is effective communication of audit findings.	The annual stakeholder survey demonstrates that parliaments and audited public entities in the Pacific are satisfied with the communication of audit findings.	improvements in audits.
				The 2013 survey asked stakeholders if they were satisfied that audit findings were effectively communicated to the public. There were mixed responses from stakeholders, even from the same country. Some are satisfied that the audit findings are being communicated effectively while others disagree. It is interesting to note that while some stakeholders were satisfied audit findings were effectively communicated to the public, others from the same countries thought otherwise.

**Table 2.3 Achievements of the PASAI Secretariat**

<b>Objective</b>	<b>Output</b>	<b>Measure</b>	<b>Target</b>	<b>Achievements</b>
<b>PASAI website</b>	High quality website	Annual satisfaction survey of SAIs	First year to provide baseline data, targets to be set in following years.	The 2013 PMF survey revealed that a majority of the SAIs that evaluated the PASAI website under the six criteria accuracy, authority, currency, objectivity, coverage and usefulness, thought the website was good to excellent. Only two SAIs thought the website was satisfactory under four criteria.
<b>Organisation of meetings and training events</b>	Timely and efficient organisation of PASAI meetings.	As above	As above	According to the 2013 PMF survey, most SAIs thought the organisation of PASAI meetings was 'excellent', effective and that the meetings met their purposes. A minority thought the organisation of the meetings was 'good'.
<b>Management of PASAI finances and management of risks and governance arrangements</b>	Accounts are audited and approved by external auditors. There are no arrears. All audit recommendations are implemented.	Annual audit results	There are no repeat issues and there is a reduced number of recommendations each year.	The audit management letter for the audit of the 2012/13 accounts was received from auditors on 30 August 2013. There were no repeat issues. Following the approval of the Governing Board, all recommendations will have been implemented.
<b>Donor relationship management</b>	Positive feedback from donors	Short questionnaire to donors	High satisfaction rating achieved from donors.	The Secretariat expects the Secretary General's Office and the Governing Board to conduct a survey on this with development partners.



## Funding

2.15 PASAI receives funds from a number of agencies including the Australian Government overseas aid agency (AusAID), the New Zealand Ministry of Foreign Affairs and Trade (MFAT), the Asian Development Bank (ADB), the World Bank and INTOSAI Development Initiative (IDI). Each funding agency adopts different accountability and reporting arrangements. Funds from ADB, IDI and the World Bank are hypothecated, while funds from AusAID and MFAT are pooled.

2.16 PASAI received total funds of NZD 1,189,253 in the financial year ending 30 June 2013, comprising:

Revenue	2012/13 Actual \$NZ	2012/13 Budget \$NZ	2011/12 Actual \$NZ
Membership subscriptions	2,600	3,000	2,600
Development partner contributions	1,119,284	1,371,000	3,151,526
Interest	53,941	60,000	40,385
Other income	13,428	13,000	13,819
	<b>1,189,253</b>	<b>1,447,000</b>	<b>3,208,330</b>

2.17 The total revenue collected during the year comprises about 82% of budgeted revenue. The decrease of 63% over the previous year's revenue relates to the rounding off of the original PRAI program and funding.

2.18 PASAI appreciates the kind financial contributions from its development partners aimed at increasing the level of public auditing in the Pacific region. A total of NZD 1,119,284 was received from development partners during the year. To date, partners have provided PASAI a total of \$7,687,084 or about 92% of amounts under the various grant agreements. The details of the funds received are as follows:

Development Partners	Total	Received to date <sup>2</sup>	Received in 2012/13
AusAID (AUD 3.79 million) <sup>3</sup>	4,866,126	4,866,099	43,973
INTOSAI Development Initiative (IDI)	1,212,800	1,212,800	453,197
NZ-MFAT (NZD 1.6 million)	1,600,000	1,180,507	500,000
World Bank (USD 550,000)	696,119	427,678	122,114
	<b>8,375,045</b>	<b>7,687,084</b>	<b>1,119,284</b>

<sup>2</sup> Received since the Secretariat was established on 18 January 2010.

<sup>3</sup> In 2013 PASAI received a grant of \$44,000 to undertake the PASAI review.

2.19 AusAID funding includes AUD\$3 million over the years 2010 to 2012 and an additional support of AUD\$794,000 for three projects, two of which should be completed by 2013. IDI funded the remuneration of the Capacity Building Advisor over the last three years and has agreed to continue to funding to February 2014. IDI also funds specific projects. New Zealand MFAT funded two specific projects and has pooled the balance of its assistance over three years commencing February 2012. The World Bank has been funding specific projects since 2010.

2.20 The above contributions exclude the Asian Development Bank (ADB) funding. ADB funds six PASAI consultants directly including the Performance Audit Advisor, Capacity Building Expert, Sub-regional Audit Support (SAS) Program Coordinator, SAS Expert, Communications Advisor and Legal Advisor. The total contribution of the bank for the year was \$175,340.

2.21 Details of funding and expenditures during the year are provided in Part C of the report.

2.22 As at 30 June 2013, PASAI had funds on hand totalling \$2.0 million which will be applied to activities in 2013/14. In addition, PASAI expects to receive funds of \$500,000 from NZ-MFAT in the next financial year.

**Part B**

**PASAI PROGRAMS**

## **CHAPTER 3: REGIONAL CO-OPERATION AND CO-ORDINATION**

3.1 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 programs for co-operative audits and peer reviews, and (e) establishing an enhanced PASAI website.

3.2 Following the establishment of the Secretariat in 2010, PASAI completed its website and organised various activities under the four programs. The major activities conducted in the financial year include:

- the New Caledonia PASAI Congress;
- two Governing Board meetings;
- support to SAIs and other meetings;
- facilitation of the conduct of two co-operative performance audit meetings, the SMOG working group meeting, a communications workshop and six PASAI training programs that include an ISSAI management workshop.

3.3 Only one activity planned for the financial year, a SAS meeting was not conducted as a tropical cyclone had prevented members travelling. However, another SAS Committee meeting was held in April 2013. The details of the activities of the strategic goal for regional co-operation and co-ordination are provided below.

### **PASAI Congress – Noumea, New Caledonia**

3.4 The 15<sup>th</sup> PASAI Congress was held in Noumea, New Caledonia on 2-5 October 2012. It was attended by 13 heads of SAIs, 13 senior officers of SAIs and 21 other delegates. The SAIs not represented include the Commonwealth of the Northern Mariana Islands and the Queensland Audit Office.

3.5 Mr Jimmie Rodgers, the Director General of the Pacific Community welcomed the PASAI Congress participants to the Secretariat of the Pacific Community (SPC), the venue of the first PASAI congress to be held in a French-speaking territory. Like PASAI, SPC is committed to raising standards of accountability, good governance and good financial management in the region.

3.6 The Congress was fortunate to have distinguished delegates from INTOSAI, China National Audit Office and the French Court of Accounts. Mr Terence Nombembe, the Chair of INTOSAI and Auditor-General of South Africa noted that the PASAI Congress provided him with a better understanding of PASAI and its activities in the Pacific region.

He stressed the importance of leadership to drive the success of respective SAIs and to perfect auditing excellence. He also noted that the triangular relationship between SAIs, regional organisations and INTOSAI will be useful.



Mr Terence Nombembe

3.7 Dr Josef Moser, Secretary General of INTOSAI, appreciated the commitment of all PASAI members as they need as much input from as many SAIs as possible to create a broad basis for external public auditing. He said that this input is important for the development of INTOSAI as a whole as the contribution for each single member is essential for the progress and the success of INTOSAI. Dr Moser added that it is the duty of INTOSAI to listen to the needs of PASAI in order to understand what is necessary to do on a global level. It is also the duty of INTOSAI to create a framework for every regional working group including PASAI, but especially for every single SAI, which helps to build sustainable working conditions on a national level.



Dr Joseph Moser

3.8 Mr Jean Alventosa addressed the delegates on behalf of the First President of the French Court of Accounts, and emphasised the vital role SAIs play in a world currently under severe financial and budgetary strain. The role of the SAI is therefore not only to oversee proper spending by governments, but ensure there is overall efficiency of public policy implementation. He also acknowledged the fundamental role of the development partners in funding PASAI programs

3.9 Dr Zhou Weipei, on behalf of Mr Liu Jiayi Auditor-General of the National Audit Office of the Republic of China (CNAO) noted multiple exchange and cooperation activities between CNAO and PASAI with notable achievements. In order to improve their roles, SAIs need to adopt more creative auditing means and methodologies based on their own national conditions. He added that SAIs must strengthen mutual exchanges and cooperation and share good national practices and experience among each other to achieve a joint development of higher auditing standards worldwide.

3.10 The Congress delegates discussed the key developments in SAIs. The general experiences that were notable included: staff turnover and lack of resources in the Pacific region; the need for peer reviews and to improve the institutional arrangements and functions of SAIs; the importance of clearing backlogs of audits and the use of appropriate technology to achieve it; the importance of strategic or corporate planning; and, engaging the public to promote the value and benefits of SAIs.

3.11 The Secretary-General Mrs Lyn Provost, on behalf of PASAI, thanked the hosts, the New Caledonia Audit Office and its President de la Chambre territoriale des Comptes, Mr Francois Monti, for organising a successful Congress. The visit to Ilot Amedee Island capped a successful meeting. The Secretary-General, also acknowledged the significant contribution of Mr Des Pearson, the Auditor General of Victoria, Australia who retired in December after 21 years as Auditor (15 years at Western Australia and 6 years at Victoria). In closing, Mrs Provost mentioned that PASAI should be proud of its achievements to date but there is more to do in the new financial year.

### **Governing Board**

3.12 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 duties and responsibilities. It sets the rules and procedures for the operation of the Secretariat and monitors the performance of staff.

3.13 A number of changes were made to the membership of the Governing Board. Mr Francois Monti, President de la Chambre territoriale des Comptes, New Caledonia,

assumed the Chair as host of the 2012 PASAI Congress. Ms Doris Brooks, Public Auditor of Guam, as host of the 2013 PASAI Congress replaced Ms Matereta Raiman in the Board.

