



*“Pacific Auditors Working
Together”*

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

Annual Report 2009/10



PACIFIC ASSOCIATION OF SUPREME AUDIT INSTITUTIONS (PASAI)

Table of Contents

Secretary-General's foreword	6
Section 1: Annual Report	8
Chapter 1: Introduction.....	9
Chapter 2: Pacific Region Audit Initiative (PRAI)	10
Chapter 3: Highlights of the programs	13
Chapter 4: Regional co-operation and co-ordination.....	15
Chapter 5: Build and sustain public auditing capacity	26
Chapter 6: Conduct co-operative audits	30
Chapter 7: Develop communications and advocate transparency and accountability	46
Chapter 8: Future challenges	49
Appendix 1:Members of the working groups and SAIs sharing their resource materials	52
Appendix 2:Outline of the training courses	55
Appendix 3:Participants of the co-operative performance audit on management of solid waste	59
Section 2:Financial Statements	60

SECRETARY-GENERAL'S FOREWORD



Mrs Lyn Provost

As Secretary-General of the Pacific Association of Supreme Audit Institutions (PASAI), I have much pleasure in presenting PASAI's Annual Report 2009/10.

The strategic objectives of PASAI mirror the outputs of the Pacific Regional Audit Initiative (the PRAI). The objective of the PRAI is to raise the capacity of supreme audit institutions (SAIs) to uniformly high levels. The strategic objectives include regional co-operation and co-ordination, capacity building, co-operative audits, and advocating accountability and transparency in the Pacific region.

This was the first year that PASAI carried out activities under the PRAI program. These activities included completing the first co-operative audit and the sub-regional audit support program, establishing the PASAI

Secretariat at 46 Parnell Road, Auckland, New Zealand, and organising the opening conference for those involved in preparing manuals and training materials. These are all important milestones for PASAI.

These activities were made possible with the generous financial contributions of PASAI's development partners, which include the Asian Development Bank, the Australian Agency for International Development, and the INTOSAI Development Initiative.

PASAI's performance in 2009/10 was generally satisfactory. However, maintaining the support of our development partners is critical to the success of our capacity building efforts. Therefore, it is important that funds are provided consistently to scheduled timelines, in keeping with PASAI's work program.

PASAI looks forward to a productive and successful 2010/11.



