



*“Pacific Auditors Working Together”*

## PIONEERING A NEW APPROACH TO CAPACITY BUILDING:

### Sub-regional Audit Support to Public Auditing in Kiribati, Nauru, and Tuvalu







**PACIFIC ASSOCIATION OF SUPREME AUDIT  
INSTITUTIONS (PASAI)**

**PIONEERING A NEW APPROACH TO CAPACITY BUILDING:  
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in Kiribati, Nauru, and Tuvalu**



## I. FOREWORD

The Sub-regional audit support (SAS) programme is one of the programmes of the Pacific Regional Audit Initiative (PRAI), an initiative of the Pacific Plan. The PRAI's overarching objective is to raise Pacific public auditing to uniformly high standards. This in turn is expected to improve transparency and accountability in the management of public resources.

The SAS programme is being introduced for Kiribati, Nauru, and Tuvalu in response to concerns over the timeliness and quality of audit reports of government entities that were being produced and to raise public auditing capacity in the three countries. Other countries will be considered under the programme in the future.

The SAS approach requires four auditors from the three countries to work on a co-operative basis in the audit of government entities in the three countries. The first round of the programme started in August 2009 and was completed in April 2010. This is a report of the first round of the programme.

Throughout the three countries, the range of audits carried out included the Whole of Government accounts (Tuvalu), telecommunications and provident funds (Kiribati), and State-owned/public enterprises (Nauru).

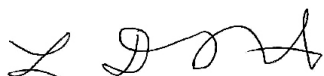
Most of these audits of financial statements were substantially in arrears. The balance dates for the audits ranged from 30 June 2006 to 31 December 2008. Kiribati and Tuvalu were able to have their opinions presented to Parliament. The financial statements were subsequently subject to Public Accounts Committee scrutiny.

Some of benefits from the audits include:

- an increased understanding of the role of Supreme Audit Institutions within the audited entities, including a two-way understanding of information required for preparing financial statements and their subsequent audit; and
- internal capacity development with each Supreme Audit Institution, including identification of champions for improved audit practice, improved understanding of audit issues, and improved files for supporting opinions and management recommendations.

The SAS programme has started an important transformation. However, the second round (which commenced June 2011) and third round need to be completed to cement in and build on the achievements of the first round. This assessment applies to the audited entities and governments as well as to the Supreme Audit Institutions.

The Pacific Association of Supreme Audit Institutions (PASAI) looks forward to the successful completion of the SAS programme.



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



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## II. ACRONYMS

ADB	Asian Development Bank
AusAID	Australian Agency for International Development
FIA	Fiji Institute of Accountants
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
IDI	INTOSAI Development Initiative
INTOSAI	International Organisation of Supreme Audit Institutions
IFRS	International Financial Reporting Standards
ISA	International Standards of Auditing
ISSAIs	INTOSAI Auditing Standards
KNAO	Kiribati National Audit Office
NDOA	Nauru Department of Audit
NZAID	New Zealand Agency for International Development
PASAI	Pacific Association of Supreme Audit Institutions <sup>1</sup>
PEFA	Public expenditure and financial accountability
PFTAC	Pacific Financial Technical Assistance Centre <sup>2</sup>
PI	Performance indicator
PIF	Pacific Island Forum
PIFS	Pacific Island Forum Secretariat <sup>3</sup>

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<sup>1</sup> PASAI membership is made up of SAls from the wider Pacific region. PASAI was originally founded in 1987 under the name South Pacific Association of Supreme Audit Institutions (SPASAI). Country membership was extended to the wider Pacific resulting in a name change to PASAI in 2008.

<sup>2</sup> PFTAC is based in Suva, Fiji. PFTAC provides technical financial advice to countries in the Pacific region.

<sup>3</sup> PIFS is based in Suva, Fiji. PIFS is the administrative arm of the Pacific Island Forum that was established in 1971 with members from 16 independent and self-governing states in the Pacific. PIFS is mandated to co-ordinate the implementation of the Pacific Plan for strengthening regional co-operation and integration.



PPAC	Pacific Plan Action Committee
PRAI	Pacific Regional Audit Initiative <sup>4</sup>
RISC	Regional Institutional Strengthening Committee
SAI	Supreme Audit Institution <sup>5</sup>
SAS	Sub-regional Audit Support
SOE	State-owned enterprise
SPASAI	South Pacific Association of Supreme Audit Institutions
TAO	Tuvalu Audit Office

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<sup>4</sup> PRAI was the term coined to collectively describe a number of mini-projects to improve the quality of auditing in the Pacific.

<sup>5</sup> SAI is the public body of a country (however designated, constituted, or organised) that exercises by virtue of law the highest public auditing function of that country.

### III. EXECUTIVE SUMMARY

The Supreme Audit Institutions (SAIs) in Kiribati, Nauru, and Tuvalu are at differing development stages, but face similar challenges in the areas of human resource capacity and the efficacy of their audit methodologies and systems. Common challenges include the small number (non-existence) of trained and qualified personnel, the disproportionate effects of staff turnover or absences, and difficulties in attracting and retaining staff. These issues mean that public accounts are often not audited to high standards in a timely manner.

Forum leaders have long recognised that the serious challenges facing Pacific island countries could be met through sharing scarce resource and aligning policies to strengthen national capacities to support their people. In 2005, the *Pacific Plan for Strengthening Regional Cooperation and Integration* formed the basis for further development of Pacific public auditing through the development of the Pacific Regional Audit Initiative (PRAI).

The PRAI's overarching objective is to raise Pacific public auditing to uniformly high standards. The South Pacific Association of Supreme Audit Institutions (SPASAI) formed a regional institutional strengthening committee (RISC) to oversee the PRAI design process in three phases:

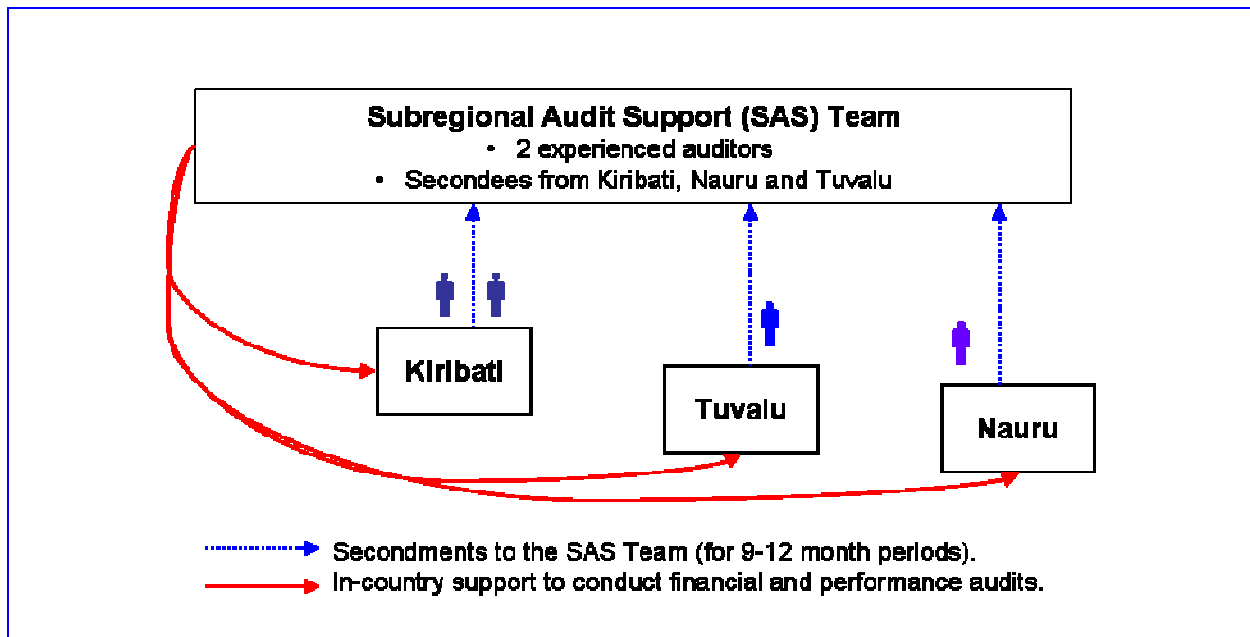
1. setting benchmarks by identifying features associated with high performing SAIs;
2. preparing diagnostic studies for 20 SAIs to identify factors that enable successful transformations, including the design of a sub-regional approach to public auditing for Kiribati, Nauru, and Tuvalu; and
3. developing a PRAI design and roadmap including the establishment of the Secretariat for the Pacific Association of Supreme Audit Institutions (PASAI).

At the 12<sup>th</sup> PASAI Congress in Palau, members of PASAI adopted a new charter with updated mandates and founding principles. The charter paved the way for the establishment of the PASAI Secretariat, which was officially opened in January 2010 in Auckland, New Zealand. Eroni Vatuloka was appointed as Executive Director to oversee the activities of the Secretariat.

One of the key programmes for the Secretariat is the sub-regional audit support (SAS) programme. Because the Secretariat was established during year 1 of the SAS programme, the Asian Development Bank (ADB) administered the SAS programme during that year.

The SAS programme was introduced in July 2009. It was intended to improve transparency and accountability in managing and using public resources in the participating countries. Specifically, the programme aimed to enable the public accounts of participating countries to be audited, in a timely manner, to uniformly high standards. It was intended that by the end of 2012, public account audits will have been completed to internationally accepted standards. The programme established and maintained a SAS team to work with participating SAIs to conduct financial audits. SAS team members were seconded from participating SAIs on 9-12 month rotation and led by two experienced external auditors.

**Figure 1: The Sub-regional Audit Support Approach**



The SAS team helped complete financial audits, train SAI personnel, and improve harmonisation and information sharing. It was envisaged that other Pacific island countries may wish to join the programme, after an establishment period.

This publication seeks to:

- revisit the genesis of the SAS programme;
- assess the original objectives that the programme designers had anticipated and match these with the outcomes, both intended and unintended, that became prominent after year 1 (which was completed in April 2010); and
- highlight the anticipated transformational impact that the programme is yet to experience from years 2 and 3.

#### IV. INTRODUCTION

1. Poor governance deters investment, wastes resources and distorts their allocation, undermines the credibility of authorities, and increases insecurity. The Pacific Plan's goal is to enhance good governance, economic growth, sustainable development, and security through regionalism. In October 2005, Pacific Island Forum (PIF) leaders, recognising the substantial benefits accruing from regional co-operation,<sup>6</sup> endorsed further study and analysis of Pacific Plan initiative 12.1, which includes the Pacific Regional Audit Initiative (PRAI).

2. The PRAI was developed under the overall co-ordination of the Pacific Island Forum Secretariat (PIFS) with support from the Asian Development Bank (ADB) and the Australian Agency for International Development (AusAID).<sup>7</sup> The key counterpart is the 25-member South Pacific Association of Supreme Audit Institutions (SPASAI), whose name changed in 2008 to Pacific Association of Supreme Audit Institutions (PASAI)<sup>8</sup> to reflect its wider membership base in the Pacific.