3.14 The members of the Governing Board are:

<b>Chairperson</b>	Mr François Monti	President de la Chambre territorial des Comptes, New Caledonia
<b>Secretary-General</b>	Mrs Lyn Provost	Controller and Auditor-General, New Zealand
<b>Immediate past Chairperson</b>	Dr Pohiva Tu'i'onetoa	Auditor-General, Tonga
<b>Next congress Chairperson</b>	Ms Doris Brooks	Public Auditor, Guam
<b>Melanesian Representative</b>	Mr Edward Ronia	Auditor-General, Solomon Islands
<b>Polynesian Representative</b>	Mr Fuimaono Camilo Afele	Auditor-General, Samoa
<b>Micronesian Representative</b>	Mr Stoney Taulung	Public Auditor, Federated States of Micronesia-Kosrae State
<b>Executive Director (ex officio)</b>	Mr Eroni Vatuloka	PASAI Secretariat

*Seventh Governing Board Meeting – Noumea, New Caledonia*

3.15 The seventh meeting of the Governing Board in Noumea, New Caledonia on 1 October 2012 preceded the 15<sup>th</sup> PASAI Congress. It discussed PASAI governance issues including appointment of Governing Board members, draft annual report for 2011/12, survey results of improvements and capability built on cooperative audits and SAS programs. The process for appointment of Governing Board members was reviewed to ensure that there is continuity in institutional knowledge in the Board. This includes the appointment of regional group Board members to a term of 3 years from the previous 2 years, which aligns with the other members who serve a total of 3 years when they decide to host a PASAI congress.



Members of the PASAI Governing Board

3.16 The Board also reviewed the status of PASAI programs and projects. It noted that there have been some improvements in capacities of SAIs in the region. The training of SAI staff had been reflected in how auditors conducted their field audits and the audit reports that have been produced. While there is still a fair amount of work yet to be done, the progress that have been made to date is generally satisfactory.

*Eighth Governing Board Meeting – Auckland, New Zealand*

3.17 Apart from reviewing the progress of the PASAI projects in the last financial year, the Board focussed its attention on the ADB PRAI review report as well as considered the internal review. This was important for the Board in order to progress the development of a long-term strategy for PASAI.





3.18 The ADB report revealed satisfactory progress under some of the strategic objectives of the PRAI while there were opportunities that could be explored by PASAI. The initial work on the internal review was also discussed and the consultant Mr Anders Hjertstrand briefed the Board on the manner the work was going to progress. The Board revealed that while it was important to refer to the two review reports, it remains essential that the needs of SAIs are addressed in the long-term strategy.

### **Support to Kiribati**

3.19 PASAI Executive Director, Mr Eroni Vatuloka provided support to the Kiribati National Audit Office (KNAO) on 30 July to 2 August 2012. He focussed on: developing a simple audit portfolio management system that the Auditor-General can use to effectively monitor the progress of audits under her mandate; review the status of the SAS audits and find ways to complete some of the outstanding work; and, obtain evaluations from participants of PASAI activities, and determine whether they have been relevant in their everyday work. Other areas that were examined included the delay in the preparation of government accounts, work ethics and audit efficiency.

3.20 Mr Vatuloka also accompanied an UNDP mission on 9-14 June 2013. The objectives of the mission were to:

- (i) undertake advocacy and awareness raising to encourage the Government of Kiribati to ratifying the UN Convention Against Corruption (UNCAC);
- (ii) consult with relevant anti-corruption stakeholders, including government, civil society and development partners to determine key priorities for UNDP/UNODC support in 2013-14, including:
  - a. scoping options for delivering a series of UNCAC related workshops in Tarawa in August;
  - b. in partnership with PASAI, exploring support options and activity modalities to assist the Kiribati National Audit Office (KNAO);
  - c. finalisation and endorsement of terms of reference for proposed UNDP support for implementing freedom of information provisions.

3.21 The UNDP had indicated its interest in providing support to the KNAO and the following areas were agreed to be explored: review and enhance the audit institutions through the creation of audit legislation; develop capacity in the SAI through an exchange programme involving other neighbouring SAIs; and, assistance in the update of some late audits. Further meetings of these initiatives are planned in the next financial year.

## **Executive Support to SAI Vanuatu**

3.22 Before the visit to Vanuatu and executive support provided to the Vanuatu Office of the Auditor-General on 20-23 August 2012, the SAI had yet to send a participant to attend a PASAI activity. The reason being the office was considerably understaffed and had concentrated on undertaking its mandated audits with supplementation from AusAID under a bilateral arrangement. Following the visit, the SAI had management support to send its staff to PASAI programs.

3.23 The support to the SAI focussed on: discussions of the achievements that PASAI had made since the establishment of the Secretariat in Auckland in 2010; the development of an audit portfolio management template for the office; review and comment on Vanuatu's OAG proposed legislation; review of the ISSAI checklist discussed at the Tonga Congress; and, general support to the SAI staff. The audit portfolio management exercise revealed that the SAI had less than 20% of staff necessary to complete the mandated audits of the Auditor-General. The SAI incidentally will use the audit management completed for the SAI to justify an increase in its staff resources. The review of the proposed legislation of the office has been progressed by the PASAI legal advisor and is in a state that could be presented to the government.

3.24 The capacity supplementation of the SAI has resulted in the audit of six years of the whole of government accounts, and just a year away from updating the accounts of government. This was the main focus of the office before it extends the updating exercise to the other entities of government. However this requires a greater commitment of the government to provide necessary resources to the SAI. The willingness of development partners to assist in the outsourcing of some audits will also assist in the cause.

### European Union – 11<sup>th</sup> Economic Development Fund (EDF)

3.25 The Executive Director attended the first consultation meeting of the EU 11<sup>th</sup> EDF in October 2012. It was attended by government officials from the Forum island countries, regional agencies (CROP) and other stakeholders. The consultative meeting will initiate the programming process for the Pacific region and inform the response strategy to be included in a Regional Indicative Programme for the next 7-year cycle, i.e. from 2014-2020. It enlisted views from various groups of stakeholders on priority areas of support under the 11<sup>th</sup> EDF.

## **Auditors General Meeting**

3.26 During the SMOG management workshop held in Nadi, Fiji on 6-14 December 2012, the Auditors-General convened for a meeting to discuss matters of interest to SAIs. With the exception of two SAIs, all heads of SAIs were present at the meeting. The agenda

included: discussion of the PASAI upcoming performance measurement framework (PMF) survey; Teammate auditing software; IPAA certification program; twinning arrangements with ACAG; IntoSAINT training; advocacy work on the Accountability and Transparency Report 2011; training on International Financial Reporting Standards (IFRS); cooperative performance audit on public debt; and, support to SAIs by the Technical Support Advisor. Other matters included discussions on the 16<sup>th</sup> PASAI Congress to be held in Guam in September 2013; per diems; SAI websites; PASAI Financial Audit Manual; completion of the ADB Review Team questionnaire and general administration.

3.27 Overall, the meeting was a success and members progressed discussions on the acquisition of a regional license for the Teammate audit software as well as strategies to advocate the Accountability and Transparency Report 2011. The PASAI Secretariat also provided clarification on the PMF survey, IPAA certification program, IFRS training and the PASAI Financial Audit Manual.

### **Support to SAI Tuvalu**

3.28 PASAI Executive Director, Mr Eroni Vatuloka provided support to the Tuvalu Audit Office on 8-12 January 2013. The general state of the audits appeared to be on track with the SAI and to a great extent is a result of: the SAS program; the complimentary training provided by PASAI programs; the work provided by the advisor; and, the effective outsourcing of some of the audits. For example, an audit that had been only been conducted under the SAS program is now being conducted outside the program because staff had developed the expertise to undertake the audit on its own to international best practice standards. The outcome of the program is therefore being partially achieved by the SAI.

3.29 All the eight staff of the SAI had attended at least one of the PASAI training programs, and at least three officers had been involved in cooperative performance audits. There is generally a lot of improvement in audit skills as well as knowledge. To ensure that there is no loss of knowledge after each training program, the SAI uses PASAI training materials to review and improve its work through re-training of its staff in-house.

3.30 The capacity supplementation through AusAID under a bilateral arrangement is producing positive results for the SAI. A succession strategy is necessary to ensure sustainability of the good progress that the SAI has made over the last two years. The twinning arrangement with the Victoria Auditor-General's Office will further enhance capacity in the SAI.

### **Stakeholder Meeting of Council of Pacific Public Accounts Committees (CoPPAC)**

3.31 On 18 March 2013, the Centre for Democratic Institutions (CDI) and the World Bank Institute (WBI), with support from the United Nations Development Program, Pacific

Centre (UNDP), convened a meeting of stakeholders from Pacific parliaments and their development partners to discuss the possible establishment of a self-directed learning network for members and staff of public accounts committees (PACs).

3.32 The meeting was conducted at the UNDP Fiji multi-country office in Suva and was attended by representatives of the following organisations:

- the parliaments (in particular, the PACs) of Tonga, Kiribati and Tuvalu
- the Auditors-General of the Solomon Islands and Vanuatu (who are also secretaries to the PACs in their jurisdictions)
- the Commonwealth Parliamentary Association (CPA)<sup>4</sup>
- the Pacific Parliamentary Partnerships Program, managed by the Australian Commonwealth Parliament
- the Commonwealth Secretariat's Commonwealth Pacific Governance Facility (CPGF)
- the Pacific Islands Forum Secretariat (PIFS)
- the Pacific Association of Supreme Audit Institutions (PASAI)
- CDI, WBI and UNDP.

3.33 The purpose of the meeting was to allow interested parties discuss the concept of a Pacific-wide network of PACs, in particular to consider what such a network could do and what value it could add. It also considered the contribution that various stakeholders could make to the establishment and operation of such a network. Contingent upon endorsement of the concept, the meeting would also map the steps required to set-up such a network.

3.34 Participants at the meeting agreed unanimously that the establishment of a Pacific network of PACs would make a valuable contribution to improving the capacity of parliaments to hold governments to account for their use of public money. Such a network would contribute to better public administration and greater public confidence in the institutions of government. It was felt that the network should work as a community of practice, with a clear focus on knowledge sharing and peer-to-peer learning.

### **Accountability and Transparency Project – Fiji Follow-Up Meetings**

3.35 PASAI Executive Director, Mr Eroni Vatuloka and the Project Manager, Mr Robert Buchanan held three follow-up meetings on the Accountability and Transparency Project in Suva, Fiji, on 18-19 March 2013. The overall goal of the project was to produce an updated report showing the state of accountability and transparency of public sector

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<sup>4</sup> The CPA was represented at the meeting by an officer from the NZ Parliament.

resources across the Pacific. The updated report could be used as a basis for communication with regional governments and, broader advocacy about the role of SAIs and associated governance mechanisms in achieving accountable and transparent use of public resources.

3.36 The report found a number of strengths and emerging areas of good practice across the region, but concluded that, despite these strengths, the picture of accountability and transparency remains mixed across the region. The report called for a concerted and well-coordinated effort from PASAI and its member SAIs. It also sought to involve other institutions with an interest in good governance including multi-lateral and bilateral aid donors and relevant NGOs and academic experts.

3.37 The UNDP, Transparency International (Fiji) and the University of the South Pacific (USP) appreciated the work of PASAI in the area and were enthusiastic on working in collaboration with PASAI to advance joint objectives of our programs. UNDP noted the importance of raising the capacity of parliaments in the region, especially public accounts committees. Transparency International (Fiji) also was interested in promoting the benefits of accountability and transparency in the region. The USP was eager to use the report as a resource for students and basis for further research. Copies of the report were sent to the Suva central library that will be responsible for circulating copies to all its campuses in the region.

