



PASAI

FEBRUARY 2017 UPDATE

Pacific Auditors working together

Solomon Islands Office of Auditor-General partners with New South Wales Audit Office of Australia

The Solomon Islands Office of the Auditor-General welcomed officials from the Audit Office of New South Wales, Australia to Solomon Islands. This visit was intended to help identify the areas in which these two institutions could share best practices and lessons, and pave the way for a longer-term partnership through a twinning arrangement. The scoping team comprised of Mr. Scott Stanton, Assistant Auditor-General and Ms. Susanti Tedja, Audit Leader. The visit took place from 20 - 24 February 2017.

Speaking during the briefing at the start of the consultation, the Solomon Islands Auditor-General, Mr Peter Lokay, highlighted the significance of such assistance from the New South Wales Audit Office. He stated "this support is timely and will assist to further strengthen and improve audit functions here in Solomon Islands". He also thanked the Australian Government for facilitating this

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partnership and for its ongoing support to his office.

During the visit, staff from the Solomon Islands Office of the Auditor-General discussed various issues with their counterparts from the New South Wales Audit Office and provided insights into some of the challenges they face in their work. Some of the areas where the two offices have agreed to co-operate on will be finalised after the report on the scoping mission is completed.

PASAI is liaising closely with the Solomon Islands Office to provide technical support in relation to their backlog in the audit of whole of government accounts, and this includes also working with the NSW Audit Office and the Australia Department of Foreign Affairs and Trade (DFAT) to synergize our efforts in the approach to provide technical assistance to the Solomon Island SAI.



Photo left: Solomon Islands Auditor General Mr Peter Lokay and his Audit Office staff with the NSW Audit Office representatives Mr Scott Stanton Assistant Auditor General and Ms Susanti Tedja Audit Leader, Financial Audit Services (sitting to the right and left of the Auditor General respectively).

Practical Advice for Auditors of Foreign Aid Projects in the Pacific

PASAI completed its first pilot of conducting a co-operative financial audit for the region and selected the topic of foreign aid projects. Six SAIs from Cook Islands, Fiji, Kiribati, Tonga, Tuvalu and Samoa participated with the support of INTOSAI Development Initiative (IDI). This pilot programme resulted in multiple observations and lessons learned which formed the basis of this regional report. The report also includes practical advice to assist SAIs in the conduct of financial audits of foreign aid projects in the future. It is expected that both SAIs and development partners in the Pacific region may learn valuable lessons from individual SAI reports as well as from this regional report to improve and enhance the quality of the audits of funds provided by foreign aid.

The current PASAI Chairperson, Public Auditor of the Federated States of Micronesia (FSM) State of Pohnpei office Mr. Iso Ihlen Joseph summed up the importance of this topic in his foreword to this report, *“With a worldwide focus on the UN Sustainable Development Goals (SDGs) there is an ever-increasing quantity of aid flowing into developing countries relating to SDGs. This requires governments to be even more responsible for the transparent and accountable use of funds provided by foreign aid, whether it is for SDG implementation or government projects. In the Pacific this can be even more challenging and highlights the need for a strong country financial system to manage these aid funds honestly and fairly, to ensure they are meeting the needs of the targeted government projects.”*

The official launch of this regional report was held in Auckland, New Zealand at the Grand Millennium Hotel on 23 February, 2017 during PASAI's 16th Governing Board meeting which was attended by the Governing board members, PASAI's INTOSAI representative and development partners from Australia Department of Foreign Affairs and Trade (DFAT), New Zealand Ministry of Foreign Affairs and Trade (MFAT), the World Bank and Pacific Islands Forum Secretariat. All delegates were presented with a copy of this report and it is published under the Co-Operative Financial Audits on PASAI's website (www.pasai.org).

PASAI promotes transparent, accountable, effective, and efficient use of public sector resources in the Pacific. It contributes to helping its member SAIs improve the quality of public sector auditing in the Pacific to uniformly high standards and assists governments to develop effective, accountable and transparent institutions at all

levels which aligns with Goal 16 of the Sustainable Development Goals (SDGs).