3. The PRAI's overarching objective, as agreed by Pacific Auditors-General<sup>9</sup>, was to **raise Pacific public auditing to uniformly high standards**. This in turn would contribute to good governance through improved transparency, accountability, and efficiency in managing and using public resources in the Pacific.

4. The three-phase PRAI design process culminated a programme for achieving the PRAI's overarching objective. The PRAI design incorporated a **sub-regional approach to public auditing for Kiribati, Nauru, and Tuvalu**.<sup>10</sup> PRAI consideration points were:

- SPASAI Regional Institutional Strengthening Committee (RISC) meeting, Auckland, 18-20 February 2008
- SPASAI Congress, Rarotonga 14-18 April 2008
- Pacific Plan Action Committee (PPAC) July 2008
- Forum Leaders Meeting August 2008
- Forum Economic Ministers Meeting October 2008

5. Based on discussions with PASAI, ADB, and PIFS, this document collates and synthesises relevant material developed in the course of planning and implementing PRAI. Information has also been updated to discuss actual results to portray a full picture of the SAS programme from the conceptual stages to completion of year 1 implementation.

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<sup>6</sup> ADB and Commonwealth Secretariat. 2005. *Toward a New Pacific Regionalism*. Manila: ADB. This report is underpinned by: White, Michael. 2005. *A Pacific Regional Panel of Auditors: Cost-Benefit Analysis. Working paper for Toward a New Pacific Regionalism*. Manila: ADB.

<sup>7</sup> TA 6360-REG *Strengthening Governance and Accountability in Pacific Island Countries* for US\$1,579,000 approved on 7 December 2006, cofinanced by the Government of Australia.

<sup>8</sup> PASAI membership is made up of SAIs from the wider Pacific region and was originally founded in 1987.

<sup>9</sup> This report uses Auditor-General as the generic designation for Heads of SAIs; for instance, the Director of Audit.

<sup>10</sup> The sub-regional group reflects their geographical adjacency (albeit transport links are indirect), indications of interest, small populations, same currency unit (Australian dollars), and similar auditing and accounting environments.

## V. REGIONALISM AND THE PACIFIC REGIONAL AUDIT INITIATIVE

### A. Introduction

6. PIF Leaders have long recognised that the serious challenges facing Pacific Island countries could be met through sharing scarce resources and aligning policies to strengthen national capacities to support their people. In response, following a broad-based national and regional consultation process, PIF Leaders approved the *Pacific Plan for Strengthening Regional Cooperation and Integration*<sup>11</sup> in October 2005.

7. At the same time, PIF Leaders and PIF Economic Ministers endorsed further study and analysis of Pacific Plan initiative 12.1, which includes the PRAI. This endorsement was based on a PIFS-commissioned report—*Toward a New Pacific Regionalism*<sup>12</sup>—which considered public auditing arrangements and found that substantial benefits could accrue from regional co-operation.<sup>13</sup> This section reviews the Pacific Plan's development and its underpinnings, the relevance of regionalism to Pacific public auditing, and the development of the PRAI.

### B. The conceptual basis: Toward a new Pacific regionalism

8. *Toward a New Pacific Regionalism* presented a conceptual framework for considering Pacific regionalism. It identified three fundamental principles.

9. First, as business and government requirements become more complex, the human capacity challenge that most PIF member states face—such as attracting, developing, and retaining skilled personnel—becomes increasingly important. Consequently, PIF member governments are experiencing difficulties in meeting their two core sovereign functions:

- formulating and implementing effective and appropriate national policies; and
- providing essential services including health, education, and policing.

10. Second, the establishment of Pacific regional institutions must be undertaken carefully. Pooling resources makes intuitive sense—especially for small states—because collective institutions can reap economies of scale.<sup>14</sup> But the Pacific region also faces diseconomies of isolation in bringing together geographically dispersed countries. Because travel links are often infrequent and costly, Pacific regional undertakings are expensive and regional institutions must be established only if benefits clearly exceed costs. Moreover, if the private sector or

<sup>11</sup> PIF. October 2005. *The Pacific Plan for Strengthening Regional Cooperation and Integration*. [www.forumsec.org](http://www.forumsec.org).

<sup>12</sup> ADB and Commonwealth Secretariat. 2005. *Toward a New Pacific Regionalism*. Manila: ADB. This report is underpinned by: White, Michael. 2005. *A Pacific Regional Panel of Auditors: Cost-Benefit Analysis*. Working paper for *Toward a New Pacific Regionalism*. Manila: ADB.

<sup>13</sup> Preliminary proposals regarding regionalism and audit services focused on a Regional Panel of Auditors (ADB and Commonwealth Secretariat. 2005). However, the July 2006 Forum Economic Ministers Meeting (FEMM) broadened this view when Ministers “agreed to consider the development of regional support to audit services to improve integrity and financial scrutiny”.

<sup>14</sup> Economies of scale are benefits associated with aggregating resources and eliminating duplication.

national governments can provide services effectively, there is little basis for establishing regional institutions. Furthermore, given high isolation costs, a sub-regional arrangement may be better than a whole-of-region approach (especially at the outset when fixed costs are high).

11. Third, there are three types of regionalism, each with their own cost-benefit balance:

- (i) **Regional co-operation** is currently the most common type of Pacific regionalism. It involves mechanisms for country discussion, harmonisation, and agreements. Implementation is left to the national level. Examples include regional meetings and strategic plan preparation. Regional co-operation benefits include consensus building, information sharing, and harmonising national standards and processes. Costs include travel expenses and the uncertainty that initiatives may not be implemented at the national level.
- (ii) **Regional service provision** is where service provision is merged at the regional level; for example, the University of the South Pacific. This involves establishing regional-level infrastructure and staff. Benefits include higher quality services at less total cost (because of fewer facilities, greater efficiency, and a higher degree of shared knowledge). The primary cost is travel and freight related.
- (iii) **Regional market integration** involves lowering the barriers for moving goods, services, and people between countries. This type of regionalism is more associated with Pacific Plan economic growth initiatives rather than governance-related initiatives.

### C. The Pacific Plan

12. PIF Leaders have increasingly voiced concerns that institutional weaknesses were undermining transparency, accountability equity, and efficiency in the management and use of resources. The Pacific Plan was developed in response to these and other concerns. Its goal was to enhance and stimulate economic growth, sustainable development, good governance, and security for Pacific countries through regionalism.

13. **Table 1** identifies the Pacific Plan's four strategic objectives (pillars) and progress under each pillar. As a living document, the Pacific Plan points to a number of promising initiatives to strengthen Pacific regionalism. Given the Plan's wide breadth and scope of initiatives, it is not surprising that more progress has been achieved in some of the four pillars than in others.

14. The pillars are based on the premise of countries working together to address common challenges and constraints, which include smallness, distance from major markets, geographical dispersion, and limited human and technical capacities. As *Towards a New Pacific Regionalism* states:

*The effective sovereignty of [Forum island countries]—their ability to effectively carry out chosen policies, is being eroded. The Pacific Plan can reverse this trend and reinforce the effective sovereignty of [Forum island country] governments by increasing [Forum island countries] access to high quality services, including policy and technical services, through delegating specialized functions and by broadening economic opportunities. (p. xiv).*

15. *Toward a New Pacific Regionalism* identified and analysed possible initiatives under the four Pacific Plan pillars. It concluded that—given the capacity constraint faced by many PIF member countries in discharging their sovereign functions—improving governance through deeper regional service provision would yield economic, social and political benefits exceeding all others to be found within the Plan.

**Table 1: Pacific Plan progress**

<b>Strategic Objective (Pillar)</b>	<b>Progress</b>
<b>Economic Growth:</b> Increased sustainable trade (including services) and investment; improved efficiency and effectiveness of infrastructure development and associated service delivery; and increased private sector participation in, and contribution to, development.	Initiatives to strengthen transport within the region as well as the information and communications infrastructure are in the early stages of discussion and implementation. The initiatives related to market opening, particularly in the area of labour mobility, remain under consideration for further analysis.
<b>Sustainable Development:</b> reduced poverty; improved natural resource and environmental management; improved health; improved education and training; improved gender equality; enhanced involvement of youth; increased levels of participation and achievement in sports; and recognised and protected cultural values, identities, and traditional knowledge.	Progress continues to be made in both the health and education sectors with an intensifying recognition of the need to address, in particular, non-communicable diseases and the importance of progressing the regional qualifications register. Important progress has also been made in other initiatives in the areas of energy security, disaster risk management, and environmental management and conservation.
<b>Good Governance:</b> Improved transparency, accountability, equity, and efficiency in the management and use of resources in the Pacific.	Initiatives focused on auditing, Ombudsman offices, and strengthening leadership continue to demonstrate solid progress considering the sensitivities around which they deal.
<b>Security:</b> Improved political and social conditions for stability and safety.	Key achievements under this pillar have included strengthening of maritime safety and security, significant progress in developing a natural disaster Regional Early Warning Strategy through a process of comprehensive multi-party consultation, and progress in addressing the intensifying problems of unchecked urbanisation throughout the Pacific.

Source: PIFS. 2007 December. *Pacific Plan Annual Progress Report*. Suva: PIFS. Available at [www.forumsec.org](http://www.forumsec.org)

16. PIFS is, in the first instance, responsible for Pacific Plan implementation. Political oversight and guidance to the Secretariat are provided, during the year, by the PPAC, chaired by the Forum Chair and comprising PIF country representatives. The Forum Chair (as Chair of the PPAC), reports quarterly to PIF Leaders on the Plan's implementation. Overall implementation of Pacific Plan initiatives is reviewed annually by PIF Leaders.

#### **D. The Pacific Regional Audit Initiative**

17. Regionalism is not new to Pacific public auditors—they have been represented by SPASAI, a regional working group of the International Organisation of Supreme Audit Institutions (INTOSAI).<sup>15</sup> In December 2005, PIFS agreed that ADB would work under PIF co-ordination to develop the PRAI. AusAID had also indicated willingness to support the PRAI. Consultations were held with SPASAI and its members to develop awareness of and seek support for the PRAI.<sup>16</sup>

18. The 2006 SPASAI Congress considered and, after much discussion, agreed unanimously to support the PRAI. Auditors-General were enthusiastic about the possibilities for PRAI, but wanted to ensure the initiative's success and sustainability. To that end, SPASAI intended starting with a transitional phase during which in-depth institutional and issue diagnoses would be conducted. In particular, rather than make an immediate decision about the (possibly new) location and structure of a strengthened SPASAI Secretariat, they wanted to develop a comprehensive proposal based on extensive analysis, which they would decide upon at a future SPASAI Congress.