#### **PASAI Secretariat**

3.38 The PASAI Secretariat was kept busy throughout the year with the organisation of various activities: the New Caledonia PASAI Congress; two Governing Board meetings; two cooperative performance audit meetings; 4 Tier training programs and communications, ISSAI and SMOG workshops.

3.39 PASAI recruited Mrs Agnes Tuiiai Aruwafu as PASAI Technical Support Advisor in April 2013. She has taken up the coordinating role of the SAS program, completion of the PASAI Financial Audit Manual and the coordination of the cooperative performance audit of public debt and accounting standards training. She is also directly responsible for providing technical advice to SAIs in the region.

#### **Achievements Against Performance Targets**

3.40 A summary of the achievements against the performance targets of regional cooperation and coordination is provided in Table 3.1.

**Table 3.1 Achievements Against Performance Targets**

<b>Strategic Goal A – Assist regional co-operation and co-ordination</b>		
<b>Design summary</b>	<b>Performance targets</b>	<b>Achievements</b>
Establish enhanced PASAI Secretariat	<p>PASAI Governing Board and Secretary-General appointed by August 2009.</p> <p>Enhanced PASAI Secretariat established by August 2009.</p>	<p>The Governing Board and Secretary-General were appointed in August 2009 during the PASAI Congress in Palau. The Board membership has changed each year since 2009 in keeping with the PASAI Charter.</p> <p>The PASAI Secretariat was opened for business in Auckland, New Zealand on 18 January 2010.</p>
Support regional co-ordination	<p>Support for three PASAI Congresses and (four) PASAI Governing Board meetings, as well as participation in regional and international meetings.</p>	<p>Four Congresses have been completed (Palau, August 2009; Kiribati, July 2010; Tonga, August 2011; Noumea, October 2012), and a fifth Congress will be held in Guam on 10-13 September 2013.</p> <p>Eight meetings of the Governing Board have been completed (Palau, August 2009; Papua New Guinea, November 2009; Fiji, July 2010; New Zealand, February 2011; Tonga, August 2011; New Zealand, February 2012; New Caledonia, October 2012; New Zealand, February 2013). A ninth meeting is being organised, to be held in Guam on 9 September 2012.</p> <p>PASAI was represented at the INTOSAI-Donor Steering Committee meeting which was held in London, UK in October 2012, UN/INTOSAI Symposium in Vienna, Austria and CoPPAC in Suva, Fiji in March 2013.</p>
Prepare strategies for common methodologies	<p>Strategy and plan for moving toward common audit methodologies prepared by (March 2010).</p>	<p>The strategy and plan for moving towards common audit methodologies was developed and approved at the Palau Congress in 2009. The production of five manuals and four training materials started after the two capacity building conferences in June and November 2010. Four manuals have been produced to date.</p>

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**Strategic Goal A – Assist regional co-operation and co-ordination**

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<b>Design summary</b>	<b>Performance targets</b>	<b>Achievements</b>
Prepare programs for co-operative audits and peer reviews	Rolling program for co-operative audits and peer reviews approved by (August 2009) and updated annually.	A program of co-operative performance audits was approved at the Palau Congress and audits started in October 2009. The Governing Board will consider a peer review proposal, under the PASAI long-term strategy at the Guam PASAI Congress in September 2013.
Establish PASAI website	PASAI website operational by (September 2009).	An enhanced PASAI website ( <a href="http://www.pasai.org">www.pasai.org</a> ) was launched on 15 October 2010. The website is updated on a regular basis.

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## **CHAPTER 4: BUILD AND SUSTAIN PUBLIC AUDITING CAPACITY**

4.1 In reality, the entire Pacific Regional Audit Initiative (PRAI) seeks to build and sustain public auditing capacity. However, for reporting purposes PASAI established specific areas to identify as capacity development. To ensure that PASAI members complete audits to uniformly high standards, capacity development projects focus on:

- (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;
- (h) facilitating secondments and attachments.

4.2 With most of the manuals completed and training materials finalised, the year 2012/13 focussed on the implementation of these materials.

### **Production of Manuals, Guidelines, and Training Materials**

#### *Manuals*

##### Performance Audit Manual

4.3 The manual has been printed and is also available on CD. It has been distributed to all PASAI members.

##### Financial Audit Manual

4.4 In December 2012, PASAI signed a Memorandum of Understanding with AFROSAI-E regarding the adoption of its Regularity Audit Manual. The manual had been reviewed by PASAI's Technical Support Advisor with comments from members (from PASAI) of a working group to ensure that the AFROSAI-E manual was relevant to PASAI members' auditing practices.

4.5 At the February 2013, 8th Governing Board Meeting the PASAI Secretariat advised that a memorandum of understanding with AFROSAI-E to adopt the AFROSAI-E Regularity Audit Manual as PASAI's Financial Audit Manual was in place.



4.6 A Technical Support Advisor was recruited and has developed Guidance Notes to the PASAI/AFROSAI-E Financial Audit Manual with the assistance of a group of eight reviewers from the member SAIs.

4.7 The AFROSAI-E Regularity Audit Manual will be updated annually and consequently the PASAI Secretariat will update the Financial Audit Manual and the Guidance Notes accordingly.

4.8 The aim of these Guidance Notes is to assist with the implementation of the AFROSAI-E Regularity Audit Manual and serve as a link between PASAI training programs and other in-house training. It will also serve as a depository of information received from SAIs (such as Pacific examples, templates).

4.9 The Financial Audit Manual and Guidance Notes will be copied onto CDs and distributed at the September 16<sup>th</sup> PASAI Congress in Guam.

*Training*

4.10 The second offerings of Tiers 1, 3 and 4 and the Communicating Effectively workshop have all been held in the current financial year. The training materials for Tier 1,3 and 4 have been reviewed by the Communications Advisor as well as the champion. All the training materials will be available on CD and will be distributed to all PASAI members. The third offering of Tier 2 training was also held in May 2013.

4.11 As at 30 June 2013, 93 participants and 10 coordinators (from SAIs in the region) had attended five PASAI training workshops. The participants and coordinators were from 18 SAIs as shown in the table.

**Table 4.1 : Number of Participants who Attended PASAI Training**

<b>SAI</b>	<b>Tier 1</b>	<b>Tier 2</b>	<b>Tier 3</b>	<b>Tier 4</b>	<b>CE</b>	<b>Total</b>
Cook Islands	1	1	2	1	1	6
Fiji	3	3	3	2	2	13
FSM-National	1	1	2	2	1	7
FSM-Kosrae	1			1	1	3
FSM-Pohnpei	1	1	1	1	1	5
FSM-Yap			1		1	2
Guam	1	3	1	1	1	7
Kiribati	2	2	2	1	2	9
Marshall Islands			1			1
Nauru	1	1		1		3
Northern Marianas		1		1		2
			1	1	1	3
Palau	3	2	3	3	3	14

Papua New Guinea	3	3	2	3	2	13
Guinea		1	1	1	1	4
Samoa	3	2	2		3	10
Solomon Islands	1	1	1	1	1	5
Tonga	2	1	1			4
Tuvalu						
Vanuatu						
	<b>23</b>	<b>23</b>	<b>24</b>	<b>20</b>	<b>21</b>	<b>111</b>
Coordinators	3	3	3		2	11 <sup>5</sup>
	<b>20</b>	<b>20</b>	<b>21</b>		<b>19</b>	<b>100<sup>6</sup></b>

4.12 American Samoa, French Polynesia and New Caledonia were not represented in the workshops held this year. The contents of the training programs are provided in Appendix I.

4.13 The Governing Board at its meeting in February 2012 approved a policy to ensure that what is taught in the training workshops will be implemented by the participants at their workplaces and that the impact of the training can be assessed more accurately. This policy required participants in PASAI training workshops to prepare an action plan to be implemented at their SAIs, based on the training they have attended. After 12 months since the training was held, participants are asked to submit an accomplishment report on the implementation of their action plans.

4.14 To date, the first offering of the Communicating Effectively training in November 2011 was the first time the new policy was tried out. 18 participants attended this training. Of the six accomplishment reports received, all concluded that the training was very useful in providing concepts and guidelines on how oral and written communication can be improved at the SAIs. The extent of success in implementing what the participants set out in the post training action plan vary amongst the six reports received. Some have accomplished what they have planned while others did not. Reasons why some planned activities were not accomplished are:

- lack of expertise on the subject matter (report writing) within the SAI;
- SAI circumstance – eg. no public exposure therefore no opportunity for SAI staff to implement the post training action plan;
- time constraints within the SAI – SAI prioritising projects and activities;
- change in key management positions.

<sup>5</sup> One coordinator was coordinator for two training workshops.

<sup>6</sup> Includes five staff from different SAIs who participated in two training workshops and two coordinators who each participated in one training workshop.

## **Certification**

### Background

4.15 Certification is one of the programs that PASAI facilitates for its members to enable them to get certification from overseas professional institutions such as NZICA and Australian CPA.

4.16 During the PASAI Congress in October 2012 in Noumea, the Auditor-General for New South Wales, Peter Archterstraat, presented the new program that is offered by the Institute of Public Administration Australia (IPAA) where members of PASAI can participate and get the certification of Practicing International Public Sector Administrator (PIPSA).

### Status

4.17 IPAA accepted the PASAI training (Tier 1 and Tier 2) as prerequisites for this program. In April 2013, the Secretariat submitted the relevant information about requirements for this program to the heads of SAIs. Only two SAIs indicated their interest in participating in the program. These two SAIs communicate directly with IPAA regarding participation. The cost of participation is borne by the SAI or the employee, whichever the head of SAI decides.

### Acknowledgment

4.18 The Secretariat acknowledges the efforts of Mr Peter Archterstraat and the committee in bringing about this program for PASAI members to participate in and get certified as Practicing International Public Sector Administrator (PIPSA).

## **Peer Review**

4.19 The peer review program is dependent on the completion of the Financial Audit Manual and implementation of both Performance Audit and Financial Audit Manuals. The Secretariat is planning to facilitate this program in the near future using INTOSAI guidelines when SAIs have had time to implement the detailed PASAI manuals and relevant guidelines.

## **Management and Operational Support and Contract Management**

### *Background*

4.20 The PRAI assessment revealed that some SAIs needed assistance in developing strategic plans and/or in contracting for services. The PRAI suggested therefore that additional support should be provided in these areas. The PRAI design also recognised that SAI heads might need additional technical support in implementing and institutionalising best practices incorporated in the manuals and training being provided.