Mrs Lyn Provost

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

Section 1 Annual Report

1. INTRODUCTION

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

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

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

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

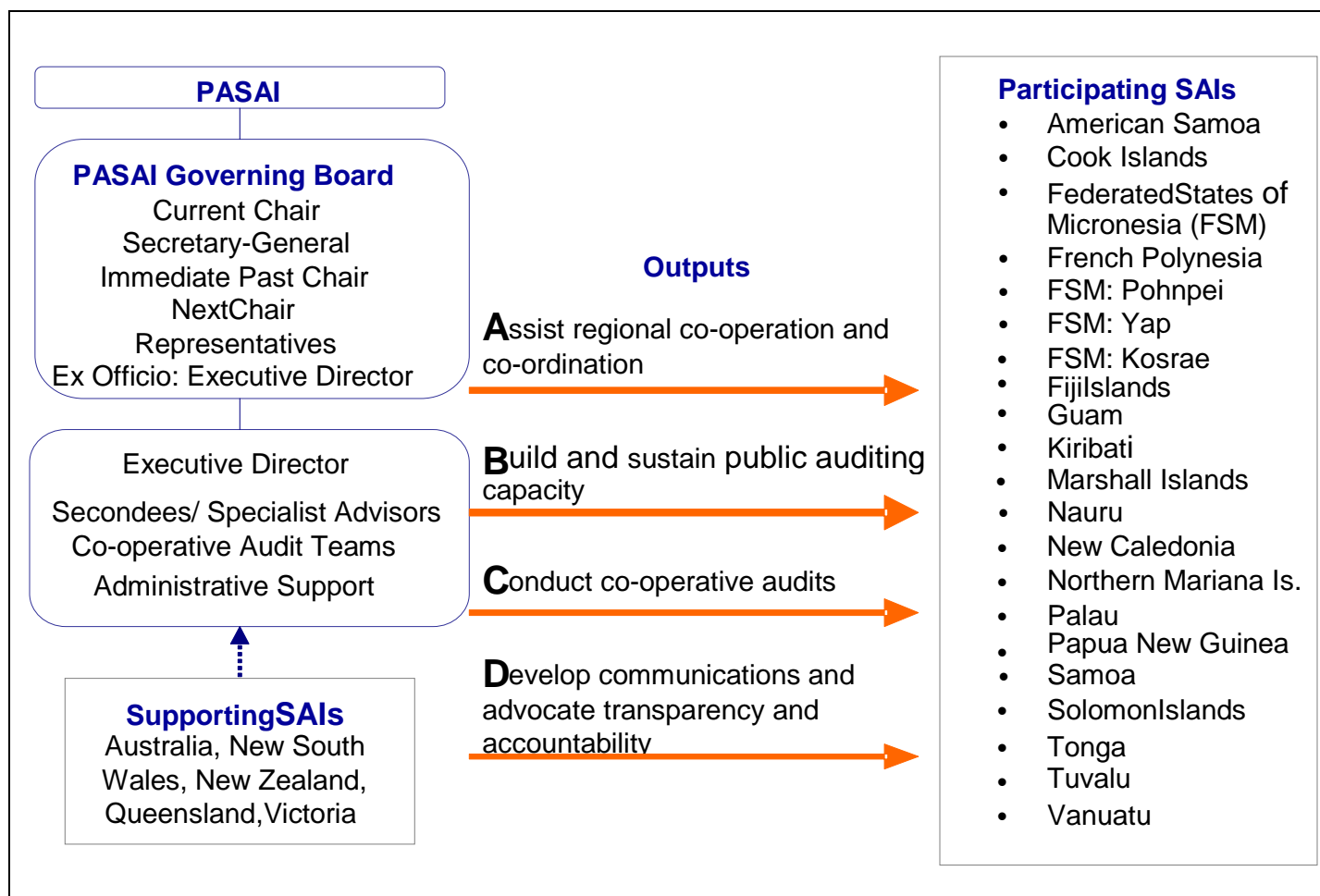
PASAI had a successful year of operations. From 1 July 2009 to 30 June 2010, PASAI completed various activities that were included in its business plan, which was drawn from the Pacific Regional Audit Initiative (PRAI).

2. PACIFIC REGIONAL AUDIT INITIATIVE (PRAI)

The PRAI is a *Pacific Plan* initiative. The initial PRAI was developed through an extensive consultation process, over a two-year period under the guidance of PASAI, with support from the Asian Development Bank (ADB) and the Australian Agency for International Development (AusAID), under the Pacific Island Forum (PIF) Secretariat's oversight. In April 2008, the PASAI Congress in Rarotonga unanimously confirmed the PRAI, and the August 2008 meeting of PIF leaders endorsed the initiative.

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 managing and using public resources. Figure 2.1 presents the PRAI structure and identifies participants and outputs.

Figure 2.1: The Pacific Regional Audit Initiative



The PRAI will enable the public accounts of participating countries to be audited, in a timely manner, to uniformly high standards. It will also enhance the impact of audit findings and assist with performance audits, including environmental audits. The PRAI intends that, by the end of 2012, 80% of participating SAIs will be at level three or higher on the PASAI Capability Model. However, this timeline will need to be revised after delays in setting up the Secretariat and obtaining funding. The PRAI will deliver

the following outputs during the initial period of the initiative (2008-2012):

(i) assist regional co-operation and co-ordination by (a) establishing the enhanced PASAI Secretariat, (b) supporting regional co-ordination, (c) preparing strategies for common methodologies, (d) preparing programs for co-operative audits and peer reviews, and (e) establishing an enhanced PASAI website;

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

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

(iv) develop communications and advocate transparency and accountability by (a) educating stakeholders on the value of public auditing, (b)

advocating enhanced transparency and accountability, and (c) providing editorial and communications advice.

The help that the PRAI provides to the region is unique as it encompasses various capacity building approaches supported by many donors.

3. HIGHLIGHTS OF THE PROGRAMS

3.1 Opening the new PASAI Secretariat

The opening of the PASAI Secretariat at 46 Parnell Road, Auckland, New Zealand on 18 January 2010 was an important milestone for PASAI and the PRAI. PASAI can now carry out its activities effectively under the leadership of the Executive Director and the supervision of the Secretary-General (the Auditor-General of New Zealand).