19. The PRAI's overarching objective is to raise Pacific public auditing to uniformly high standards. The SPASAI Regional Institutional Strengthening Committee (RISC) was set up to oversee the PRAI design process, which was carried out in three phases:

- Phase 1 (Benchmarks) involved identifying those features associated with a high performing Supreme Audit Institution (SAI) (for example, an environment that supports auditor independence).
- Phase 2 (Diagnosis) involved preparing diagnostic studies for 20 SAIs. A region-wide diagnosis of issues was also undertaken and included identifying factors that facilitate successful SAI transformations. The diagnostic work also examined design options for establishing a sub-regional approach to public auditing for Kiribati, Nauru, and Tuvalu (which is presented in this report).

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<sup>15</sup> INTOSAI, established in 1953, is the professional organisation of SAIs in countries that belong to the United Nations or its specialised agencies.

<sup>16</sup> Consultations included discussions with SPASAI members, PIFS, and development partners at conferences and workshops in Suva, Fiji (26 February to 3 March 2006), Port Moresby (January-April 2006), Nadi, Fiji (6-7 April 2006), and Saipan, Commonwealth of the Northern Mariana Islands (18-26 May 2006).



- Phase 3 (Roadmap) involved the development of a PRAI design and roadmap, including consideration of SPASAI institutional arrangements. SPASAI discussed the PRAI design and roadmap at its 2008 Congress, which was held in Rarotonga on 14-18 April 2008.

## **E. PASAI Secretariat**

20. To better reflect the diversity and the increased geographical spread of its membership, SPASAI's changed its name to the Pacific Association of Supreme Audit Institutions (PASAI) in 2008.

21. As noted above, the institutional arrangements for the new PASAI Secretariat were considered and an implementation plan for the Secretariat and the launch of the SAS programme was proposed. The implementation plan set out three phases:

- (i) **Phase I: Strengthen the PASAI Secretariat (2008-2009):** As part of the overall PRAI, the PASAI Secretariat was given institutional form and resources. Among other things, the Secretariat would provide technical support to regional SAIs, encourage and support initiatives, co-ordinate region-wide performance audits, and co-ordinate the SAS programme.
- (ii) **Phase II: Initial SAS programme (2009-2012):** While the PASAI Secretariat was being strengthened, an interim SAS Programme Co-ordinator was appointed to manage the programme's establishment. The initial programme involved establishing the SAS team and developing and implementing the programme for the three participating countries. The initial programme targeted financial audits of public accounts.
- (iii) **Phase III: Possible SAS programme expansion (2010-):** Depending on early results and country demand, the SAS programme could be expanded as follows:
  - As the SAS approach demonstrates its effectiveness in improving audit quality and timeliness and building in-country capacity, additional Auditors-General may wish to join the SAS programme. Expansion options will be reviewed on a case-by-case basis.
  - The scope of audits can be extended, beyond the initial focus on financial and performance audits to include, for example, compliance, risk management, and environmental audits.
  - The SAS team's size can be expanded to incorporate more staff from participating SAIs.

22. Possible closer co-operation might be considered once the participating countries are collaborating more closely, auditing frameworks are harmonised, and personnel are working

more easily across offices. Options include: (i) a sub-regional panel of auditors; (ii) a single Auditor-General for the sub-region, based in one country; and/or (iii) a "remote" Auditor-General. Any examination of these options would have to carefully consider constitutional issues, SAI independence, budget outlays (both national and regional), and implementation timeframes.

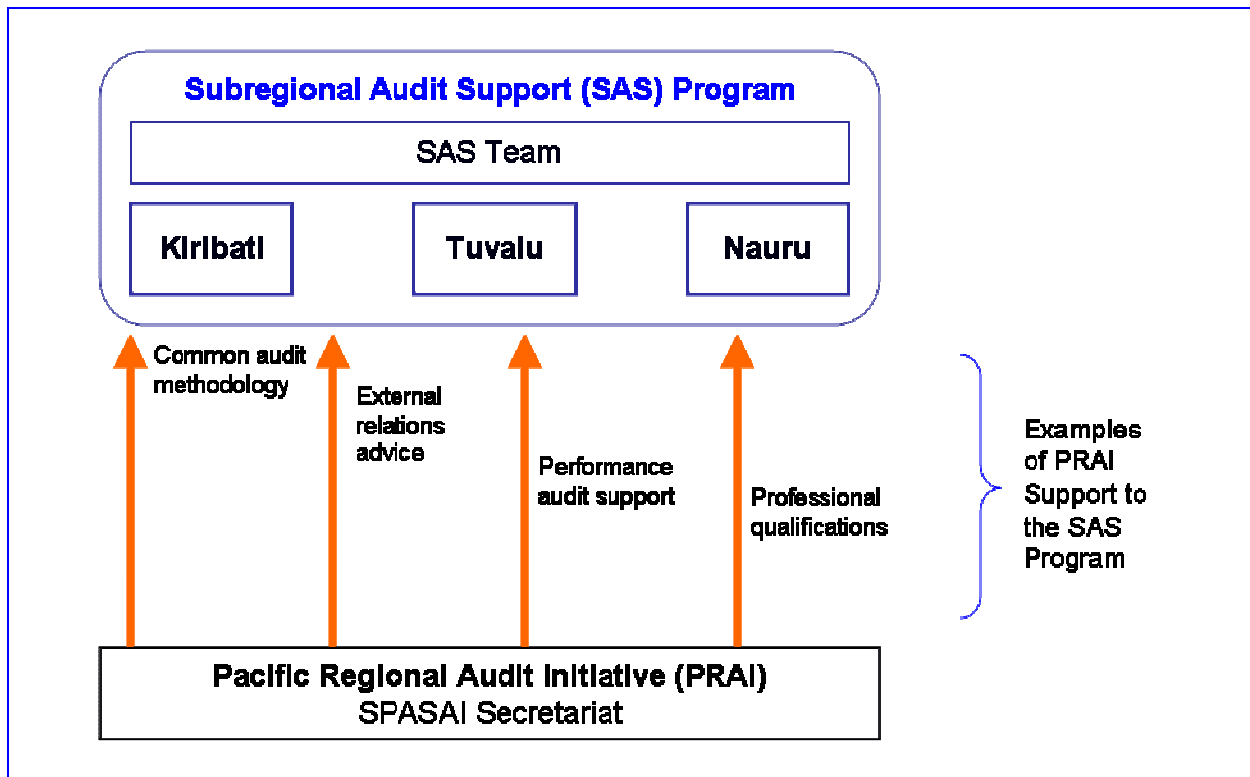
23. At the 12<sup>th</sup> PASAI Congress in Koror, Palau, in July 2009, the members of PASAI adopted a new charter with updated mandates and founding principles. This charter paved the way for the PASAI Secretariat to develop into an independent organisation of its own right under a new governance structure. Refer to **Appendix 3** for a summary of the objectives, mandate, and principles as established under the new charter.

24. In January 2010, the PASAI Secretariat officially opened office in Auckland, New Zealand. Eroni Vatuloka was appointed Executive Director of the Secretariat to oversee the Secretariat and its resources.

25. One of the key programmes for the Secretariat is the SAS programme. Although it was planned that the Secretariat would provide administrative and technical support to the programme, this could not be fully achieved in year 1 of the programme because of the parallel timing of setting up the Secretariat and mobilising the SAS team from July 2009 to April 2010.

26. The overall PRAI programme (through the PASAI Secretariat) would provide a backstop and supplement the SAS programme. The PRAI would provide, among other things, support to develop a common audit methodology, external relations advice (including editorial support and advice on presenting audit findings), co-ordinated annual regional performance audits, and support to attain academic and professional qualifications (see **Figure 3**).

Figure 3: PRAI and the SAS Programme



PRAI = Pacific Regional Audit Initiative, SAS = sub-regional audit support, SPASAI = South Pacific Association of Supreme Audit Institutions

27. Year 1 of the SAS programme ran from July 2009 to April 2010 and was administered by the ADB with a view that administration of year 2 of the programme be transferred to the PASAI Secretariat.

28. Throughout the implementation of the PRAI and year 1 of the SAS programme, it was clear that donors had a significant interest in the success of these projects. During the conceptual stages, the donors took a lead role. However, over time there has been a subtle shift in the ownership of the overall PRAI. The PASAI Secretariat is now established and clearly in the "driving seat" setting the direction through its business plan and annual work programme.

## VI. THE SUPREME AUDIT INSTITUTIONS IN KIRIBATI, NAURU, AND TUVALU

### A. Introduction

29. Kiribati, Nauru, and Tuvalu each have an SAI. SAIs are agencies responsible for auditing government finances. Their legal mandates, reporting relationships, and effectiveness vary, reflecting different governance systems and government policies. However, their primary purpose is to oversee the management of public funds and the quality and credibility of governments' reported financial data. SAIs play a major role in auditing government accounts and operations and in promoting sound financial management and overall accountability in their governments. **Appendix 2** provides a brief background to auditing in the public sector. The information included in this section of the report reflects the situation at the time of planning the SAS programme.

### B. Status of Supreme Audit Institutions in Kiribati, Nauru, and Tuvalu

30. **Table 2** indicates broad similarities in office size, independence frameworks, auditing and accounting standards, and the language in which records are kept. Nevertheless, differences include Kiribati's comparatively larger staff numbers, Tuvalu's contracting out of some audits, and the varying timeliness of public accounts' audits.

**Table 2: Sub-regional SAI comparison**

Attribute	Supreme Audit Institution		
	Kiribati	Nauru	Tuvalu
Office budget (AUD)	591,653	106,172	171,405
Mandate	Mandate expressed as responsibility for financial audits, but in practice, audits have elements of risk management, compliance, performance, and environment auditing	Mandate expressed as responsibility for financial audits only	Recently-enacted Audit Act 2007 extends mandate to performance audits with an emphasis on performance, effectiveness, efficiency, and compliance
Total number of statutory audits	67	20	34
Total number of audits contracted out	0	0	10 (KPMG, Suva, Fiji)

Attribute	Supreme Audit Institution		
	Kiribati	Nauru	Tuvalu
Last audited public accounts	2004	1999 (but public accounts have been prepared for FY 2007)	2006
Public expenditure and financial accountability (PEFA) performance indicators (PI):	2009 PEFA	Currently being finalised (draft results)	2007 mini-PEFA not published or approved
PI-10: public access to key fiscal information	C	C	
PI-25: quality and timeliness of annual financial statements	D+	N/R	
PI-26: scope, nature and follow-up of external audit	C+	N/R	
PI-28: legislative scrutiny of external audit reports	B	N/R N/R = Not rated	
Total staff (including support staff)	Entitlement – 53 Positions vacant – 13	Entitlement – 13 Positions vacant – 9 (including the Director of Audit and all “professional” posts).	Entitlement – 12 Positions vacant – 2
Staff who have a professional qualification	6 staff have Accounting Degrees and 3 staff have Accounting Diplomas	1 staff has an Accounting Diploma	1 staff has an Accounting Degree and 1 staff has an Accounting Diploma
Staff who are members of a professional accounting body	0	0	1

Attribute	Supreme Audit Institution		
	Kiribati	Nauru	Tuvalu
Accounting standards	Generally accrual but do use IFRS (but no prescribed standards)	Generally cash-basis (but no prescribed standards)	IFRS for SOEs, modified accrual for Whole of Government
Auditing standards	ISA	No recent financial audits undertaken	ISA
Affiliation with professional accounting bodies	None	None	FIA
SAI independence	Legal framework is strong; but the office's legislation is outdated	Legal framework has some provisions to support independence; but is outdated	Legal framework is strong and the office's new legislation meets most independence requirements
Language of audit records and reporting	English	English	English

FY = Fiscal Year, IFRS = International Financial Reporting Standards, ISA = International Standards on Auditing, FIA = Fiji Institute of Accountants, SOE = State-owned enterprise.  
Source: SPASAI and ADB.<sup>17</sup>

## 1. Kiribati National Audit Office

31. The Kiribati National Audit Office (KNAO) has a strong constitutional framework, particularly the constitutional protections of KNAO and the constitutional origin of the Public Accounts Committee. However, KNAO's supporting legislation, the Ordinance, is outdated and a new Audit Act is needed, with up-to-date provisions dealing with independence, mandate, and discretion in work programme development and reporting.