*Status*

4.21 The development of the manual and training programs have been completed and are being reviewed for printing.

4.22 A summary of the PASAI achievements against the performance targets of building and sustaining public auditing capacity is provided in Table 4.2.

**Table 4.2 Achievements Against Performance Targets**

<i>Strategic Goal B – Build and sustain public auditing capacity</i>		
<b>Design summary</b>	<b>Performance targets</b>	<b>Achievements</b>
Develop generic competencies and deliver structured training program	Generic set of competencies and job descriptions confirmed by (September 2009).	Generic set of competencies and job descriptions completed in 2009.
	PASAI Governing Board endorses structured training program by (December 2009).	Governing Board endorsed the structured training program in PNG, November 2009.
	Guidance materials/manuals prepared by (June 2010), covering financial and performance audits, investigations, operations and peer review.	Human Resource Management, Reporting, Quality Assurance and Performance Audit manuals produced. The Financial Audit Manual will be circulated at the 2013 Guam PASAI Congress.  Work on guidance materials for investigations, operations, peer reviews and induction are not yet started.
	For each structured training program, regional training courses for 200 participants conducted by (December 2012).  (Note: later modified to having four training programs conducted in each fiscal year).	All four Tiers of training were conducted during the year, attended by 76 participants and 10 coordinators.  <i>A Communicating Effectively</i> workshop was conducted, attended by 20 participants.
Support attainment of professional accountancy qualifications	Barriers to professional qualifications reduced by December 2012.	The Institute of Public Administration Australia (IPAA) had proposed a certification process but this was considered unaffordable by the PASAI Governing Board.

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**Strategic Goal B – Build and sustain public auditing capacity**

<b>Design summary</b>	<b>Performance targets</b>	<b>Achievements</b>
Support improved contract management	Contracting out model prepared by (March 2012) and contract management support provided to (21) SAIs by (December 2012).	A Strategic Management and Operational Guidelines (SMOG) being finalised contains improved processes for contract management.
Provide management and operational support	Management and operational support provide to (21) SAIs by (December 2012).	The SMOG contains international best practices for management and operations of SAIs.
Provide technical support	Technical support provided to (21) SAIs by (December 2012).	The Technical Support Advisor is in place to assist SAIs in implementing the guidance materials and training programs.
Co-ordinate and support peer reviews	Peer reviews supported for (12) SAIs by (December 2012).	PASAI will allow SAIs to adopt all manuals that have been including the Financial Audit Manual (to be issued after the Guam PASAI Congress 2013) before it can conduct a meaningful peer review of the SAIs. The peer review program will start in 2014/15.

## CHAPTER 5: CONDUCT CO-OPERATIVE AUDITS

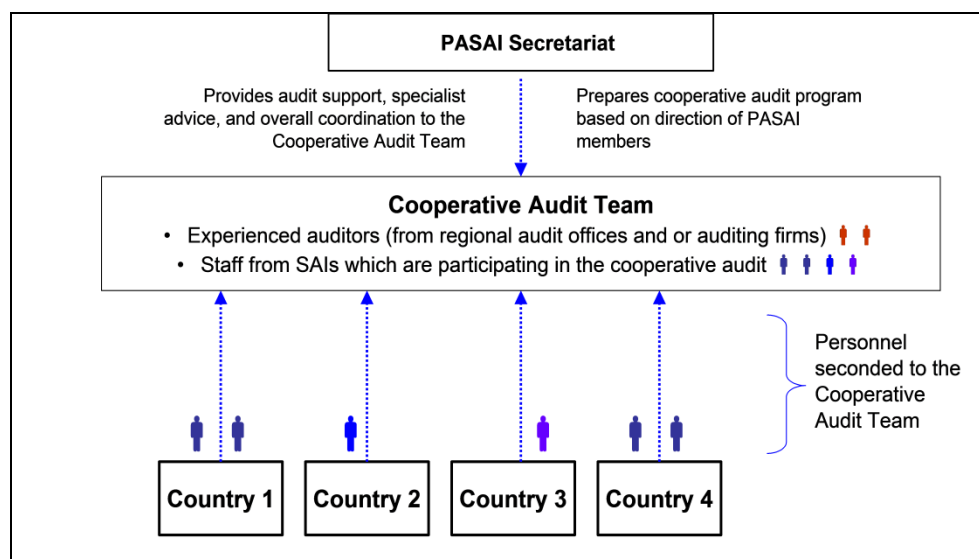
5.1 PRAI provides that PASAI will conduct cooperative audits with member SAIs by (a) conducting cooperative financial audits; (b) conducting cooperative performance audits, including environmental audits; and (c) supporting a sub-regional audit approach for Kiribati, Nauru and Tuvalu (SAS), with the possible later inclusion of other SAIs who may wish to join.

5.2 Cooperative audits involve multiple audit institutions working together on the same audit for two purposes:

- to raise the auditing capacity of individual SAIs;
- 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, the Pacific Island Forum, development partners and other stakeholders may wish to address through regional cooperation.

5.3 Figure 5.1 illustrates the cooperative audit approach.

**Figure 5.1 : The co-operative audit approach**



5.4 Although cooperative audit team members work mainly in their own jurisdiction, the teams come together at the planning and reporting stages to obtain maximum guidance from the participating program experts and enhance learning from each other.

5.5 The SAS program 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 program involves cooperative financial audits of identified entities in the three countries, with the team visiting each country and completing each audit within a period of ten weeks.

5.6 Following a survey in 2009, PASAI members selected a number of performance audit topics to be conducted on a cooperative basis. The Palau Congress in 2009 endorsed the topics of: management of solid waste; access to safe drinking water; and management of sustainable fisheries. All these audits have been completed with 29 SAI reports (10 solid waste, 10 access to safe drinking water, and 9 fisheries) and 3 regional reports produced to date. The three regional reports are available from the PASAI website [www.pasai.org](http://www.pasai.org).

#### **4<sup>th</sup> Cooperative Performance Audit - Climate Change Adaptation**

5.7 Planning for the 4th cooperative performance audit commenced in late 2011 with the Coordinator of the RWGEA surveying heads of SAIs as to their preferred topics for future environmentally focused cooperative audits. The first preference was an audit on climate change. At its meeting in early 2012, the PASAI Governing Board considered the survey results and referred planning on this broad subject to the RWGEA meeting that was held in April, 2012. A number of Pacific SAIs were present at and participated in the meeting – Cook Islands, Fiji, Kiribati and the Solomon Islands.

5.8 The RWGEA meeting concluded that it would be advisable to focus the audit on individual Pacific country climate change adaptation measures and disaster risk reduction strategies. It was suggested that PASAI adopt the coordinated audit model used by 14 SAIs in Europe to audit their governments' management of climate change. By adopting this model, Pacific SAIs would cooperate in the design of the regional audit with the capacity to then focus on how their individual governments were planning to adapt to climate change and manage climate related disasters.

5.9 The 15<sup>th</sup> PASAI Congress held in October 2012 agreed to this approach. An umbrella audit topic was approved that enabled individual SAIs to develop audit objectives and lines of enquiry relevant to their specific jurisdictions. Ten SAIs participated – Cook Islands, Federated States of Micronesia (FSM) (National Office), the FSM State of Kosrae and the FSM State of Pohnpei, Fiji, Palau, Samoa, Solomon Islands, Tonga and Tuvalu. Audit teams carried out a preliminary study (prior to meeting in November 2012) to familiarise themselves with the subject matter and also to identify relevant and specific audit objectives and lines of enquiry for their jurisdiction. While this was a strong

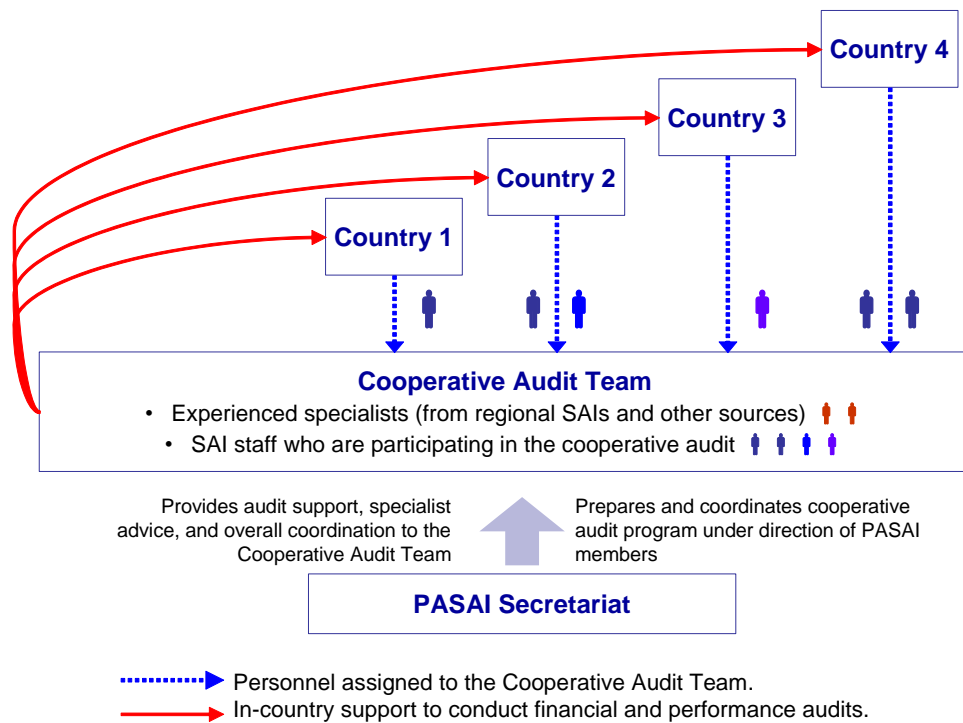


performance audit capacity building exercise, it was not without its challenges. This was compounded by the technical/scientific nature of the audit topic.

5.10 A report finalisation meeting was held in June 2013, the objective of which was to ensure that audit teams, when returning home, would have a quality draft audit report to submit to their respective auditor-generals. PASAI is closely monitoring individual SAI progress in this regard through a schedule of review and report release dates negotiated with heads of SAIs.

5.11 Figure 5.2 illustrates the cooperative performance audit approach.

**Figure 5.2 : The Cooperative Financial and Performance Auditing Approach**



## **Cooperative Performance Audit methodology**

5.12 The following diagram (Figure 5.3) illustrates the methodology that has been developed for the CPA program. This is followed by a short discussion on key components, the stages involved and input from a range of stakeholders. Experience to date has demonstrated that the methodology is sound and has enabled a number of SAIs (around ten in each CPA round) to engage in performance audit capacity building as well as delivering performance audit products of value to the Pacific island countries audited.