3.2 The first co-operative performance audit

With the guidance of international experts, PASAI carried out the first co-operative performance audit on the management of solid waste in the region under its co-operative audits program. This involved 10 SAIs working together on the audit. The aim was to raise the capacity of SAIs and also to produce a high quality regional report and individual national reports. Each of the 10 SAIs produced a national report, and some had been made public by the end of the financial year. PASAI is working to ensure that all reports are published so that the regional report can be released. PASAI believes that the findings will result in future

changes to solid waste management throughout the Pacific region.

3.3 Sub-regional audit support

In addition, the sub-regional audit support (SAS) program for the co-operative financial audit for Kiribati, Nauru, and Tuvalu completed the first round of the program during the year. The program raised capacity in the SAIs of the three countries and also assisted in the audits of six entities.

3.4 Starting the program to develop manuals, guidelines, and training material

The Capacity Development Program started with the first of two “kick-off” conferences held in Auckland on 21-29 June 2010. The conference set the stage for the program with the planning of the individual assignments and timelines for the development of three audit manuals and guidelines, and training materials for two levels of audit staff.

3.5 Producing the first report on accountability and transparency

Another milestone was the production of the 2009 Accountability and Transparency Report. The report determined the accountability mechanisms that exist in the Pacific region and measured them against international best practices and declarations.

3.6 The PASAI Bulletin

In addition, the PASAI Secretariat took over the compilation of the PASAI Bulletin from the Fiji Office of the Auditor-General in June 2010.

4. REGIONAL CO-OPERATION AND CO-ORDINATION

PASAI has worked towards the objective of strengthened regional co-operation and co-ordination by organising PASAI congresses and Governing Board meetings, establishing its secretariat in Auckland, New Zealand, and introducing a revamped website. The ADB organised the meetings until the PASAI Secretariat in Auckland opened. After the opening, PASAI took over that role.

4.1 The 2009 Congress

The 12th PASAI Congress was held in Koror, Palau on 20-24 July 2009. It was attended by all members except New Caledonia, the Commonwealth of the Northern Mariana Islands, and Queensland. The Congress also received and approved a new member, the State of Kosrae of the Federated States of Micronesia. The highlights of the Congress included adopting the PASAI Charter, appointing the first members of the Governing Board, and introducing the PRAI and its first activities.



The Charter enhances PASAI's organisational ability to work effectively with its members and to achieve set objectives. Developing capacity and independence of member SAIs through regional initiatives is critical to stimulate economic growth, sustainable development, good governance, and security and to combat corruption in the Pacific region. The Charter also supports PASAI in developing relationships with development partners.

Adopting the Charter paved the way for the appointment of the first members of the Governing Board. The Board comprises of the Chair, past Chair, and future Chair of PASAI congresses, representatives of geographical groupings, the Secretary-General, and the Executive Director (ex officio).

The Congress deliberated on the first two activities of PASAI (the SAS program and the co-operative

performance audit), which were to start immediately after the Congress. The SAS program had already started with the meeting of the countries to be involved and the preparation of the program by co-ordinators. The Chairman of the SAS Committee and program co-ordinators presented the plans and materials to be delivered in the first round of the program.

The Co-operative Performance Audit Advisor, Ms Claire Kelly, presented the other activity, the co-operative performance audit. Ms Kelly specified the objectives of the audit under the new co-operative model.

The Secretary-General reported on the activities of PASAI since the last congress, including the tabling of the audited financial statements. The reports of the representatives of the INTOSAI Governing Board and other INTOSAI committees were discussed and accepted.

The Congress was funded through the ADB technical assistance grant under the PRAI.

Update: After the end of this reporting year, the 13th PASAI Congress was held at Tarawa, Kiribati on 7-9 July 2010. The key note address was delivered by the Vice President of Kiribati Hon. Ms TeimaOnorio, who reinforced the critical roles SAIs play in promoting good governance and strengthening accountability and transparency in the region.

4.2 The PASAI Secretariat

The Congress deliberated on the relocation of the PASAI Secretariat following the decision by the Rarotonga Congress to establish the Secretariat in Suva, Fiji. In view of the political situation in Fiji, the Congress concluded that the Secretariat be located in Auckland, New Zealand on an interim basis. The Governing Board then tasked a committee comprising the Executive Director, the Legal Advisor, and the Secretary-General to identify a location in Auckland and table a proposal at the second meeting of the Governing Board in Port Moresby in November 2009.