32. Despite the large staff establishment, when compared with other SAIs, KNAO has few qualified staff and none that belong to a professional accounting body. The information technology environment is basic and KNAO's audit manual requires significant revision.

33. KNAO has made good progress in overcoming the audit backlog on the government accounts. However, substantial audit arrears remain in other sectors.

<sup>17</sup> Kiribati and Tuvalu participated in a 2006 Pacific SAI stocktaking exercise, which was updated subsequently through country visits. (The visits were undertaken by the PRAI Legal Expert in Tuvalu on 11-14 December 2007 and Kiribati on 19-20 December 2007). The Nauru data was provided by the Acting Director of Audit.

## **2. Nauru Department of Audit**

34. The Nauru Department of Audit (NDOA) is currently established with 13 positions (however, only four positions are funded). Six posts are considered professional. Five positions have been vacant since 2002. The sixth position, the Director of Audit, was vacated in June 2007 (although a replacement has recently been appointed—the Government of India is funding the incoming Director of Audit). Seven posts are for clerical and support staff, of which four are filled currently.

35. NDOA has not carried out any basic SAI functions for some time. The government accounts have not been audited since Fiscal Year (FY) 1998 and other government units have substantial audit arrears. However, as a consequence of the Ministry of Finance's efforts to improve public financial management, the cash-basis public accounts have been prepared for FY 2006 and FY 2007 and are now available for audit. Moreover, substantial efforts are being made to prepare financial statements for five government commercial entities. All financial statements should be up to date by FY 2009. However, NDOA faces severe capability and capacity issues and, in its present state, is unable to audit these accounts.

## **3. Tuvalu Audit Office**

36. The Tuvalu Audit Office (TAO) is headed by an accounting degree graduate (working towards his professional qualifications) and is supported by an AusAID-funded Audit Adviser. The Adviser is on a long enough placement to enable major revisions of auditing systems, and their computerisation, to be completed and implemented. The new Audit Act 2007 meets most requirements for an independent SAI. The mandate is generous and gives TAO the ability to do all it needs to. There is a supportive Public Accounts Committee, which is endeavouring to provide support to TAO through scrutiny of whole of Government accounts. It is assisted in this by the accounts being up-to-date—the 2006 accounts were audited and presented to Parliament in October 2007.

37. Despite these strengths, TAO is a small organisation and faces major challenges in staff capability and capacity. The budget—in particular, the staff establishment and travel budget—is insufficient to enable TAO to discharge its mandate. Overall levels of funding remain under the control of the Executive (despite a new requirement to consult the Public Accounts Committee). TAO has no training budget and is dependent on the Executive for support to obtain funding for training and human resource development.

## **C. External support to sub-regional public auditing**

38. The following external support is being provided to public auditing in the sub-region:

- (i) KNAO is working with AusAID to design a technical assistance programme to develop performance audit capacity;

- (ii) TAO has a AusAID-funded full-time Audit Adviser to the Auditor-General on a two-year placement from September 2010 through Australian Volunteers International and Pacific Technical Assistance Mechanism;
- (iii) the Auditor-General of Tuvalu completed an NZAID-funded six-month attachment to the Office of the Auditor-General in New Zealand in February 2008; and
- (iv) the vacant Director of Audit position in Nauru was filled and was funded by the Government of India. The current Director is due to complete his term and India is committed to fund a replacement.

#### **D. Cross-cutting sub-regional issues**

39. The three SAIs are at differing development stages, but face similar challenges in the areas of human resource capacity and the efficacy of their audit methodologies and systems.

40. Common human resource challenges include the small number (non-existence) of trained and qualified personnel, the disproportionate effects in small offices of staff turnover or absences, difficulties in attracting and retaining staff—in part due to a lack of training opportunities, and the absence of structured career and professional development paths.

41. Moreover, the SAIs face difficulties in keeping pace with changes to international financial reporting and auditing standards, and ensuring that audit methodologies and systems reflect these standards. Furthermore, audit recommendations and observations are usually unheeded.

42. Finally, significant progress to reduce audit backlogs has been made in some countries and for some sectors. Nevertheless, the late provision or absence of audited financial information undermines accountability and impedes the ability of policy-makers to react in a timely manner to emerging problems.



## VII. THE SUB-REGIONAL AUDIT SUPPORT PROGRAMME

### A. Overview

43. This section presents the SAS programme for Kiribati, Nauru, and Tuvalu. The programme's objective is to enable the public accounts of participating countries to be audited to uniformly-high standards in a timely manner. The programme also aims to strengthen in-country public financial management capacity and enhance accountability mechanisms.

44. The programme established a SAS team, which worked with participating SAIs to conduct financial audits of selected public entities. Initially, the team were to conduct performance audits, however, another project ran independently throughout the wider Pacific region to complete a co-operative performance audit on waste management.

45. Year 1 of the programme ran from July 2009 to April 2010.

46. A jointly-agreed plan determined the timing and focus of SAS team visits to each participating country. The purpose of the team's visits was to:

- (i) assist in financial audits, with a strong emphasis on improving audit quality and timeliness, and improving audit report efficacy and impact;<sup>18</sup>
- (ii) train SAI personnel and identify capacity and accountability constraints that could benefit from additional support; and
- (iii) improve harmonisation and information sharing, with the objective of achieving common auditing frameworks and methodologies.

47. The SAS team consisted of two secondees from Kiribati and one secondee each from Tuvalu and Nauru. The secondees were supplemented by two experienced auditors (a project co-ordinator and a public auditing expert), who led the team in workshop-style training and completing financial audits. Secondees were attached to the SAS team for a nine-month period and spent a total of approximately six months away from their home country while travelling with the team to the other two countries.

48. A SAS committee was formed comprising of the Auditors-General of Kiribati, Nauru, and Tuvalu, PASAI, and development partners. SAS committee meetings were held:

- in Wellington, New Zealand (February 2009), before the programme started, to agree on the final details of the programme;

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<sup>18</sup> Independence issues notwithstanding, given the generally poor state of accounting records and financial statement preparation, it is likely that the SAS team will also provide some advice and assistance on financial statement preparation.

- after the Tuvalu phase of the programme (October 2009), to obtain first hand feedback from secondees and to assess whether any changes were required before the Kiribati phase of the programme started; and
- at the end of the Nauru phase of the programme (May 2010). This was to provide an overall summary of the challenges and successes from year 1 and was also the start of planning for year 2 of the programme.



**SAS Committee meeting at Pacific Island Forum Secretariat, Suva, October 2009**

Front row (L-R): Maketara Metutera (Kiribati secondee), Selai Managreve (Tuvalu secondee), Isaako Kine (Tuvalu Auditor-General), Beulah Daunakamakama (SAS Audit expert/ADB consultant), Taati Mamara (Kiribati secondee), Valeni Natano (Nauru secondee). Second row (L-R): Sanjesh Naidu (PIFS), Raimon Taake (Kiribati Auditor-General), Hayden Everett (ADB), Malie Lototele (ADB), Alex George (SAS coordinator/ADB consultant). Back row (L-R): Cecilia Warren (NZAID), Suhas Joshi (PFTAC), Bivash Mondal (Nauru Director of Audit), Eroni Vatuloka (PASAI), Lai Tora (ADB).

49. The SAS team also delivered two presentations to the PASAI Congress in Palau in July 2009 (before the team travelled to Tuvalu) and then again in Kiribati in July 2010 (after year 1 of the programme was completed).

## **B. Team selection**

### *Selection of secondees from participating SAIs*

50. Each participating SAI supplies personnel to the SAS team for 9-12 months, during each SAS programme year. Having staff from participating SAIs as part of the team recognises the direct benefits that will flow from the SAS team's services. Although the secondees spend some

time working in their home country, two phases of the programme require them to spend time away from their home country.

51. Participating SAIs continue to pay secondees' salaries while the SAS programme funding provides travel and living allowances and medical insurance.

52. SAS programme funds have also been used to purchase a laptop for each secondee. The laptop is returned to the PASAI Secretariat at the end of the secondment and reissued to the incoming SAS secondees for the next year of the programme.

53. To be selected for the SAS team, secondees ideally have an accounting diploma or hold a degree, with potential for further career development and advancement.

54. NDOA's small size limits its ability to provide secondees. Consequently, it may be necessary after the first two secondments to identify Nauruan accounting students and engage them into the SAS team at graduation with the expectation that they will then join NDOA or another Government agency (for example, the Ministry of Finance) after their secondment.

#### *Selection and management of SAS team audit experts*

55. An AusAID study of capacity building in public finance concluded that:

*at the very least, [external] adviser[s] must be technically competent and have the interpersonal skills needed to ensure they are able to work well with, and transfer skills to, local staff. A common view was that, in the main, the experience and background (particularly previous development aid experience) of an adviser was relatively unimportant – that the key to success lies with their personal attributes and commitment to the task.”<sup>19</sup>*

56. To be selected as a SAS team audit expert, candidates have to have proven technical qualities (for example, the capacity to work at both the strategic and operational levels), interpersonal skills (for example, people management skills), and experience working in government or directly in the technical field and working with different cultures.

57. The audit expert selection process is rigorous, as a poor selection will have a large effect on the SAS team's efficacy. The following mitigating strategies are applied:<sup>20</sup>

- (i) The participating Auditors-General are involved in the selection. The AusAID joint selection also helps build ownership of the project (this adds a cost to the selection process, but this is offset by the reduction in risk associated with a poor selection).

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<sup>19</sup> AusAID. 2004. *Capacity Building in Public Finance: An evaluation of activities in the South Pacific*. Canberra: AusAID. p. 65-66.