5.13 The methodology is also adaptable and can accommodate improvements identified by Pacific Auditors-General, audit teams taking part in the program and participants at RWGEA meetings. Minor adjustments to the methodology ensured that SAIs participating in the 4<sup>th</sup> CPA on Climate Change Adaptation (CCA) and Disaster Risk Reduction (DRR) were able to assess the performance of CCA and DRR strategies put in place by individual Pacific island countries, while still enabling an overview report, identifying regional impacts, to be produced.

5.14 Figure 5.3 identifies the key features of the CPA methodology.

**Figure 5.3 : The key features of the CPA methodology**

**Scope topic (RWGEA, performance audit adviser and *technical* expert) to be endorsed by PASAI Congress**

**Joint planning meeting for audit teams, with expert support & peer review. Audit teams develop individual Audit Work**

**Each audit team undertakes field work in own jurisdiction**

**Joint reporting meeting for audit teams, with expert support and peer review**

**Each audit team completes audit and reports in own jurisdiction**

**Regional overview report prepared.  
Evaluate success and prepare next audit topic**

## *Planning*

5.15 Audit teams attend a planning meeting. In CPAs 1-3, auditors-general at the annual PASAI Congress endorsed the audit topic and high-level lines of enquiry. However, this aspect was changed for CPA 4. Teams at the planning meeting developed linkages between audit objectives, lines of enquiry, audit criteria and audit methodology. This informed the audit tests to be carried out as part of audit fieldwork. At the end of this phase, each audit team has a completed and peer reviewed audit work plan for endorsement by their heads of SAIs so that the audit can commence.

## *Fieldwork and analysis*

5.16 Audit fieldwork is conducted over a four to five month period. The Cooperative Performance Audit Advisor and the PASAI Capacity Building Program Advisor provide on-line support over the fieldwork and analysis stage. The technical advisors also provide on-site assistance where required.

5.17 The on-site support consists of reviewing individual audit team's evidence based against the audit work plan developed at the audit planning meeting. It also identifies gaps in evidence. Teams are introduced to the draft report format (if new to performance auditing) and 'walked through' the essential nature of reporting.

## *Reporting*

5.18 At the report meeting, draft reports are refined by the teams with support provided by the advisors, the PASAI Secretariat and where possible, the IDI Project Manager. In addition, a number of common audit themes are identified from the individual audit reports to assist in the compilation of the regional overview report.

5.19 The PASAI Secretariat then agrees with heads of SAIs on the completion and release of the 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.

## **Results of the cooperative performance audit program**

5.20 Two of the PRAI's strategic goals are relevant to the CPA Program:

- conducting cooperative financial and performance audits - the output measure and target for this strategic goal, contained within the current PASAI Performance Management Framework, is one cooperative performance audit is completed annually;

- another strategic goal is public auditing capacity is strengthened – success here can be measured through the increased capability and improved performance by the staff of the audit teams that have participated in the program.

5.21 The following table provides PASAI performance against conducting cooperative financial and performance audits.

**Table 5.1 Cooperative Performance Audit Program Outputs**

	CPA 1	CPA 2	CPA 3	CPA 4
	<i>Solid Waste Management</i>	<i>Access to Safe Drinking Water</i>	<i>Sustainable Fisheries Management</i>	<i>Climate Change Adaptation and Disaster Risk Reduction strategies in certain Pacific island nations</i>
No of SAIs	10	10	11	10
No of withdrawals	0	0	2 – PNG <sup>1</sup> and Yap <sup>2</sup> after planning session	0
No of auditors trained	19	16	20	18
No of reports released at 31.06.2013	9	8	7	Pending
Regional report	Yes	Yes	Yes	Pending

Source: CPA Program documentation

NOTES: <sup>1</sup> PNG withdrew from this performance audit, when concerns were raised about the findings of the financial audit of the fisheries management agency.

<sup>2</sup> Yap withdrew from this performance audit due to jurisdictional issues concerning the authority of the Yap State Audit Office to audit a national agency.

### *Public auditing capacity is strengthened*

5.22 SAIs are continuing to use the CPA Program as a performance audit development opportunity for staff and typically, audit teams have a mix of experience. Results to date indicate that audit team members with performance audit experience have enhanced their skills. Many held positions of audit team leader in subsequent cooperative audits. Those auditors with little or no prior experience now have some experience and a greater understanding of the performance audit process and are able to build upon this base. The level of skill and confidence in carrying out performance audits has increased since CPA 1 in 2010 as a core of performance audit experience is developed through and supported by the CPA approach.

5.23 Performance audit skills and competencies gained by participants in the four cooperative performance audits to date include:

- developing a detailed audit work plan (including audit objective and lines of enquiry) and suitable audit methodology related to the umbrella audit objective that was endorsed by heads of SAIs;
- gaining an understanding of the relevance and application of the International Standards of Supreme Audit Institutions (ISSAIs) that underpin each stage within the performance audit cycle: planning, consultation, evidence gathering, analysis, drafting and reporting;
- peer review support for other teams;
- presentation skills for audit plans and reports;
- fieldwork, evidence gathering and testing the adequacy of evidence against the audit topic;
- analysis of audit evidence and translating this into audit findings and potential recommendations;
- report writing, focusing on key messages.

5.24 Audit team members also provided valuable reflection on and insight into the cooperative audit approach. These insights or 'lessons learned' have proven very useful in the design and implementation of future cooperative performance audits.

## **Sub-regional Audit Support Program**

### *Objective and approach*

5.25 The objective of the SAS program is to enable the public accounts of Kiribati, Nauru and Tuvalu to be audited to uniformly high standards in a timely manner through increasing

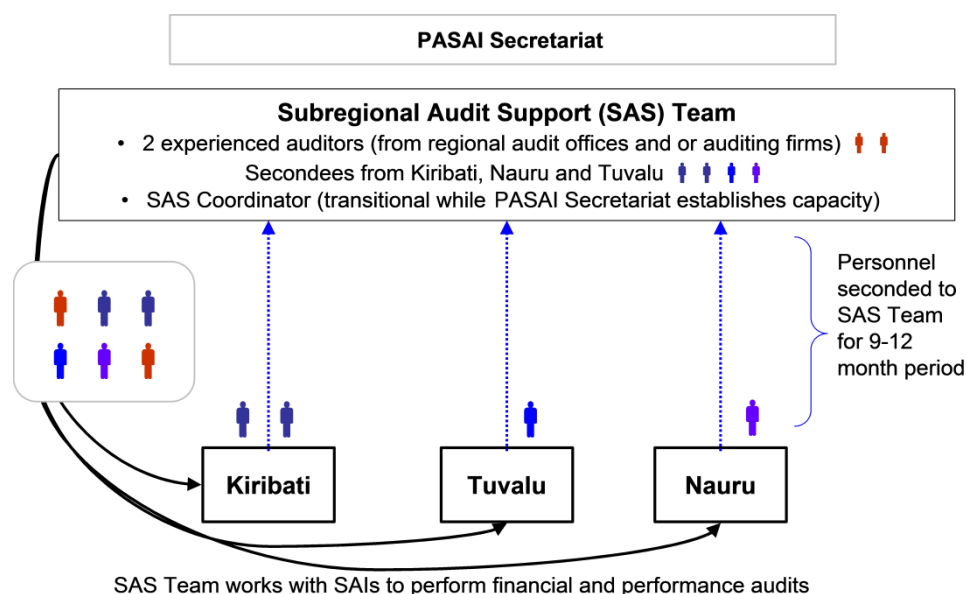
skills in the audit offices. The program involves cooperative financial audits of specified entities in the three countries with the team visiting each country and completing each audit in a period of six weeks.

5.26 In April 2013 the SAS Committee comprising of the heads of SAI from Kiribati, Nauru and Tuvalu, Secretary-General and Executive-Director held a meeting to discuss the third round of the SAS program and to sign a memorandum of understanding to enhance the governance arrangements for the program that includes PASAI in a project management capacity. The MOU clarifies the roles and responsibilities of all parties involved in the SAS program to ensure the necessary support arrangements are in place for the effective, efficient and safe implementation of the program.

The third round of the program is expected to start in August 2013.

5.27 Figure 5.3 illustrates the SAS approach.

**Figure 5.3: The Sub-regional Audit Support (SAS) Approach**



5.28 A summary of the achievements against performance targets of cooperative audits is provided in Table 5.1.



Table 5.1: Achievements Against Performance Targets

<b>Strategic Goal C – Cooperative audits</b>		
<b>Design summary</b>	<b>Performance targets</b>	<b>Achievements to date</b>
Conduct co-operative financial audits	Conduct (four) co-operative financial audits involving an average of (six) SAIs by (December 2012).	PASAI will carry out an ISSAI-based co-operative financial audit in 2014.
Conduct co-operative performance audits	Conduct (five) co-operative performance audits involving an average of (eight) SAIs by (December 2012).	<p>PASAI has completed four co-operative performance audits to date. Each audit has involved ten SAIs, and more than 35 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 in the PASAI region. Some SAIs are noted to have conducted performance audits of their own.</p>
Undertake sub-regional audit support program	By December 2012, audits of public accounts of participating sub-regional countries are completed and presented to public accounts committees (PACs).	<p>Two rounds of the SAS program have been completed. The first was from August 2009 to April 2010 and the second was from June 2011 to March 2012. A report of the first round of the project is available from the PASAI website.</p> <p>Audits were completed for 5 entities, two each from Kiribati and Nauru and only the whole of government for Tuvalu. Due to the delay in the preparation of accounts, and adverse weather conditions, it wasn't possible to complete the audits on time and present reports of the audits to the PACs of the three countries.</p>

## CHAPTER 6: DEVELOP COMMUNICATIONS AND ADVOCATE TRANSPARENCY AND ACCOUNTABILITY

6.1 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.

6.2 With the assistance of ADB, PASAI engaged a Communications Advisor to carry out editing and communication work and this is expected to help facilitate the production and release of PASAI publications.

### Accountability and Transparency Project

6.3 The 2011 Accountability and Transparency Report was published in July 2012, and is available on PASAI's website. The report addressed the state of accountability and transparency in the Pacific under nine 'focus areas'. These were:

#### *The SAI and its work:*

1. the independence of the SAI;
2. open budget preparation;
3. the scrutiny role of the legislature and its committees.

#### *Public sector transparency and accountability:*

4. the legal and ethical framework of the public sector;
5. control of corruption;
6. public availability of information;
7. corporate governance in the public sector.

#### *Civil society and its interface with government and the SAI:*

8. community participation in society;
9. media freedom.

6.4 The report contained a number of recommendations and 'good practices' in each focus area. The recommendations were all addressed at PASAI and its member SAIs, citing initiatives they could take to improve accountability and transparency in Pacific nations and regionally.

6.5 Responses to the report were very encouraging. The report was well received at PASAI's 2012 Congress in Noumea, with indications from several SAIs of steps they would be taking to embrace the recommendations and draw the report to the attention of their respective governments.