PASAI acknowledges the financial support of the Australian Government Department of Foreign Affairs and Trade (DFAT) and the New Zealand Ministry of Foreign Affairs and Trade (MFAT) and the collaborative ongoing joint regional partnership with IDI.

Photo left: PASAI Advocate, Mr Eroni Vatuloka handing a copy of the regional report to the PASAI Chairperson, Mr Iso Ihlen Joseph at the official launch.



“With a worldwide focus on the UN Sustainable Development Goals (SDGs) there is an ever-increasing quantity of aid flowing into developing countries relating to SDGs. This requires governments to be even more responsible for the transparent and accountable use of funds provided by foreign aid, whether it is for SDG implementation or government projects.”
Mr Ihlen Joseph

PASAI Governing Board Meets in Auckland, NZ

The PASAI Governing Board held their 16th meeting in Auckland, NZ from 23 – 24 February, 2017 as part of their commitment to providing strategic direction, governance and leadership to the work of PASAI in the Pacific Region. Among the main issues that they deliberated on during the meeting were PASAI's Operational Plan 2017/18 – 2012/22 and related budget, and PASAI's funding strategy. Important discussions were held with PASAI's two main donors the Australian Department of Foreign Affairs and Trade (DFAT) and New Zealand Ministry of Foreign Affairs and Trade (MFAT) on continuous support for PASAI. The Board also commended the work undertaken in implementing PASAI's strategic plan in response to SAI members needs. There were also valuable contributions to the meeting from PASAI's developing partners, DFAT, MFAT, World Bank and the Pacific Islands Forum Secretariat (PIFS).

"The Board Meeting was a success with some fruitful contributions by members in ensuring that proposed programmes are in line with the objectives of PASAI, affordable, clear expected outcomes and with realistic targets," said Mr Ihlen Joseph, Chairman of the Board and Public Auditor of Pohnpei State, Federated States of Micronesia.

Details of PASAI Board members and past Board Meetings are found on the PASAI website (www.pasai.org)

The incoming Congress Chairperson, Auditor-General of Tuvalu, Mr Eli Lopati also advised the Governing Board of the theme for this year's PASAI Congress being "Promoting Value and Benefits of SAIs through Effective Communication." He assured the Governing Board that his office is ready to welcome everyone to his island for the 20th PASAI Congress in August 2017.

PASAI would like to acknowledge DFAT and MFAT, World Bank, the Asian Development Bank (ADB), INTOSAI Development Initiative (IDI) and PIFS for their continued support of PASAI and its work in the region.





TECHNICAL SUPPORT UPDATE #02/2017

This is a *new section* which commenced in January 2017 and alerts our members to (i) changes in International Standards of Supreme Audit Institutions (ISSAIs) due to updates or amendments to International Standards of Auditing (ISAs) or changes in professional standards which will affect the Generally Accepted Auditing Standards (GAGAS) and (ii) any other relevant issues or matters of interest that may impact on SAI member's ability to fulfill their audit mandates.

This update is not meant to be exhaustive and reading this update is not a substitute for reading and fully understanding the requirements of ISSAIs or GAGAS. This update also does not address the responsibilities of the auditor that may exist in law, regulation or national standards, which may contain requirements in addition to those established by these standards.

The Concept of Materiality - ISSAIs

A question was raised with PASAI about materiality and it is for this reason a brief mention is made here.

The concept of materiality is of fundamental importance to both preparers and auditors. Materiality is a concept that is applied to all audits - financial, compliance and performance audits. Materiality considerations affect decisions concerning the nature, timing and extent of audit procedures and the evaluation of audit results. Considerations may include stakeholder concerns, public interest, regulatory requirements and consequences for society. Therefore materiality should be considered throughout the audit process. However, there is no universally agreed upon numeric guidelines or specific criteria for determining whether a given fact is material. The determination of overall materiality is not a simple mechanical calculation but it involves the exercise of professional judgment.