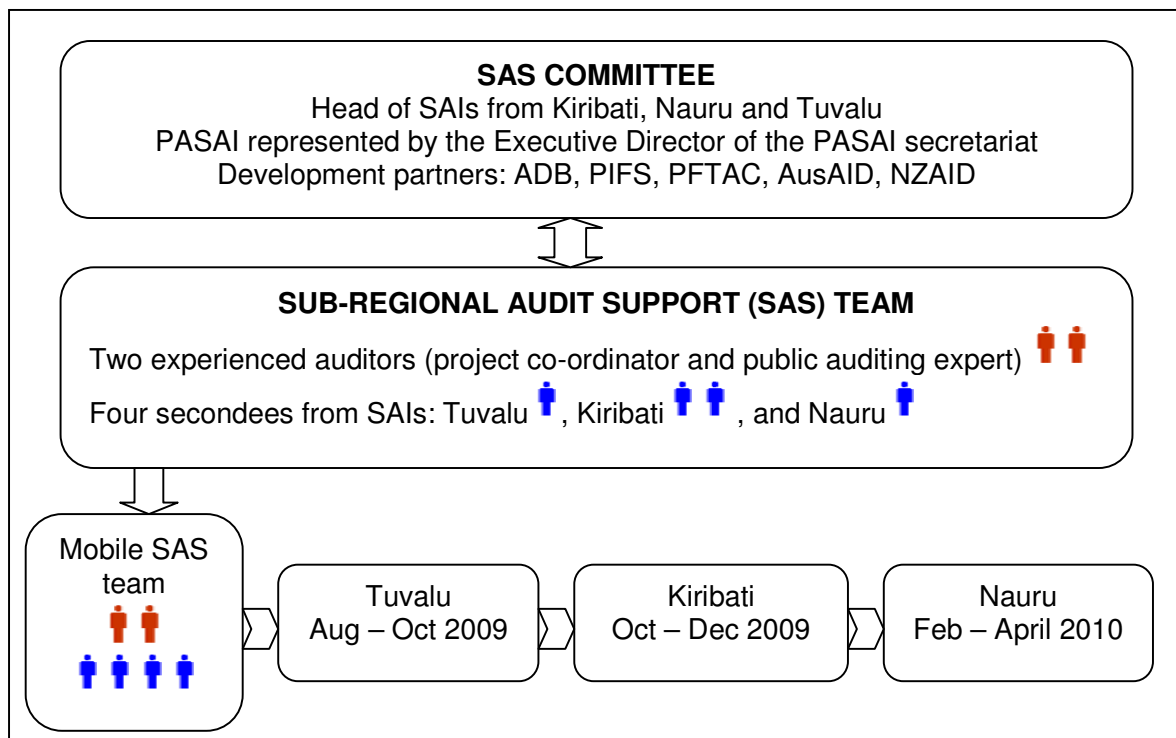
<sup>20</sup> AusAID. P. 67.

- (ii) The selection process is designed to test interpersonal as well as technical skills, and advisers must meet both sets of criteria—technical expertise is considered of little value if the adviser does not have the ability to share their expertise and work well with their counterparts.

### C. Year 1 implementation

58. **Figure 4** depicts how the SAS team is made up and when the team worked where in year 1 of the programme.

**Figure 4: The SAS team and timing of audits**



59. The main activities of the SAS team in each country were:

- participating in workshop-style training covering auditing and finance topics;
- meeting with local development partners;
- providing auditing support to other local audit teams;
- providing public financial management advice, as needed;
- participating in team building activities;
- providing feedback based on PASAI competency framework;
- completing financial audits with a common audit framework; and

- equipping secondees with strategies on how to adopt the SAS methodology when returning to their home SAI.

60. **Table 3** depicts the range of public sector audits the SAS team audited as selected by the Auditors-General of Kiribati, Nauru, and Tuvalu.

**Table 3: Audits carried out by the SAS team**

#	Entity	Country	Sector	Financial year
1	Tuvalu Whole of Government	Tuvalu	Government	31 Dec 2008
2	Telecommunication Services Kiribati Limited (TSKL)	Kiribati	SOE/Public enterprise	31 Mar 2007
3	Telecommunication Services Kiribati Limited (TSKL)	Kiribati	SOE/Public enterprise	31 Mar 2008
4	Kiribati Provident Fund (KPF)	Kiribati	SOE/Public enterprise	31 Dec 2006
5	Ronphos Limited	Nauru	SOE/Public enterprise	30 Jun 2006
6	Central Utilities (limited scope)	Nauru	SOE/Public enterprise	30 Jun 2006
7	Central Utilities (limited scope)	Nauru	SOE/Public enterprise	30 Jun 2007
8	Central Utilities	Nauru	SOE/Public enterprise	30 Jun 2008

SOE = State-owned enterprise

61. Once audits were completed, the SAS team issued audit opinions along with a management report and other internal reports required to support Auditors-General reporting to Parliament and fielding queries from Public Account Committees.

62. Responsibility for signing audit opinions and reporting to Parliament remained with respective Auditors-General.

63. Audit files were retained by each SAI as a valuable reference for future audits. This was particularly so for those audits in arrears, for example, the Kiribati Provident Fund. The SAS team completed the 31 December 2006 audit of the Fund. It was agreed that the local SAI would complete the 31 December 2007 and 2008 audits and that the 31 December 2009 audit would be complete during year 2 of the SAS programme.

## **D. Outputs**

64. The SAS programme intends to deliver the following outputs during the initial programme period (2009-2012).

### **1. Strengthen sub-regional co-operation and adopt a common methodology**

65. Auditors-General will co-operate closely to plan and monitor activities. Although the participating countries have broadly similar Commonwealth-based accounting and auditing frameworks, differences exist. This will hinder sub-regional co-operation (for instance, audit methodologies vary).

- (i) Sub-regional co-operation. To enhance co-operation, the SAS programme will support twice-yearly SAI meetings. One meeting will be convened during the annual PASAI Congress.<sup>21</sup> The other meeting will be held at the PASAI Secretariat and will also involve Finance Ministry representatives (Financial Secretaries or Chief Accountants). These meetings will plan and monitor SAS programme activities.
- (ii) Sub-regional audit programme. The SAS team will prepare and maintain a rolling sub-regional audit programme, which the sub-regional meetings will review. The programme will identify the focus, sequencing, and timing of audits and other activities and provide the basis for monitoring and evaluation.
- (iii) Common audit methodology. The SAS team will work with Auditors-General to agree and implement a common audit methodology based on International Standards on Auditing. This activity will be co-ordinated closely with the overall PRAI, which will examine common audit methodologies for the whole Pacific region.
- (iv) Guidance and training materials. The SAS programme will identify and/or prepare guidance materials on auditing practices and approaches, to support the common audit methodology's introduction. These materials will support SAS programme training activities. This activity will be carried out in close collaboration with the overall PRAI using existing materials, such as those prepared by the INTOSAI Development Initiative (IDI).

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<sup>21</sup> It is proposed that PASAI Congresses be held every two years. If accepted, the SAS programme proposal will be adjusted accordingly.

## **2. Enhance financial audits of public accounts**

66. The timeliness and quality of public accounts varies among the participating countries.<sup>22</sup> The timeliness of public accounts preparation has improved dramatically in recent years; both Nauru<sup>23</sup> and Tuvalu are now up to date. Kiribati is just behind having prepared their most recent public accounts for FY 2004. Kiribati and Nauru use a cash accounting basis when preparing the public accounts, whereas Tuvalu has started to move to an accrual accounting basis.

67. There is a need to improve audit impact. Audit recommendations and observations, where they are made, go unheeded in many instances. The application of the audit findings needs to be greatly improved through a mix of strategies. Greater transparency through more interaction with civil society along with more focused and effective report writing and report follow-up processes would increase the incentives for auditees to take action on audit findings.

68. The SAS team is working under the guidance of the Auditors-General to perform financial audits of the annual public accounts, including the preparation of audit opinions and reports. The SAS team also supports their dissemination to Public Accounts Committees, Parliament, and civil society. As separate accounts are prepared in Kiribati for each component part of the public accounts, the SAS team may initially focus on a component part, rather than the full public accounts.

## **3. Carry out performance audits**

69. A performance audit is the audit of the economy, efficiency, and effectiveness with which an entity uses its resources in carrying out its responsibilities.

70. KNAO has no explicit mandate to carry out performance audits. However, the Auditor-General regards such a mandate as implicit in the requirement to carry out financial audits (a new Audit Act will be required to provide an explicit mandate). KNAO does carry out some performance auditing in the course of financial auditing of the public accounts, and reports on the results in the audit report presented to Parliament, which has had some impact. KNAO has reported on environmental matters (dumping of waste), health (purchase of pharmaceuticals that are past their use-by-date), and roading (unnecessary road maintenance). The Public Accounts Committee followed up these issues with the concerned Permanent Secretaries. TAO has a mandate to carry out performance audits; but, because of a lack of capacity, has been unable to do so. NDOA currently has no explicit legislative mandate to carry out performance audits.

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<sup>22</sup> The public accounts are the core Government financial statements. Developing countries' public accounts are usually prepared on a cash accounting basis. It is usual for cash transactions with public enterprises to be disclosed in the public accounts (e.g., capital contributions, subsidies paid, or dividends received).

<sup>23</sup> The accounts in Nauru have been prepared for FY 2006 and FY 2007, but the absence of records prevents the preparation of accounts for earlier years.

71. Based on the agreed sub-regional audit programme, the SAS team will work with each SAI to carry out performance audits—for example, in infrastructure management or procurement. However, we note that the SAS team’s initial focus will be on the financial audits of public accounts.

#### **4. Carry out public enterprise audits**

72. Based on the agreed sub-regional audit programme, the SAS team is working with each SAI to carry out financial audits of public enterprises. However, it will not carry out audits that are being performed by private sector auditors on behalf of the SAI.

73. As is the case for performance auditing, this is likely to be an area that the SAS team will expand once its capacity develops.

#### **5. Train secondees and SAI personnel**

74. SAS team secondees receive high-quality audit training and experience. Moreover, during their time with each SAI, the SAS team trains SAI staff and related staff (such as in the Department of Finance). This training includes updates on international developments, the audit’s focus, the SAS team’s approach, and how to interpret and communicate audit findings.

75. Finance professionals working in the sub-region are unable to obtain the necessary practical experience required for professional memberships. It is envisaged that the strengthened PASAI Secretariat will advocate to regional professional bodies the recognition of SAS team experience for professional memberships.

#### **6. Project performance monitoring**

76. The programme’s impact is being monitored through the PASAI performance framework.

#### **7. Project reviews and evaluation**

77. The participating Governments, ADB, and co-financing partners will conduct annual programme review missions. The reviews will consider budgetary allocations, operation and maintenance costs, staffing, and other incremental recurrent costs, implementation arrangements, and programme achievements. The review will include assessing progress, identifying difficulties and constraints, and identifying corrective approaches.

78. In addition, the participating Governments, ADB, and co-financing partners will jointly conduct a mid-term programme review. The mid-term review will: (i) review the scope, design, and implementation arrangements; (ii) assess performance against targets and benchmarks; (iii) review implementation lessons and experiences; (iv) review compliance with the [grant] agreement; and (v) recommend project implementation changes, if required.