6.6 The Governing Board then adopted a follow-up strategy for the report at its February 2013 meeting. The focus of the strategy is on establishing regional links with other organisations that have an interest in promoting accountability and transparency, and on gathering information from SAIs about progress in their jurisdictions under each focus area.

6.7 Consistent with this approach, the report was presented to the New Zealand and Fiji chapters of Transparency International in early 2013, and was also discussed with the United Nations Development Programme (which has a particular interest in the adoption of the United Nations Convention Against Corruption by more Pacific countries). In June 2013, the Executive Director of PASAI was a member of a UNDP delegation to Kiribati that met with the government and the SAI about anti-corruption measures.

6.8 PASAI's Secretariat also discussed the report with the Schools of Government and Accounting and Finance at the University of the South Pacific. The report was warmly welcomed by senior academic staff, and copies have now been deposited in each campus library throughout the region. The Secretariat will be exploring opportunities for the report to be used in teaching and research activities, as well as other forms of possible collaboration.

### **CoPPAC**

6.9 In March 2013 PASAI's Executive Director and Legal Advisor attended a meeting of stakeholders in relation to a proposed Council of Pacific Public Accounts Committees (PACs) of Pacific Parliaments. Also in attendance were the Auditors-General of Solomon Islands and Vanuatu (in their capacities as the secretaries of their respective PACs). The CoPPAC proposal is an initiative of the Centre for Democratic Institutions of the Australian National University, and is supported by the World Bank Institute that has been involved in establishing similar networks in Africa and South-East Asia. The proposal aligns well with PASAI's strategies for improving regional cooperation and enhanced transparency and accountability. PASAI will be supporting the ongoing efforts in this area.

### ***Communicating Effectively Workshop – September 2012***

6.10 The third round of the Communicating Effectively workshop was held in Nadi, Fiji on 24-28 September 2012. The workshop was attended by 19 participants from 13 SAIs as follows: Cook Islands, Fiji, Guam, Kiribati, FSM-Kosrae, Palau, PNG, FSM-Pohnpei, Samoa, Solomon Islands, Tonga, Tuvalu and FSM-Yap. The main focus of the workshop is to ensure that auditors are capable of communicating audit results effectively to the users of audit reports.

6.11 Participants experienced tools and techniques that improve the manner in which audit results are communicated to the various users of audit reports. Such techniques include practicing presentation and oral communication skills and considering alternative report formats by reviewing various reports from different participating SAIs.

6.12 Positive feedback was received from the participants as they learn new ways to improve their audit reports by ensuring that the reports are clear, concise and simple for the reader to understand the message conveyed in the reports. As part of the normal training procedures, participants developed an action plan based on an idea or concept that they have learnt from the workshop that they intend to implement at their SAI. This plan will be followed up by the Secretariat to assess the impact of the training.

## PASAI Bulletins and Media Releases

6.13 The PASAI Secretariat 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 the same media releases.

6.14 A summary of the sub-outputs and performance targets in PRAI and PASAI achievements to date are provided in Table 6.1.

**Table 6.1 : Achievements Against Performance Targets**

<i>Strategic Output D: Develop communications and advocate transparency and accountability</i>		
<b>Design summary</b>	<b>Performance targets</b>	<b>Achievements to date</b>
Educate stakeholders on the value of public auditing	<p>Brochure on the value of public auditing prepared and disseminated by June 2010.</p> <p>At least (six) media articles published widely each year on public auditing from 2010 to December 2012.</p>	PASAI has yet to produce a brochure but has produced media articles following the congresses (five) and the SAS meetings (three). It has also produced articles for other media outlets regionally and internationally.
Advocate enhanced transparency and accountability	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.	PASAI has produced a 2011 Accountability and Transparency report and this is available from the PASAI website. This is in addition to a first report produced in 2009/10. The Governing Board will decide when to conduct the next accountability project.
Provide editorial and communications advice	<p>Three communications training courses for 80 participants conducted by December 2012.</p> <p>Editorial support provided on [80] SAI reports by December 2012.</p>	<p>Two communications training were conducted in November 2011 and September 2012. The training covered amongst other things, the Reporting Guidelines and Quality Assurance Guidelines.</p> <p>Editorial support will commence when the Communications Advisor has completed the review of the Financial Audit Manual and training materials.</p>

## CHAPTER 7: FUTURE CHALLENGES

7.1 The PRAI has come towards the end of its initial project period. It is important that the new strategic objectives of PASAI address the needs of SAIs in the region as well as attempt to take into account the following challenges.

7.2 *SAI independence* - The SAI independence continues to be an issue with some members. The failure to report to a parliament and the appointment of SAI staff as well the determination of the SAI budget remain issues that were still in the control of some governments. The lack of appropriation for the SAI to be able to fulfil its role as mandated in the legislation is still a concern to some members.

7.3 *High staff turnover* - Due to the high turnover of staff and the inability to recruit qualified replacements quickly, SAIs were unable to undertake their work effectively and efficiently. The low salary bands for auditors do not help as qualified and experienced staff opt for better opportunities elsewhere. Some SAI staff have poor work ethics.

7.4 *Lack of experienced and qualified audit staff* - Compliance with ISSAIs during audits and resolution of risks of material misstatement are concerns that need to be adequately addressed. This requires experienced and qualified staff who should be up to date on technical matters. However, SAIs' auditors sometimes are not familiar with the basic information such as governing laws and regulations for each government entity, ability to interpret the financial statements and operations of government entities and the accounts that they maintain. For one SAI, because of the lack of qualified and experienced staff, it made a decision to contract out all financial audits for four years in row now.

7.5 SAI staff should be updated with new auditing standards and processes in order to maintain staff capacity and improve audit skills. This is a continuous process and it becomes very important when technical experts who SAIs used to rely on become unavailable.

7.6 For some SAIs that outsource audits, there is limited option on the availability of chartered accounting firms, or reputable firms.

7.7 *Delay in submission of timely accounts for audit* - The government entities are not able to provide good quality and timely accounts for audit. Difficulties include the fact that the accounts are not updated, there is a lack of supporting documentation, there are delayed bank account reconciliations and the quality of the management reports and financial accounts is poor. This has consistently been an issue for government entities.

7.8 *Lack of qualified accountants* - The auditees lack qualified staff with the right expertise to manage the entities' financial systems to facilitate the preparation of the annual financial accounts and the audit of the financial accounts. As a result, correct and quality documentation is not produced and submitted. This in turn delays the completion of the audits.

7.9 Audit is generally not considered a priority by some public sector entities and there is lack of oversight from governing bodies. Unless this attitude changes, public sector auditing and SAIs in the region will continue to be undermined.

## APPENDIX I



### Summary of PASAI 2013 PMF Survey Results

At the 7<sup>th</sup> Governing Board meeting held in Noumea on 1 October 2012, the Board approved a survey report on trend of improvements in the SAIs over the last 3 years. This was important as the key performance indicators in the Pacific Regional Audit Initiative (PRAI) specify this activity. The following is a summary of the results of the 2013 survey.

#### A. General

**Audit mandates** - The audit mandates of the SAIs in the region vary. Some SAIs especially in the US insular states, outsourced all their financial audits. SAIs under the Westminster system of government, were only undertaking financial audits, and are only beginning to undertake performance audits. Some SAIs do not have mandates to undertake performance audits and have only undertaken audits organised under PASAI's cooperative audits program.

**Professional qualification** - On average, staff holding professional qualifications rose from 23% in 2011 to 40% in 2012. The major increases relate to the Cook Islands, Fiji, FSM Pohnpei, Kiribati, CNMI and Vanuatu. The SAIs that showed decline in professional qualifications include Marshall Islands and Tuvalu. New Caledonia was surveyed for the first time. The SAI staff holding graduate qualifications was at 77%. This however includes 8 SAIs whose staff all hold graduate qualifications.

**Capability assessments** - With the exception of two SAIs that showed slight improvements, the capability levels of SAIs in the region remained static over last year.

**PEFA** - The PEFA scores have been generally static for SAIs that responded to this section of the survey. It could not therefore be established from the survey whether SAIs have had their public accounts audited in a timely manner to uniformly high standards, with enhanced audit impacts and improved audit capability.

**Auditing standards** - The US insular states use the US Generally Accepted Government Auditing Standards (GAGAS), commonly referred to as 'Yellow book'. All other members use international standards or something similar.

## **B. PRAI Programs**

**Regional cooperation** (i) 8 of the 10 respondents thought that regional cooperation has strengthened this year compared to the previous years. Participants who attended the cooperative audits had the opportunity to learn from other participants and this has impacted the audit staff approach to conducting performance audits.

- (i) No SAI has adopted the INTOSAI Peer Review Guidelines that focuses on institutional review of SAIs with recommendations to improve the audit function.
- (ii) SAIs of the US insular states adopted the APIPA Peer Review Guidelines modelled after the GAGAS. The SAIs are peer reviewed every three years and this has been the practice in these states over the past 15 years.
- (iii) Seven SAIs in the region use external consultants as advisors to assist in financial and performance audits, fraud investigations, institutional strengthening and other work.
- (iv) Secretariat
  - There was a general view that the PASAI website displayed good to excellent content under the 6 criteria.
  - The heads of SAIs who attended the Noumea Congress and the 3i and SMOG management workshops rated the meetings highly. They stated that the meetings, which had very good international feel, were organised effectively and achieved their purposes.
  - The attendance of the Congress and the management workshops were valuable as there were opportunities for SAIs to share experiences with others. The Congress round table discussions on key developments including tabled reports and legislative changes in SAIs were very useful. The breakout sessions of the 3i and SMOG workshops, especially strategic planning and approaches taken by SAIs to address their needs, were found to be very useful by SAIs.

### **Capacity Building**

- (i) Some SAIs state that they will review the set of competencies and job descriptions and note which aspects could be adopted. Some say that certain competencies were obtained from the attendance of the PASAI programs.
- (ii) Other SAIs have their own competencies model (one legislated by law) and have not therefore adopted the PASAI model. A few SAIs are considering adopting something similar and will use the PASAI model as reference material.
- (iii) PASAI training has contributed to the personal and professional development of the participants, especially in analytical thinking, time-management, communication, and areas for improvement. These skills and knowledge are shared with other staff. There has been a general improvement of staff performance over the last two years.
- (iv) The specific areas where improvements were visible and areas where PASAI should focus its efforts are detailed in the report.
- (v) Of the 15 SAIs that responded, only one SAI has a contract management guideline but did not state how effective the guideline was in the management of audits. Seven of these SAIs have processes and contract templates they use to manage



contracts, and according to them, these are quite effective. Some SAIs look forward to the implementation of the SMOG, and the relevant section on contract management.

- (vi) SAIs that do not have strategic, corporate and business plans indicate they require some assistance in their preparation.