The Governing Board, at its meeting in Port Moresby, discussed and agreed the location of the office and the engagement of a project manager to be responsible for the fitout works. The office fitouts were completed and a Building Consent Approval and a Code Compliance Certificate for the formal occupation of the office were received in March 2010.

The PASAI Secretariat opened for business on the first floor of 46 Parnell Road, Auckland, New Zealand on 18 January 2010.

The ADB provided NZD 254,146 for the establishment of the Secretariat. The expenditures, which included fitout works, equipment, facilities, insurance, incorporation, bank guarantee, and rental deposit, totalled NZD 274,581. PASAI met the over-expenditure of NZD 20,435.

4.2.1 Incorporated society

The Charter envisages that PASAI will operate with legal capacity in the jurisdiction where the Secretariat is located. Following the decision for the Secretariat to be relocated to New Zealand, PASAI's effort to obtain recognition as an international organisation by the New Zealand Government was unsuccessful. Therefore, PASAI registered an incorporated society in New Zealand (PASAI Incorporated) to act as the legal vehicle for PASAI to function as a body corporate under New Zealand law. The society has subsequently been granted extensive tax exemptions.

4.2.2 Human Resources

The Secretariat has four full-time employees:

- Mr Eroni Vatuloka – Executive Director
- Mr Allen Parker – Capacity Building Advisor
- Ms Sook Ling Vun – Office Manager
- Ms Pearl Segi – Administrative Assistant

The Office Manager started work on the day of the opening of the Secretariat. The Capacity Building Advisor is seconded from the Cook Islands Audit Office and is funded with the kind financial assistance of the INTOSAI Development Initiative (IDI).

PASAI cannot run its programs effectively without the inputs of consultants. The three consultants who were involved with PASAI activities and funded directly by the ADB (through the Japan Special Fund) were:

- Ms Claire Kelly – Co-operative Performance Audit Advisor;
- Mr Robert Buchanan (through Stantons International) – Legal and Governance Advisor; and
- Ms Linda Weeks (through Stantons International) – Human Resources and Capacity Building Advisor.

As well as these consultants, PASAI also engaged Mrs Elizabeth Tommy as its Technical and Methodology Advisor on 14 June 2010 to be responsible for the development of manuals and guidelines.

4.2.3 Governance framework

The governance framework approved by the Governing Board at its meeting in Port Moresby is working effectively, with regular reporting and updates of the operations of the PASAI Secretariat to the Secretary-General and the Governing Board. There are regular meetings and discussions with the Secretary-General and her Deputy on the day-to-day operations of the Secretariat.

4.2.4 Project management framework

Following the meeting of the Governing Board at Port Moresby, it was decided to commission a review of PASAI's work plan and budget, and to develop a system of project management. The work was carried out by

Stantons International, with financial support from the ADB.

The project management framework report was completed in draft at the end of the year, and was designed to be implemented at individual project level. The framework will follow best practice project management guidelines, with templates and completed examples. It will be designed to be used as a standard, but flexible, methodology for a wide range of projects.

The next step will be to obtain input on the draft framework from key development partners and to do further work to integrate the framework into the Secretariat's newly-acquired financial management system. Once this work has been completed, the framework will be submitted to the Governing Board for endorsement and approval.

4.3 The Governing Board

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

The following are the first members of the Governing Board:

Chairperson	Mr Satrunino Tewid	Acting Public Auditor, Palau
Secretary-General	Mrs Lyn Provost	Controller and Auditor-General, New Zealand
Immediate past Chairperson	Mr Paul Allsworth	Director of Audit, Cook Islands
Next congress Chairperson	Mr Raimon Taake	Auditor General, Kiribati
Melanesian Group Representative	Mr George Sullimann	Auditor General, Papua New Guinea
Polynesian Group Representative	Mr PohivaTuionetoa	Auditor General, Tonga
Micronesian Group Representative	Mr HaserHainrick	National Public Auditor, Federated States of Micronesia
Executive Director (ex officio)	Mr Eroni Vatuloka	PASAI Secretariat

The Governing Board had two meetings during the year.

4.3.1 First Governing Board meeting

The first meeting of the Governing Board was held in Koror, Palau on 22 July 2009. The meeting was attended by all the members of the Board and Mr Hayden Everett of the ADB.