79. The participating Governments, ADB, and co-financing partners will evaluate the programme in 2012 to determine whether it should be continued and, if so, what changes might be made to improve efficacy and efficiency.

**E. Output update**

80. **Table 4** provides a brief summary of results against the outputs envisaged during the planning stages of the SAS programme.

**Table 4: Summary of SAS programme results against outputs**

Output update	Year 1 progress
Strengthen sub-regional co-operation and adopt a common methodology	<p>The SAS committee met a number of times during the year.</p> <p>A sub-regional audit programme was agreed for year 1 and tentatively planned for year 2, with the committee agreeing that continuity in the clients would be advantageous for all.</p> <p>Common audit methodology was utilised in all three locations. PASAI is currently drafting a financial audit manual that will document a common methodology for PASAI members to subscribe to.</p> <p>Common guidance and training materials were prepared using a combination of materials already provided by IDI and knowledge from the audit experts.</p>
Enhance financial audits of public accounts	<p>Only Tuvalu selected their Whole of Government accounts for the SAS team to audit. The audit opinion, management letter, and audit highlights memorandum was prepared for tabling in Parliament and the Public Accounts Committee. Regular update reports (verbal) and the quality of reporting in the absence of the SAS team (who had moved to the next location), provided sufficient support to the Auditor-General to field queries. The financial audit for the Whole of Government accounts was enhanced through the level of audit evidence and sufficient coverage of audit risk through testing and reporting.</p>
Carry out performance audits	<p>The SAS team did not carry out any performance audits and it would be premature to say that they would have the capacity to do so given the work needed in the financial audit area. PASAI is supporting a separate project for a co-operative performance audits.</p>

Output update	Year 1 progress
Carry out public enterprise audits	The SAS team completed a number of public enterprise audits.
Train secondees and SAI personnel	<p>While in each country, the core SAS team of six was supplemented by other local staff at the SAI. This was an effective way to increase the knowledge of staff in each SAI.</p> <p>Workshop training included staff from SAIs and also a cross-section from the public sector, including public entities, Ministry of Finance, internal audit, and other finance officers working in line ministries.</p> <p>Secondees confirmed that after hearing the workshop material three times (in each location), they could comprehend this with the benefit of the on-the-job training.</p>
Project performance monitoring	PRAI status reports have been distributed under PASAI, which have included SAS programme progress reports. PEFA indicators will be monitored in the next round of PEFA assessments. All three countries have set benchmark grades for PEFA with recent assessments being completed: Kiribati (November 2009), Nauru (October 2010), and Tuvalu (to be undertaken in April 2011).
Project reviews and evaluation	Project reviews were carried out in October 2009 and May 2010. A formal SAS programme report was completed at the end of year 1 and presented at the PASAI Congress in July 2010.

## VIII. PROGRAMME BENEFITS, RISKS, AND IMPACT REPORT

### A. Benefits

#### 1. Improved transparency and accountability

81. Fiscal transparency aims to enhance the public's understanding of the structure and functions of government, fiscal policy intentions, the soundness of public sector accounts, and fiscal projections.

*Enhanced transparency is particularly important for small states, because they are at an informational disadvantage compared to large countries—foreign investors tend to know less about them—while at the same time they are more open and dependent on foreign capital. In an increasingly globalized world, small states need to compete with large countries that investors are more familiar with, that benefit from economies of scale, and that suffer less from isolation.<sup>24</sup>*

82. **Enhancing the timeliness and reliability of financial information.** The absence or late provision of audited financial information fundamentally undermines accountability mechanisms. Furthermore, without timely and reliable information on emerging issues, policy-makers are unable to react in a timely manner to emerging crises and problems. Although some participating countries have made significant progress to reduce audit backlogs—in line with the general Pacific-wide trend for improved financial information—others have far to go. The SAS programme intends to enhance the timeliness and reliability of financial information.

83. **Improving audit impact.** There is a pressing need to improve audit impact. Audit recommendations and observations—where made—often go unheeded. The SAS programme focuses on improving the application of audit findings. Greater transparency through more interaction with civil society along with more focused and effective report writing and report follow-up processes will increase auditees' incentives to take action on audit findings. In that connection, the SAS programme, supported where necessary by the broader PRAI, will support improved audit reports and their communication, and the understanding of those reports by Public Accounts Committees, parliamentarians, and other stakeholders.

84. **Safeguarding public revenues and assets.**<sup>25</sup> Several Pacific countries have established sovereign wealth funds to manage revenue uncertainty and support fiscal sustainability.<sup>26</sup> Given the reliance of many Pacific island countries on volatile export bases—such as tourism, fishing licenses, remittances, and development assistance—these funds are a tool for short-term

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<sup>24</sup> Cas, Stephanie Medina and Rui Ota. 2008. *Big Government, High Debt, and Fiscal Adjustment in Small States*. IMF Working Paper WP/08/39.

<sup>25</sup> This section draws heavily on Le Borgne, Eric and Paulo Medas. 2007 December. *Sovereign Wealth Funds in the Pacific Islands Countries: Macro-Fiscal Linkages*. Washington: International Monetary Fund.

<sup>26</sup> These funds were set up with revenue from non-renewable sources (Kiribati, Timor-Leste, Papua New Guinea, Nauru), revenue windfalls (Tonga, Tuvalu), and or donor contributions (Tuvalu, Marshall Islands, Micronesia, and Palau).

stabilisation, long-term savings, and/or long-term budgetary self-reliance. Many Pacific island countries also have provident funds (retirement funds).

85. Most of these funds have high levels of oversight, including the requirement for regular, independent, high-quality audits. Others do not. It is worrying that certain funds in the sub-region have not been audited for several years.

86. Any unforeseen difficulties will have significant flow-on effects such as salary arrears and sudden service cutbacks. The civil unrest associated with the near-collapse of the Vanuatu National Provident Fund and other state-owned financial institutions in 1998, illustrates the potential real impacts of poor governance of funds.<sup>27</sup> The SAS programme intends to ensure that these funds are audited to high standards in a timely manner.

87. **Supporting fiscal adjustment.** Transparency can support fiscal adjustments in small states by creating wider public support and understanding of government policies. In addition, transparency can help investors make better informed assessments on risk and lending to small states, and can reassure financial markets and donors on a government's fiscal goals.<sup>28</sup>

88. A recent study suggested that improving governance (government effectiveness) may help small states reduce public and external debt and thus support fiscal adjustment. This means that many small states should strive to improve their institutional capacity to devise and implement government policies and improve the quality of public services and the civil service. Weaknesses in the delivery of government services, combined with the fact that small states tend to have larger governments, may well lead to over-borrowing and higher public debt in small states. Measures that enhance policy credibility, such as increasing the accountability of the government to fiscal targets, regular publication of economic data, and improving transparency, should also help raise government effectiveness.<sup>29</sup>

## 2. Enhanced governance and development outcomes

89. Governance arrangements affect development outcomes. Sound auditing practices are integral to good governance. One examination of [175] economies found strong positive

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<sup>27</sup> In early 1998, allegations by the Ombudsman of political bias in the investment policies of the Vanuatu National Provident Fund (VNPF) resulted in serious civil disturbances in Port Vila, followed by a Government decision to authorise the unconditional refund of all VNPF contributions. Because the VNPF itself could provide less than half the required funds, the Government as guarantor had to make up the shortfall, leaving it with a projected overall budget deficit of 14 percent of GDP and posing a major challenge to both fiscal and monetary policy. Given the implications of the payouts for the balance of payments, and the currency devaluations in the region, it was not surprising that a run on the currency began (ADB. 2002. *Country Strategy and Program Update 2003-2005: Vanuatu*. Manila).

<sup>28</sup> Daniel, James, Jeffrey Davis, Manal Fouad, and Caroline Van Rijckeghem, 2006, *Fiscal Adjustment for Stability and Growth*, IMF Pamphlet Series, No. 55. Washington: IMF.

<sup>29</sup> Cas and Ota [op. cit.]. p. 31.

relationships between good governance arrangements and per capita incomes, infant mortality rates, and literacy rates.<sup>30</sup>

90. Furthermore, *Toward a New Pacific Regionalism* presented estimates of the cost of poor governance in the region.<sup>31</sup> The report noted that Pacific governance rankings tend to fall below the global median.<sup>32</sup> The report noted also that—despite decades of donor flows and natural resource exploitation—per capita income in many Pacific Island states had stagnated or declined since independence.

91. Finally, in the sub-region’s case, one study found that since small countries are more vulnerable, the quality of their institutions matters more than in large countries. The study maintained that small states with high-quality institutions have less growth volatility and are more likely to benefit from higher rates of economic growth.<sup>33</sup>

### 3. Developing and sustaining capacity

92. **Leveraging local capacity.** A recent ADB study on Pacific Capacity Development<sup>34</sup> notes that the effectiveness of technical assistance depends largely on the human dynamic that is shaped by advisors’ personal and professional qualities. However, the study notes that much also hinges on the extent to which the process allows local partners to use their own capacity (existing or emergent) to find their own solutions to their particular challenges. The SAS team was/is designed to balance the use of technical advisors and local staff. The local staff will also experience auditing in other countries and will be able to apply lessons learned to their own jurisdiction while in-country as an SAS team member; but also once their SAS team attachment concludes.

93. **Emphasising on-the-job training.** Previous ADB assistance on Pacific auditing has included classroom-based training. This training can have immediate benefit, but sustainable impacts are limited as auditing is best learned on the job. Following initial classroom-based training, the SAS team spends most time auditing in participating countries. This emphasis is consistent with an AusAID evaluation, which found that on-the-job training was most effective and well regarded by senior managers and project teams for the results that it achieved.<sup>35</sup>

94. **Incubating financial talent.** In the Pacific (and elsewhere), SAIs often serve as incubators for financial talent. For example, within the sub-region, the former Auditor-General of Tuvalu is

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<sup>30</sup> See Kaufmann, Daniel, Aart Kraay, and Pablo Zoido-Lobaton, *Aggregating Governance Indicators*. Washington: World Bank Policy Research Working Paper No. 2195. and *Governance Matters*, World Bank Policy Research Working Paper No. 2196 (Washington), both available at [www.worldbank.org/wbi/governance](http://www.worldbank.org/wbi/governance).

<sup>31</sup> ADB and Commonwealth Secretariat. 2005. *Toward a New Pacific Regionalism*. Manila.

<sup>32</sup> As measured by ADB, Transparency International, and the World Bank.

<sup>33</sup> Bräutigam, Deborah, and Michael Woolcock, 2001, *The Role of Institutions in Managing Vulnerability and Opportunity in Small Developing Countries. Small States in a Global Economy*. Discussion Paper No. 2001/07 Helsinki: United Nations University/WIDER.

<sup>34</sup> Bolger, Joe. 2007 September. *Pacific Capacity Development Study*. Final Report, Paper prepared for ADB.