### ***Cooperative audits***

SAIs commended highly the achievements of the cooperative audits in the region. The outcomes of the audits have generally been successful and a lot has been learned from them. This provided the impetus for more performance audits to be conducted. A total of 150 audits have been completed by 10 SAIs in addition to the cooperative audits. These range from 1 to 35 per SAI.

The cooperative audit based and on-the-job training was very successful both as a learning tool. It resulted in the production of high quality SAI reports that were covered extensively by the regional media. The impact of the audits is visible as there have been changes in government policies resulting in major improvements in government services.

### ***Communication and advocate transparency and accountability***

*Awareness of public auditing* - Of the 69 stakeholders that completed the survey, all but one said that they are aware of public auditing. Most say they are aware because it's a requirement under law for their accounts to be audited.

The respondents suggested that awareness of public auditing could be enhanced through:

- radio programs (including talk-back shows) and TV shows, reports to be put in newspaper/pamphlets, website, libraries, government portals, to encourage public debate on audit findings;
- SAIs undertake public awareness workshops and education programs to inform the public of the importance of public auditing and what is involved in the process rather than concentrating on government officials;
- promote public auditing in schools and tertiary institutions, as well as encourage school children to take up auditing as a career.

*Advanced transparency and accountability* - There were mixed responses from the stakeholders when asked if they agree there is now greater transparency in the public sector compared to 2009. Some are seeing greater transparency and accountability but still see room for improvements. There is more publicity and exposure in the past couple of years with sessions of the legislature now televised live. Certain public officials are now being held accountable for misconduct in office and misuse of government resources.

The stakeholders suggested the following to improve transparency in the Pacific:

- (i) educate government agencies about the importance of strong governance, free of misuse and abuse;

- (ii) encourage and foster an environment for questions and positive criticism of government and its spending and tougher actions against government officials accused of repeat audit findings especially abuse and corruption;
- (iii) make all constitutions, bills, statutes, legal codes, and regulations available online for free public viewing, and show video of all public hearings, government agency meetings, legislative sessions, etc. on dedicated public TV channel and website.

### *Effective communication of audit findings*

Awareness of public auditing - The survey noted that different stakeholders from each country have different views of the benefits of public auditing. There is generally a lack of awareness of the benefits of public auditing in the region.

Communication of audit findings to the public - The stakeholders were asked if they were satisfied that audit findings were effectively communicated to the public. There were mixed responses from stakeholders, even from the same country. Some are satisfied that the audit findings are being communicated effectively while others disagree. Those that agree added the following comments to improve the dissemination of the audit findings:

- more resources for SAIs;
- the media is at the forefront of this but stakeholders would prefer auditors to interpret audit findings rather than the media;
- the reports need to be more simple, mention the positives as well and provide these on websites.

Improvement of effective communication of audit findings - The stakeholders suggested the following to improve the effective communication of audit findings to the public:

- translation of the report into the local vernacular;
- public awareness or outreach programs including road shows, workshops, talk-back shows, public forums;
- copies of reports to be made available to the general public and public libraries;
- debate audit reports in parliament;
- grassroots including children to be educated on accountability and transparency;
- increase audit capacities and allocate more resources to SAIs to conduct more audits;
- review audit legislation.

## **C. Audit challenges**

### SAI

- (i) SAI independence continues to be an issue with some members. The failure to report to a parliament, the appointment of SAI staff as well the determination of the SAI budget remained issues that were still in the control of the government.
- (ii) Due to the high turnover of staff and the inability to recruit qualified replacements quickly, SAIs were unable to undertake their work effectively and efficiently. The

low salary bands for auditors do not help as qualified and experienced staff opt for better opportunities elsewhere.

- (iii) Compliance with ISSAIs during the audits and resolution of risks of material misstatement are concerns that need to be adequately addressed. This requires experienced and qualified staff who should be up to date on technical matters.
- (iv) SAI staff should be updated with new auditing standards and processes in order to maintain staff capacity and improve audit skills. This is a continuous process and it becomes very important when technical experts, who SAIs rely on, become unavailable.

### Auditee

- (i) The government entities are not able to provide good quality and timely accounts for audit. Problems include, the accounts are not updated, or lack supporting documentation, bank account reconciliations are delayed, or there is just poor quality of the management reports and financial accounts.
- (ii) The auditees lack qualified staff with the right expertise to manage the entities' financial systems to facilitate the preparation of the annual financial accounts and the audit of the financial accounts.
- (iii) Audit is not considered a priority by some of public sector entities and there is lack of oversight from governing bodies.

## APPENDIX II



### Contents of PASAI Training Programs

This Appendix provides information on the topics covered in each of the training programs offered by PASAI.

#### **Tier 1 – Fundamentals of government auditing**

A two-week introductory course on the fundamental legal and regulatory requirements for 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 programs
- 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 program
- 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 programs
- 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
- 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 program
- 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.

## ***Communicating Effectively***

- Session 1      Getting started: a course overview and introductions
  - 2.1      Thinking about your report readers
  - 2.2      Preparing the audit message
  - 2.3      Ensuring readability (language)
  - 2.4      Ensuring readability (visual aids, advance organisers)
  - 2.5      Reviewing others' writing and providing feedback
- 3              Establishing communication policies and practices
  - 4.1      Reviewing presentation tools and techniques and strategies to handle questions
  - 4.2      Preparing presentations
  - 4.3      Delivering presentations
- 5.1      Preparing an action plan
- 5.2      Presenting action plan reports



# **Part C**

## **Financial Statements**

**Pacific Association of Supreme Audit  
Institutions Incorporated**

**Financial Statements**

For the Year Ended 30 June 2013

**Pacific Association of Supreme Audit Institutions  
Incorporated**

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For the year ended 30 June 2013**

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9	Statement of Movements in Equity
10 - 11	Statement of Financial Position
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15 - 21	Notes to the Financial Statements

**Pacific Association of Supreme Audit Institutions  
Incorporated**

**Directory  
For the year ended 30 June 2013**

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**Nature of Business** Facilitation of support to audit offices in the Pacific in order to improve quality and build capacity.

**Address** PASAI Secretariat  
1<sup>st</sup> floor, 46 Parnell Road  
PO Box 37276  
Parnell  
Auckland 1151

[www.pasai.org](http://www.pasai.org)

**Auditor** CST Nexia Audit  
Level 3  
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** (Continued)  
**For the year ended 30 June 2013**

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**Office Holders**

Chairperson      Pohiva Tuionetoa  
Auditor General  
Tonga (to 2 October 2012)

Francois Monti  
President of the Chamber of Accounts  
New Caledonia

Secretary-General: Lyn Provost  
Controller and Auditor-General  
New Zealand

Governing Board: Francois Monti – New Caledonia (Chair)  
Pohiva Tuionetoa – Tonga (Past Chair)  
Doris Flores Brooks – Guam (Host of next  
Congress)  
Edward Ronia – Solomon Islands  
(Melanesian rep)  
Stoney S. Taulung– Kosrae (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 2013**

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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 2013
- the statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the organisation as at 30 June 2013, 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:

Francois Monti

President of the Chamber of Accounts of New Caledonia, Chair PASAI

Date: 28.08.2013

Lyn Provost

Controller and Auditor-General of New Zealand

Date: 29/8/13

Eroni Vatuloka

Executive Director

Date: 30/8/13



## INDEPENDENT AUDITORS' REPORT

### To the Members of Pacific Association of Supreme Audit Institutions Incorporated

We have audited the financial statements on pages 8 to 19 which comprise the Statement of Financial Position as at 30 June 2013, 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 Responsibility 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' Responsibility

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 19 present fairly, in all material respects, the financial position of Pacific Association of Supreme Audit Institutions Incorporated as at 30 June 2013, and its financial performance for the year then ended in accordance with generally accepted accounting practice in New Zealand.

*CSJ Nexia Audit*

**CST Nexia Audit**  
Chartered Accountants  
Manukau City

**30 August 2013**

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**CST Nexia Audit**  
Level 3, Nexia Centre, 22 Amersham Way,  
PO Box 76 261, Manukau City 2241, Auckland, New Zealand.  
p +64 9 262 2595, f +64 9 262 2606  
team@nexianz.co.nz, www.nexianz.co.nz

Independent member of Nexia International



CST Nexia Limited and CST Nexia Audit are both independent firms of chartered accountants using the Nexia international trade mark under licence. The firms are affiliated with, but independent from, Nexia International, a worldwide network of independent accounting and consulting firms. Nexia International does not provide services to clients and therefore does not accept responsibility or liability for its members' actions.

**Pacific Association of Supreme Audit Institutions Incorporated**

**Statement of Financial Performance  
For the year ended 30 June 2013**

		<b>2012/13 Actual \$NZ</b>	<b>2012/13 Budget \$NZ</b>	<b>2011/12 Actual \$NZ</b>
	Notes			
<b>Revenue</b>				
Membership subscriptions		2,600	3,000	2,600
Development partner contributions	3	1,119,284	1,371,000	3,151,526
Interest		53,941	60,000	40,385
Other Income	4	13,428	13,000	13,819
<b>Total Revenue</b>		<b>1,189,253</b>	<b>1,447,000</b>	<b>3,208,330</b>
<b>Expenditure</b>				
Personnel Expenses	5	459,906	534,000	375,844
Program Participant Costs		1,161,824	1,378,000	718,284
Secretariat Operational Expenses	7	265,222	330,000	326,696
Contractor and Consultant Expenses		283,338	273,000	150,146
Bank Fees		4,734	4,000	3,605
Bad Debts		0	0	0
Doubtful Debts		35,861	0	0
Foreign Exchange (Gains)/Losses		882	0	-385
Depreciation	9	41,129	49,000	56,017
<b>Total Expenditure</b>		<b>2,252,896</b>	<b>2,568,000</b>	<b>1,630,207</b>
Tax Expense		17,816	16,000	12,600
<b>Surplus/(Deficit) for Year</b>		<b>-1,081,459</b>	<b>-1,137,000</b>	<b>1,565,523</b>

*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 2013**

	<b>2012/13 Actual \$NZ</b>	<b>2012/13 Budget \$NZ</b>	<b>2011/12 Actual \$NZ</b>
<b>General Funds at start of year</b>	3,355,623	3,355,623	1,790,200
Surplus/(Deficit) for Year	-1,081,459	-1,137,000	1,565,423
Total Recognised Revenues and Expenses for the year	-1,081,459	-1,137,000	1,565,423
<b>General Funds at end of year</b>	<b>2,274,164</b>	<b>2,218,623</b>	<b>3,355,623</b>