“The Head of the SAI should take overall responsibility for the quality of all work performed by the SAI” – ISSAI 40

In *financial audits*, materiality is applied in evaluating the effect of individual misstatements on the audit and of uncorrected misstatements, if any, on the financial statements. In general terms, materiality may be defined as the highest level of misstatement that, in the auditor's judgment, will be tolerated by the user of the financial statements. If the decision maker would reach a different decision, if that person was aware of the fact in question, then the fact would be material.

In *performance audits*, materiality of an audit topic should have regard to the magnitude of its impacts and consider not only financial (qualitative) but also social and political aspects of the subject matter with the aim to deliver as much added value as possible. Materiality concerns all aspects of performance audits, such as selection of topics, definition of criteria, evaluation of evidence and documentation and management of the risks of producing inappropriate or low impact audit findings or reports. Assessments require careful judgment on the part of the auditor.

In *compliance audits*, materiality consists of both quantitative and qualitative factors. In performing compliance audits, materiality is determined for: (a) planning purposes (b) purposes of evaluating the evidence obtained and the effects of identified instances of non-compliance and (c) purposes of reporting the results of the audit work.



TECHNICAL SUPPORT UPDATE #02/2017

Resources:	ISSAI100	<i>Fundamental Principles of Public Sector Auditing</i>
	ISSAI 200	<i>Fundamental Principles of Compliance Auditing</i>
	ISSAI 300	<i>Fundamental Principles of Performance Auditing</i>
	ISSAI 1320	<i>Materiality in Planning and Performing an Audit</i>
	ISSAI 1450	<i>Evaluation of Misstatements Identified during the Audit</i>
	ISSAI 3000-3100	<i>Performance Audit Guidelines</i>
	ISSAI 4000-4100	<i>Compliance Audit Guidelines</i>

The Concept of Materiality – GAGAS

According to paragraph 4.47 of *Materiality in GAGAS Financial Audits of the Yellow Book* (2011 edition) the AICPA standards require the auditor to apply the concept of materiality appropriately in planning and performing the audit. There may be additional considerations that may apply to GAGAS financial audits of government entities or entities that receive federal funds or government awards. For example, in audits performed in accordance with GAGAS, auditors may find it appropriate to use lower materiality levels as compared with the materiality levels used in non-GAGAS audits because of the public accountability of government entities, and entities receiving government funding, various legal and regulatory requirements, and the visibility and sensitivity of government programmes.

In summary, the determination of materiality is a matter for professional judgment and these are skills that an auditor will develop with experience.

Finally, in the previous Technical Update #01/2017 you were alerted to *Professional Standards Update No.66* issued 19 January 2017 issued by US GAO. There are no updates for February 2017.

For more Information or should you require any Technical Support:

Contact PASAI's Director of Technical Support agnes.aruwafu@pasai.org

Visit INTOSAI's ISSAI website www.issai.org

Visit the IAASB's website at www.iaasb.org/auditor-reporting

Visit the AICPA (American Institute of CPAs (Auditing Standards Board) www.aicpa.org

Visit GAO (US Government Accountability Office) www.gao.gov/yellowbook/overview



Communication Tip – Using capital letters

Once upon a time, people were very careful to use capital letters in their writing and would most likely use them sparingly. However with the common use of acronyms and abbreviations, and the wide variety of genres in writing today, the rules around using capital letters seem to have become blurred as people have become more creative in their writing.