<sup>35</sup> AusAID. 2004. *Capacity Building in Public Finance: An evaluation of activities in the South Pacific*. Canberra. p. xiii.

now the Minister of Finance. The SAS team is expected to play an incubator role with former secondees moving on to more senior SAI positions or to other government finance positions.

95. **Filling capacity gaps.** Narrow human resources in small states—often accentuated by brain drain—tends to limit capacity in both public and private sectors. Brain drain occurs when professional staff with important technical skills migrate because, among other things, there are better professional opportunities in larger, more developed countries. This makes providing specialised services, such as public auditing, difficult.<sup>36</sup> On one hand, the SAS programme will enhance the marketability of secondees. Conversely, the programme will make staying more attractive because of the quality training opportunities and the enhanced career path. In any case, the SAS team approach will buffer the effect of turnover and key-person departures.

## **B. Risks**

96. **Commitment to transparency and accountability.** The participating countries are committed to improving public sector transparency and accountability, which includes effective public auditing. Nevertheless, this commitment might wane as the SAS programme becomes more effective. In mitigation, the programme will focus heavily on building and maintaining in-country ownership and communicating the positive benefits of transparency and accountability.

97. **Sub-regional co-operation.** The SAIs and finance ministries of the three participating countries are committed to working closely together, but this commitment may waver. Recognising this risk, the SAS programme will support enhanced sub-regional Auditor-General collaboration through biannual SAS programme meetings and other opportunities as available.

98. **Availability of financial reports.** Accounting systems, standards, and records continue to improve in the sub-region. As a consequence, there have been significant improvements in the timeliness of financial statements (albeit, not all of these financial statements have been audited). The SAS programme works with finance ministries to encourage and support the continued availability of timely financial reports.

99. **Availability of suitable secondees.** The small size of the Nauru and Tuvalu SAIs constrains the availability of suitable potential SAS team secondees. The wider PRAI initiative will focus on building more fundamental regional capacity. In cases such as Nauru, once existing secondment opportunities have been exhausted, the SAS programme will seek to bring in external secondees.

## **C. Impact report**

100. The SAS programme has completed year 1. Year 1 identified a few tangible successes, which show promising signs of the compounding benefits yet to eventuate. However, improved

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<sup>36</sup> Cas and Ota. [op. cit.] p. 15.

decision-making and accountability are factors likely to be more reliably measured after year 2 and 3 of the programme.

101. The SAS programme provided a significant boost to the motivation of the local SAIs in the pilot countries. In many cases, the presence of the SAS team kick-started a renewed sense of duty and responsibility within the SAIs to plan upcoming audits and assess workloads. Completion of more audits can only improve the level of accountability within the public sector. There will also be an increased confidence level in the role of the Auditor-General in the public sector, donors, the wider business community, and the general public.

102. Improved accountability will also occur with improved quality of audits being completed by SAIs. The SAS programme has improved the quality of audits by:

- training local champions to implement the audit framework in each SAI—familiarisation with the audit framework can only come with continued use, whether the SAS team is in the country or not;
- team members being exposed to a number of audit issues common in each pilot country—exposure to these issues means that auditors will be able to consider an appropriate response for different situations, which is effectively development of professional judgment;
- creating an informal network of auditors to foster the discussion of issues and act as a support structure; and
- producing sound audit files, which support the audit opinion issued—the files are now an important resource for local SAIs to use in the completion of current audits.

103. We found a general increase of awareness in the role of the local SAI, their reporting functions, and responsibilities. Finance staff commented that they would be “more prepared and less intimidated if they were to go through the process again.” Auditees have also been educated on the type of schedules required and internal control processes that need to be implemented for effective governance and reporting. The resulting management letter and the ongoing discussions with the finance staff during the audits provided a sound basis for improvements to be made. We also found that clients were more receptive to audits being completed on their operations when they could identify the benefits accruing to them. While year 1 of the programme improved reporting to auditees, years 2 and 3 will provide the opportunity for auditors to follow up matters raised in their management letters and, therefore, increase the level of audit impact.

104. Although energy has been spent on increasing capacity for SAIs, we noticed that there was a definite capacity gap in the quality of financial information being submitted for audit. To increase impact, it is important that resources are channelled to finance teams to increase their capacity to provide better quality financial information and supporting documentation. Taking a

parallel approach to building capacity on both the audit and finance sides will provide a much needed boost to public financial management in the sub-region.

105. As a capacity building vehicle, the SAS programme has provided a three-pronged approach to training. This was achieved through workshops, on-the-job training, and ongoing mentoring for secondees and supplementary staff who joined the team in each country. Feedback given to staff identified that further training and support is required at a senior level for audit file review, effective supervision, and report writing. The quality of training received by the secondees was recognised and a commodity highly valued in such communities. The selection of the experts is critical in ensuring that such professional training, supervision, and mentoring is continued. The confidence gained by the secondees cannot be quantified. This may mean that the "audit incubator of talent" loses once again to other higher paying entities. However, in the wider scheme of public financial management, the sub-region has still improved. Years 2 and 3 of the programme will mean more staff are exposed to the SAS programme and eventually those who are passionate about auditing will remain to teach others in their mother-tongue. Refer to **Appendix 1** for comments from SAS programme participants.

106. Most of the audits conducted by the SAS team were identified as key for their jurisdictions and in many cases were arrears audits. Tuvalu and Kiribati were able to present their audit opinions to Parliament, which was a significant achievement. These audits were subject to Public Accounts Committee scrutiny, which increased the level of awareness of the issues facing these entities. Feedback from the Auditors-General (Tuvalu and Kiribati) was that the documentation prepared by the SAS team was of a high quality and was able to facilitate discussions and provide much needed support in the absence of the SAS team (who had moved on to their next location).

107. Overall, the quality of audits increased significantly from the training received by staff to the documentation of evidence on the audit file and reporting to Parliament. Although we have seen a paradigm shift in how the public service perceives the role of the auditor, further work is needed to reinforce the positive work that the SAS team has created. This can only continue through supporting the future of the SAS programme to allow local SAIs to function independently from the programme. It goes without saying that an effective SAI undertaking timely audits, would contribute to better decision-making and accountability at all levels.

#### **D. Application of the SAS programme to other sub-regional efforts**

108. As a capacity building vehicle, the SAS programme has proven that the benefits for the secondees and their home jurisdictions have been significant. The successful pilot of year 1 has now opened up various possibilities for those contemplating a similar approach to capacity building.



109. Other variations could include:

- expanding the current SAS programme to include other smaller SAIs that have similar challenges to those identified for Kiribati, Nauru, and Tuvalu—for example, have up to four to five participating SAIs involved; and
- starting another SAS programme for other clusters of SAIs with comparable features—for example, smaller US-affiliated SAIs using GAGAS.

110. During the SAS programme, we encountered a number of challenges—for example, limited human resource capacity and capability, absence of structured career paths, and inability to keep abreast with developments with international standards. Some of these challenges are very similar to those encountered in financial reporting and accounting. Hence, having two similar programmes working co-operatively could add further benefits to the initial SAS programme.

111. It could also be considered whether a similar model could be developed for the corresponding ministries of finance. In particular, looking at possible efficiencies in accounting and financial reporting that could be achieved between the three countries (similar to what has been achieved by using one audit methodology) and incorporating a capacity development component.

112. Alternatively, this capacity building vehicle is best suited to sub-regional efforts that are of a project nature (similar to audit, which has a clear project cycle). Instead of audit, there could be scope for other projects to be implemented for a cluster of countries that wish to achieve similar objectives, that is, perhaps implementation of local waste treatment plants by a sub-regional group that could then be replicated to outer island implementation by the locals.

## **IX. CONCLUSION AND NEXT STEPS**

113. The SAS programme is a product of careful planning and design of a different approach to capacity building at a conceptual level. The programme is the first of its kind to take a sub-regional problem and take a co-operative solution. The pioneering nature of this programme has meant that the possibilities are many and impact will be far-reaching. The designers of the programme may have planned some desired impacts; but, given the "greenfields" nature of the programme, there may be some unintended impacts that will eventuate over time.

114. With year 1 of the programme now complete, planning has started for year 2 of the programme. PASAI is leading this process, as the programme is critical to making a positive impact in public financial management in the Pacific region.

115. As mentioned above, year 1 of the SAS programme has showed some promising signs and we are yet to see the transformational impacts this programme will have with years 2 and 3 still to be implemented.

116. The future of auditing looks promising for the sub-regional pilot countries of Kiribati, Nauru, and Tuvalu. This will provide a sturdy platform for other initiatives to come. The PRAI's overall objective to "raise Pacific public auditing to uniformly high standards" has made a positive impact for the small island states through the SAS programme.

## X. APPENDICES

### APPENDIX 1: Insights from programme planners and participants

#### SAS programme planners

1. The SAS programme was a by-product of the wider PRAI initiative. A number of people have been involved in the conceptualisation of this "greenfields" approach to capacity building.
2. The following list (while not exhaustive) lists some of the people involved at critical points from various parties:

Name	Position, Organisation
Barry Reid	Senior Financial Management Specialist, ADB
Hayden Everett	Financial Sector Specialist, ADB
Sacha Silva	Regional Institutional Economist, ADB
Kevin Brady	Retired Secretary General, PASAI
Eroni Vatuloka	Executive Director, PASAI
Roman Grynberg	Director, Economic Governance Programme, PIFS
Sanjesh Naidu	Economic Advisor, PIFS
Lin Weeks	Capacity building expert, Stanton's International
Robert Buchanan	Legal adviser, Stanton's International
Suhas Joshi	Public Finance Advisor, PFTAC
Isaako Kine	Auditor-General, Tuvalu
Raimon Taake	Auditor-General, Kiribati
Bivash Mondal	Director of Audit, Nauru

3. The following are comments from some of the planners:

"In January 2008, Hayden Everett, Sacha Silva, Sanjesh Naidu and I visited Tuvalu, Kiribati and Nauru on the SAS design mission. Going into the mission, I was worried that concerns about sovereignty might derail the approach. I was even more concerned that we had no concrete concept to propose; just a loose bag of thoughts, opportunities and considerations. Fortunately, the SAS model evolved quickly through the discussions. Unexpectedly, sovereignty was almost considered a non-issue, as were differences in auditing and accounting standards and methodologies. Rather, most focus was on human aspects – what type of person would make a good SAS coordinator? What if an SAS secondee became ill on mission? The people issues were many and varied, but needed resolution, which came with analysis and discussion. I've watched with interest as PRAI and SAS have developed. My involvement in the PRAI and SAS program design was immensely

rewarding and a high point of my professional career to date.” *(Barry Reid, senior financial management specialist, ADB)*

In the minds of the team, the largest challenge by far was one that linked poor governance outcomes – which we estimated had cost US\$75 billion in foregone income in PNG, Solomon Islands, Nauru and Fiji alone – with the capacity constraints facing small Pacific Island governments. In short, the argument was that the inability of many Pacific Island institutions to provide the basics of governance – auditing, compliance, management, etc – was linked to their inability to reach a “critical mass” of resources, staff and skills. This obstacle could only be overcome by pooling resources at the national level, while simultaneously solving the problems of a modern system of governance based on ‘checks and balances’ facing the realities of a small, tightly-knit and traditional society. The peoples of the Pacific had suffered too much from the singular focus on national provision of government services, rather than on potential regional approaches. *(Sacha Silva, regional institutional economist, ADB)*

“The SAS model was looked at as the Pacific Plan, endorsed by Forum Leaders in 2005, provides for strengthened regional and sub-regional cooperation depending on the specific set of development challenges and needs amongst the diversity within the region. The sub-regional approach taken through SAS embraces the need for tailor made solutions to long-standing structural problems in the region, and in this case a capacity supplementation model (as opposed to TA and capacity building efforts alone) has been established as a first in this field. It also encompasses a service delivery dimension of regionalism which is different and much more challenging to implement compared to the more common regional information sharing modalities.