*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 2013**

		2012/13 Actual \$NZ	2012/13 Budget \$NZ	2011/12 Actual \$NZ
	Notes			
General Funds		2,274,164	2,218,623	3,355,623
<b>Equity</b>		<b>2,274,164</b>	<b>2,218,623</b>	<b>3,355,623</b>
<i>Represented by:</i>				
<b>Current Assets</b>				
Cash and Bank		2,120,275	2,101,623	3,203,350
Accounts Receivable	6	8,081	1,000	75,324
Prepayments		162,607	66,000	37,469
<b>Total Current Assets</b>		<b>2,290,963</b>	<b>2,168,623</b>	<b>3,316,143</b>
<b>Current Liabilities</b>				
Trade Creditors and Accruals		50,423	25,000	25,707
Employee Entitlements		23,251	12,000	12,918
Income in Advance	4	7,763	8,000	16,160
<b>Total Current Liabilities</b>		<b>81,437</b>	<b>45,000</b>	<b>54,785</b>
<b>Non-current Assets</b>				
Property, Plant and Equipment	9	64,638	103,000	102,038
<b>Total Non-current Assets</b>		<b>64,638</b>	<b>103,000</b>	<b>102,038</b>
<b>Non-current Liabilities</b>				
Income in Advance	4	0	8,000	7,773
<b>Total Non-current Liabilities</b>		<b>0</b>	<b>8,000</b>	<b>7,773</b>
<b>Net Assets</b>		<b>2,274,164</b>	<b>2,218,623</b>	<b>3,355,623</b>

*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 (Continued)**  
**As at 30 June 2013**

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Francois Monti

President of the Chamber of Accounts of New Caledonia, Chair PASAI

Date: 20.08.2013

Lyn Provost

Controller and Auditor-General of New Zealand

Date: 25/8/13

Eroni Vatuloka

Executive Director

Date: 30/8/13

## **Pacific Association of Supreme Audit Institutions Incorporated**

### **Statement of Accounting Policies For the year ended 30 June 2013**

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#### **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 in accordance with "Old GAAP" in New Zealand. Old GAAP comprises New Zealand financial reporting standards and statements of standard accounting practice that existed prior to the introduction of New Zealand equivalents to International Financial Reporting Standards. PASAI has chosen to apply Old GAAP because it meets the criteria for doing so; that is, it was applying Old GAAP at 30 June 2013, and it is neither publicly accountable nor large as defined in the External Reporting Board's Standard A1: *Application of Accounting Standards*.

The Ministry of Commerce has approved a new accounting Standards Framework (including a Tier Strategy) developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, PASAI is classified as a Tier 2 reporting entity and will be required to apply Public Benefit Entities Standards Reduced Disclosure Regime (PBE Standards RDR). These standards are being developed by the XRB based on current International Public Sector Accounting Standards. The effective date for the new standards for not for profit entities is expected to be for reporting periods beginning on or after 1 April 2015. This means PASAI expects to transition to the new standards in preparing its 30 June 2016 financial statements.

## **Pacific Association of Supreme Audit Institutions Incorporated**

### **Statement of Accounting Policies** (Continued) **For the year ended 30 June 2013**

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#### **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.

## **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.

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

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## **Pacific Association of Supreme Audit Institutions Incorporated**

### **Statement of Accounting Policies** (Continued) **For the year ended 30 June 2013**

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these items are included in the Statement of Financial Performance for the period, whether realised or not.

#### **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**

There have been no changes in accounting policy in the current year.



**Pacific Association of Supreme Audit Institutions Incorporated**

**Notes to the Financial Statements  
For the year ended 30 June 2013**

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**3. Development Partner Contributions**

	<b>2012/13 Actual \$NZ</b>	<b>2012/13 Budget \$NZ</b>	<b>2011/12 Actual \$NZ</b>
INTOSAI Development Initiative (IDI)	465,816	586,000	367,624
The Australian Government's Aid program (AusAID)	43,973	0	2,252,445
The World Bank	122,114	285,000	85,054
The New Zealand Government's Aid Program (NZAid)	500,000	500,000	500,774
Returned funds	-12,619	0	-54,371
	<b><u>1,119,284</u></b>	<b><u>1,371,000</u></b>	<b><u>3,151,526</u></b>

Note that following completion of programs funded by IDI funds amounting to \$12,619 (2012: \$54,371) that were unused were returned.

Our contract with the World Bank requires details to be provided in the audited financial statements of the funds expended during the year. Funds were expended as follows:

<b>World Bank expenditures</b>	<b>2012/13 Actual \$NZ</b>	<b>2011/12 Actual \$NZ</b>
Development of Audit guidelines and manuals	0	54,507
Preparation of training materials	122,114	30,472
Other administrative costs	0	75
	<b><u>122,114</u></b>	<b><u>85,054</u></b>

## Pacific Association of Supreme Audit Institutions Incorporated

### Notes to the Financial Statements (Continued) For the year ended 30 June 2013

#### 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 as follows:

	2012/13 Actual \$NZ	2012/13 Budget \$NZ	2011/12 Actual \$NZ
Revenue	13,428	13,000	13,819
Income in Advance - current	7,763	8,000	16,160
Income in Advance - term	0	8,000	7,773
	<b>7,763</b>	<b>16,000</b>	<b>23,933</b>

#### 5. Personnel Expenses

Payroll	450,317	524,000	365,737
Relocation and Recruitment	9,589	10,000	10,107
	<b>459,906</b>	<b>534,000</b>	<b>375,844</b>

#### 6. Accounts Receivable

General Debtors	42,838	0	71,474
Interest Receivable	782	573	341
Membership fees outstanding 2011/12 and prior	142	0	575
Membership fees outstanding 2012/13	179	500	3,007
Less: Provision for Doubtful Debts	-35,860	-73	-73
	<b>8,081</b>	<b>1,000</b>	<b>75,324</b>

**Pacific Association of Supreme Audit Institutions Incorporated**

**Notes to the Financial Statements** (Continued)  
**For the year ended 30 June 2013**

**7. Secretariat Operational Expenses**

	<b>2012/13 Actual \$NZ</b>	<b>2012/13 Budget \$NZ</b>	<b>2011/12 Actual \$NZ</b>
Internet web hosting	1,339	1,500	1,477
IT Support	6,270	8,000	7,935
Equipment lease	8,872	5,500	5,423
Cleaning	5,057	4,500	4,489
Repairs and Maintenance	1,387	1,300	1,298
Telephone	9,919	9,300	9,282
Stationary and office supplies	5,049	7,700	7,672
Accounting and Auditing costs	9,775	9,200	9,200
Printing, postage and publishing costs	28,433	58,100	58,041
Advertising	0	1,000	0
Secretariat staff travel	82,308	114,400	84,062
Rent	92,726	96,000	90,906
Staff training	1,472	1,600	1,587
Insurance	6,016	5,400	5,339
Other consumables and catering	6,599	6,500	39,985
	<b>265,222</b>	<b>330,000</b>	<b>326,696</b>

**8. Technical Assistance Grant**

During the year the Asian Development Bank (ADB) (under Technical Assistance Grant 7494-REG: Implementing the Pacific Regional Audit Initiative 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) \$US169,105 with an approximate New Zealand dollar conversion of \$214,624 (2012 - \$US261,204, \$NZ313,445) and the costs associated with the Sub-regional Audit Support (SAS) program \$US6,235 with an approximate New Zealand dollar conversion of \$7,913 (2012 - \$US326,706, \$NZ392,047). The SAS program includes costs of consultants and also travel, accommodation and per diems and other expenses of the program secondees.

**Pacific Association of Supreme Audit Institutions Incorporated**

**Notes to the Financial Statements** (Continued)  
**For the year ended 30 June 2013**

These transactions have occurred directly between the Asian Development Bank and the respective consultants, secondees or other third parties and have not been recognised in these financial statements.

**9 Property, Plant and Equipment**

	<b>2012/13 Actual \$NZ</b>	<b>2012/13 Budget \$NZ</b>	<b>2011/12 Actual \$NZ</b>
<b>Office Furniture and Equipment</b>			
Cost	47,717	48,000	47,717
Accumulated Depreciation	15,823	16,000	11,051
Closing Balance	<u>31,894</u>	<u>32,000</u>	<u>36,666</u>
<b>Computer Equipment</b>			
Cost	50,975	50,000	47,246
Accumulated Depreciation	48,152	9,000	44,142
Closing Balance	<u>2,823</u>	<u>41,000</u>	<u>3,104</u>
<b>Office Fit out</b>			
Cost	129,387	129,000	129,387
Accumulated Depreciation	99,466	99,000	67,119
Closing Balance	<u>29,921</u>	<u>30,000</u>	<u>62,268</u>
<b>Total Property, Plant and Equipment</b>	<b><u>64,638</u></b>	<b><u>103,000</u></b>	<b><u>102,038</u></b>
<b>Depreciation is made up as follows:</b>			
Office Furniture and Equipment	4,772	5,000	4,771
Computer Equipment	4,011	12,000	18,899
Office Fit Out	32,346	32,000	32,347
	<b><u>41,129</u></b>	<b><u>49,000</u></b>	<b><u>56,017</u></b>

**Pacific Association of Supreme Audit Institutions Incorporated**

**Notes to the Financial Statements** (Continued)  
**For the year ended 30 June 2013**

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**10. 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.

**11. 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.

**12. 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.

**13. 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.

**14. 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.

**15. POST BALANCE DATE EVENTS**

There were no significant post balance date events. (2012: \$Nil)

**Pacific Association of Supreme Audit Institutions Incorporated**

**Notes to the Financial Statements** (Continued)  
**For the year ended 30 June 2013**

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**16. 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 is held by the bank on behalf of the landlord until such time as the lease expires or the landlord notifies the bank 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.

**c. Development Partner Contributions**

The Commonwealth of Australia, through the Australian Government's Aid Program (AusAID), and the New Zealand Government's Aid Program (NZAid) have funding agreements with PASAI Incorporated. Any unspent funds at the expiry date of the contracts or on termination of the contracts by mutual consent have to be repaid to the funder. The ultimate outcome of the activities funded under these contracts cannot be determined with an acceptable degree of reliability at this time. The expiry date for these contracts are June 2014 (NZAid) and June 2015 (AUSAid).

The Governing Board believe the contract is unlikely to be terminated before its expiry date and that any unspent funds at the end of the contract will be minimal. Accordingly, no provision for any liability has been made in these financial statements.

There were no contingent liabilities other than those listed above in 2012.

**Pacific Association of Supreme Audit Institutions Incorporated**

**Notes to the Financial Statements** (Continued)  
**For the year ended 30 June 2013**

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**17. COMMITMENTS**

There were no capital commitments at balance date (2012: \$Nil).

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

	<b>2012/13</b>	<b>2011/12</b>
	<b>Actual</b>	<b>Actual</b>
	<b>\$NZ</b>	<b>\$NZ</b>
Current	57,510	93,721
Non-Current	1,474	53,973
	<b>58,984</b>	<b>147,694</b>