So here is a quick reminder on the basic use of capital letters in our writing, particularly with more formal genres such as business letters, reports and work emails:

1. Use capital letters for names of days, months, public holidays. For example:

February **T**uesday **C**hristmas **E**aster

However capital letters are not normally used with seasons such as, *summer, winter etc.*

2. Use capital letters for the names of people, institutions and places. For example:

John **M**ary the **S**miths
the **F**oreign **O**ffice **N**orth **P**acific
University of the **S**outh **P**acific (compare *He teaches at a university*)
Ministry of **F**inance (compare *the financial statements of the ministry*)

3. People's titles. For example:

Mr. **S**mith **D**r. **B**lake **P**rofessor **W**endt
Colonel **M**oala the **M**anaging **D**irector
the **P**ri**m**e **M**i**n**ister is attending the summit (compare *How is the Vanuatu prime minister elected?*)

4. Nouns and adjectives referring to nationalities and regions, languages, ethnic groups and religions. For example:

She is a **S**olomon **I**slander He speaks **F**rench **C**hristian heritage
Kiribati cooking **F**ijian language report

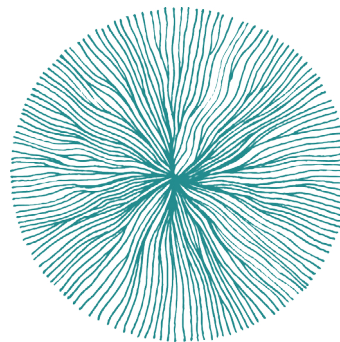
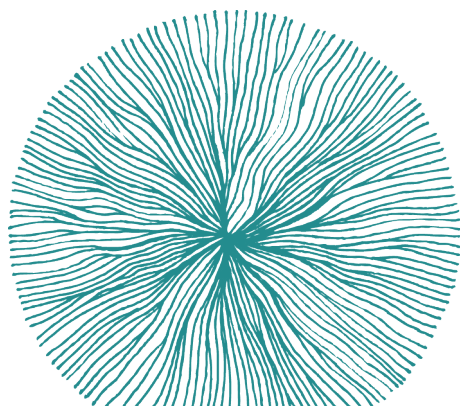
5. The names of newspapers and magazines. For example:

Samoan **O**bserver **P**acific **I**slands **M**onthly **C**ook **I**slands **N**ews

6. The first word (and often other important words) in the titles of reports, articles, books, films and plays

The **S**py who **L**oved **M**e **G**one with the **W**ind
A **M**idsummer **N**ight's **D**ream
Pacific **R**egional report on **P**ublic **D**ebt **M**anagement
Public **A**uditors meet in **G**uam

(Practical English Usage, Third Edition. by Michael Swan, Oxford University Press 2005)



PASAI CALENDAR

THE NEXT SIX MONTHS

- **3 – 7 April:** Technical Support, WOG, Port Vila, Vanuatu
- **3 April:** Regional IPSAS e-course starts, Online
- **3 – 7 April:** SAI Young Leaders Symposium, Auckland, NZ
- **17 – 21 April:** SAI PMF Peer Review, Pohnpei, FSM
- **1 – 5 May:** SAI PMF Peer Review, Kosrae, FSM and Marshall Islands
- **8 – 12 May:** PAC Workshop, Kiribati
- **8 to 12 May 2017:** Design Meeting PASAI QA Regional Workshop - Auckland NZ
- **15 – 19 May:** SAI PMF Peer Review, Guam and Yap
- **12 May:** Regional IPSAS e-course ends, Online
- **22 – 26 May:** Technical Support (WOG), Nauru
- **22 – 26 May:** Communications Training, Solomon Islands
- **29 – 31 May:** Technical Support, Kiribati
- **29 – 31 May:** Enhancing Effective Communications for Head of SAls – a regional leadership program
- **5 – 9 June:** SAI PMF Peer Review, FSM National
- **19 – 23 June:** Technical Support (WOG), Vanuatu
- **26 – 30 June:** Communications Training, Tuvalu
- **26 – 30 June:** 6th CPA SDG Preparedness Design Meeting

For further information, contact the PASAI Secretariat: Email: secretariat@pasai.org
Telephone: +64 9 304 1275 Fax: +64 9 307 9324
Website: www.pasai.org