The success of SAS has implications for wider application in areas with similar structural bottlenecks, and with tangible outcomes thus far, transformational impacts over the medium term can be anticipated leading to the overall PRAI objective of raising auditing standards uniformly across the region. The SAS model does demonstrate the value of sub-regionalism which could be useful learning for other regions with comparable challenges.” *(Sanjesh Naidu, Economic Adviser, PIFS)*

“The Pacific Regional Audit Initiative, or PRAI, is an important project that aims to improve the quality of public sector auditing uniformly across the Pacific community of nations. From the very outset, the PRAI was based on building capacity from within, but in a way that produces real and tangible results for public sector governance.

The SAS program was conceived in 2007 as a pilot project for putting these aims into effect. It has now become a flagship project in the PRAI. It is wonderful to see not only the visible achievements of the program in terms of audits completed and governance improved, but also to learn of the benefits the program is delivering for the participating SAIs and their staff. That self-reinforcing characteristic is at the heart of the programs concept, and its success.

It is my hope that the SAS program will continue to produce benefits for Kiribati, Nauru and Tuvalu and their respective SAIs in the years ahead, and that the model will also be applied elsewhere in the Pacific where other SAIs and governments are struggling to meet the goals of public financial management and accountability.” (Robert Buchanan, *Legal Consultant to PASAI (since 2007)*)

“The SAS is a critical component of the overall Pacific Regional Audit Initiative. As part of capacity building, the SAS provides opportunities for SAIs to apply the standards and methodologies being introduced in new audit manuals and the skills being taught on-the job and in the newly developed training classes.” (Lin Weeks, *Capacity building expert, Stanton’s International*)

“The SAS program fulfils a core need in the verification and audit of accounting data. No PFM program can be successful without proper audit and the SAS program enables a quantum step forward in verification and validation of accounting data. My work in the PFM area around the Pacific was greatly helped by this involvement and interaction with the audit community.” (Suhos Joshi, *Public Finance Advisor, PFTAC*)

“The SAS program was an exciting opportunity for the three offices to build on their capability and allow their staff to better use their skills. I was impressed with the enthusiasm with which the Auditors-General from Kiribati, Nauru and Tuvalu approached the program and the effort they put in to ensure it would be successful. have no doubt that the respective countries are already reaping the benefits from an enhanced audit initiative.” (Kevin Brady, *Auditor-General of New Zealand (retired) and Secretary-General of SPASAI (retired)*)

4. The core SAS team consisted of the following people:

Name	Position, Country
Alex George	SAS Program Coordinator, Australia
Beulah Daunakamakama	Audit Expert, New Zealand
Maketara Metutera	Secondee, Kiribati
Taati Mamara	Secondee, Kiribati <sup>37</sup>
Banabati Teaotai	Secondee, Kiribati <sup>38</sup>
Selai Managreve	Secondee, Tuvalu
Valeni Natano	Secondee, Nauru
Mase Tumua	Supplementary, Tuvalu

<sup>37</sup> Travelled for Tuvalu and Kiribati phases only.

<sup>38</sup> Travelled for Nauru phase only.

Toligi Paueli	Supplementary, Tuvalu
Tooti Ekeieta	Supplementary, Kiribati
Tekitaake Ken	Supplementary, Kiribati
Bwebwere Nakoti	Supplementary, Kiribati
Banabati Teaotai	Supplementary, Kiribati
Iakobo Kakau	Supplementary, Kiribati
Gillian Itsimaera	Supplementary, Nauru
Justin Togoran	Supplementary, Nauru

5. Below are comments from some of the participants in the programme:

“The approach taken by the SAS program advisors at ADB was unique for the Pacific region. I fervently believe it continues to be the right strategy to meet the needs and aspirations of the SAS countries. I found my twelve months on the program particularly rewarding as it enabled me to observe the development in capabilities and the dramatically improved professional maturity of the participants. This applied not only to the secondees selected for the long term program but also those selected for short term participation within their respective countries. All these team members fully utilised the opportunity to gather knowledge, gain experience and clarify doubts from the experts. They also built networks with peers in other countries that will stand them in good stead for the future.

No program is without delays or issues. We had our fair share. We did not let these, whether they be natural or human in origin, to affect our enthusiasm. We worked together and with the support of the stakeholders and governments of the SAS countries, we faced them head on and came up smiling.

I look forward to the continued progress of the program and wish the program and the Audit Offices and staff of the SAS countries every success.” *(Alex George, SAS project coordinator)*

“It was a great experience to be able to teach the secondees and others about audit methodology. While the skill levels were low, this was made up with a willingness to learn and stepping beyond comfort levels. During the program, I was mainly the teacher, however, I also learnt so much about the challenges facing the smaller island states. There is an absolute need to have people who are passionate in sharing their skills to empower the locals to do the job themselves. The sub-regional approach provides a practical approach to meet local needs to allow for a critical mass of audit staff, through an effective teaching method, to continue once the program is complete. It was a privilege to be part of a program that allowed team members to grow both personally and professionally.” *(Beulah Daunakamakama, SAS audit expert)*

“The SAS program has improved my auditing skills through the use of the new methodology taught which I found to be the clearest method to use in any audit thus

enabling me to apply it in any audit undertaken in the Tuvalu Audit Office.” (*Selai Managreve, Tuvalu secondee*)

“Well the biggest impact for me was the training and auditing done in Tuvalu. I was nervous and confused as it is my first time to do auditing. But later on I managed not to feel nervous anymore. I really enjoyed doing this program as it was a good learning experience for me. I also enjoyed meeting new friends too in this program. I would like to thank Alex and Beulah for being our Co-ordinator and Audit Expert.” (*Valeni Natano, Nauru secondee*)

“I found the SAS program very useful for my audit career as well as the Kiribati SAI. Since applying the SAS approach it has helped us a lot in doing the audit work more efficiently and we have a more reliable output.” (*Maketara Metutera, Kiribati secondee*)

“Well, being new to audit, I found that being part of the SAS program was an eye-opener. The guidance of the audit expert and coordinator, working within set guidelines of the SAS program, provided me with the support I needed to better understand the audit process. I was privileged to be part of the team and enjoyed learning (from you), although initially I was completely lost and was too shy to ask questions for fear of looking stupid. When I finally had the courage to ask for help it wasn't so bad and saved me a lot of time, instead of trying to figure out things on my own.” (*Gillian Itsimaera, Nauru supplementary team member*)

“The SAS program was an eye opener on the audit procedures and now I can work with minimum supervision. The program has made a great impact on my audit career and I consider myself fortunate to have participated in it.” (*Justin Togoran, Nauru supplementary team member*).

## APPENDIX 2: Brief background of auditing

1. SAIs are agencies responsible for auditing government finances. Their legal mandates, reporting relationships, and effectiveness vary, reflecting differences in governance systems and government policies. SAIs' primary purpose is to oversee the management of public funds and the quality and credibility of governments' reported financial data. SAIs play a major role in:

- auditing government accounts and operations;
- promoting sound financial management; and
- advocating overall accountability in their governments.

2. Most SAIs belong to regional associations depending on their location—for example, PASAI (Pacific), ASOSAI (Asia), AFROSAI (Africa), and so on, which are all working groups of INTOSAI. INTOSAI is the association that issues the INTOSAI Auditing Standards (ISSAIs), which guide the way auditors go about their audits based on International Standards of Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB).

3. ISSAIs 100-400 contain the fundamental auditing principles for audit work conducted by SAIs. It is the responsibility of each SAI to judge the extent to which the standards are compatible with its mandate, viewed in the particular constitutional, legal, and other circumstances of the SAI. However, one of the principles outlined in the INTOSAI Code of Ethics (ISSAI 30) is the auditor's obligation to apply generally accepted auditing standards. The foreword to the ISSAIs states that, while ISSAIs do not have mandatory application, they reflect a "best practice" consensus among SAIs and, therefore, each SAI must judge the extent to which the standards are compatible with its mandate.<sup>39</sup>

4. The main types of audit an SAI would normally carry out are annual financial audits<sup>40</sup> of all public entities, performance audits,<sup>41</sup> and, if local mandate allows, special investigations.<sup>42</sup>

5. Typically, a financial audit would have the following phases: pre-engagement, planning, fieldwork, and reporting. An auditor can use varying combinations of tests in an audit like controls testing, analytical review procedures, key item testing, and sampling. The ideal mix of these tests is usually determined during the planning phase of an audit based on the auditor's knowledge of their client or auditee to minimise the risk that an error goes undetected leading to the wrong audit opinion being issued.

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<sup>39</sup> Information on INTOSAI and standards have been directly obtained from "ISSAI 1000: Implementation Guidelines on Financial Audit – introduction".

<sup>40</sup> A financial audit is an audit of financial statements. This involves the review of the financial statements of an entity, giving rise to an independent opinion. The audit opinion will state whether those financial statements are relevant, accurate, complete, and fairly presented.

<sup>41</sup> Performance audit refers to an examination of a programme, function, operation, or the management systems and procedures of an entity to assess whether the entity is achieving economy, efficiency, and effectiveness in the employment of available resources.

<sup>42</sup> An inquiry may involve looking into financial, accountability, governance, or conduct issues in a public entity.



6. The audit of public entities' financial records is an important part of the process of public transparency and accountability. Usually the auditor's opinion will highlight areas that have not complied with legislation and/or accounting standards. As part of the reporting phase of an audit, a management letter is also issued to highlight areas that require improvement in relation to internal controls, accounting matters, and other relevant matters that can assist in improving public entities' efficiency and effectiveness.

7. The objectives of a financial audit in the public sector are often broader than the objectives of an audit of financial statements in accordance with International Standards of Auditing. The objectives of a financial audit in the public sector may include additional audit and reporting responsibilities. For example, public sector auditors may be required to report on a public entity's compliance or non-compliance with authorities, including budget and accountability, or on the effectiveness of internal control over financial reporting. The SAI's audit mandate, or the obligations for public sector entities arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature, may also result in additional audit and reporting responsibilities for public sector auditors.<sup>43</sup>

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<sup>43</sup> "ISSAI 1000: Financial Audit Implementation Guidelines – Introduction" issued by INTOSAI.