The Board considered the establishment of the PASAI Secretariat and its governance arrangements, including the reporting arrangements, the adoption of provisional rules, and the appointment of Mr Eroni Vatuloka as PASAI's first Executive Director. The Board also confirmed the location and date of the 2010 Congress.

4.3.2 Second Governing Board meeting

The second meeting of the Governing Board was held in Port Moresby, Papua New Guinea on 9-10 November 2009. The meeting was attended by all members of the Governing Board and Mr James Sweting of AusAID and Mr Hayden Everett of the ADB.

The Board deliberated on PASAI governance and strategic issues including the reporting framework for the Board, the three-year work plan and the Executive Director's report. The Board also considered the establishment of the Secretariat in Auckland, New Zealand, the incorporation of a society to provide legal capacity for PASAI's operations, and the impact of relocating the Secretariat from Suva to Auckland.



The meeting was funded by the ADB technical assistance grant under the PRAI.

Update: Since the end of the reporting year, the third PASAI Governing Board meeting was held at NovotelNadi, Fiji on 5 July 2010.

4.4 The PASAI website

The design of an enhanced PASAI website (www.pasai.org) was being finalised at the end of the reporting year, and was expected to be launched in October 2010.

The website features PASAI's current and future programs and activities. It will allow SAls access to materials from INTOSAI and other professional bodies and facilitate members' access to manuals, database information, and other special resources. The website also contains reports and other information for members and the public. The PASAI Secretariat intends to link the PASAI website to regional SAls' websites, and other SAls internationally.

Update: The PASAI website went live on 18 October 2010.

4.5 Funding

PASAI is indebted to its development partners for the kind financial assistance to raise the level of public auditing in the Pacific region. During the year, PASAI

received funding from three development partners: the ADB (through the Japan Special Fund), AusAID, and IDI. Funding discussions also took place with the World Bank and the New Zealand Aid Programme (resulting in funding commitments in the subsequent financial year) and the European Union.

ADB and AusAID funding under the initial implementation stage of the PRAI technical assistance was administered directly from ADB headquarters in Manila, Philippines. The funds covered the following activities:

- 12th PASAI Congress, Koror, Palau, July 2009;
- SAS Committee meeting, Suva, Fiji, October 2009 and May 2010;
- Governing Board meeting, Port Moresby, Papua New Guinea, November 2009;
- incorporation of PASAI Incorporated, November 2009;
- Secretariat office fitouts, December 2009 to February 2010;
- review of workplan and development of project management framework, April 2010; and
- Consultants (six) – PRAI Executive Director, Co-operative Performance Audit Advisor, Legal Advisor, Capacity Building Expert, SAS Program Co-ordinator, and SAS Audit Expert.

In addition, AusAID signed a three-year Partnership Framework with PASAI for AUD3 million to cover the years 2010-2012. The first tranche of AUD1 million (NZD1.25 million) was received on 24 May 2010.

5. BUILD AND SUSTAIN PUBLIC AUDITING CAPACITY

The objective of PASAI's overall capacity development program is to address PASAI's organisational and individual capacity in terms of: guidelines/manuals supporting standards, practices, and methodologies; education, training, and certification; and quality assurance and peer review. In 2010, the capacity building program focused on the development of audit manuals, guidelines, and training materials.

Other activities of the program have been put on hold because of a lack of funding.

5.1 Development of manuals, guidelines, and training materials

At the PASAI Congress held in Palau in July 2009, SAIs signed up to be members of working groups to develop audit manuals, guidelines and training materials, and/or provide resource materials to the Secretariat to assist in this work. From this survey, nine working groups were established to develop the following, as specified by the PRAI:

Manuals and guidelines

- (i) Human Resource Management (HRM)
- (ii) Financial Auditing
- (iii) Performance Auditing
- (iv) Quality Assurance
- (v) Reporting Guidelines

Training materials

- (vi) Tier 1 Fundamentals of Government Auditing
- (vii) Tier 2 Intermediate Government Auditing
- (viii) Tier 3 Supervisory Roles
- (ix) Tier 4 Management of Audits

The members of the working groups and SAIs that have confirmed sharing their resource materials with the working groups are provided in Appendix 1.

The members of five working groups attended the first of the two capacity building “kick-off” conferences held in Auckland, New Zealand on 21-29 June 2010. These included working groups for the HRM, Financial Auditing, and Performance Auditing manuals and the Tier 2 and Tier 3 training materials. The conference prepared the 21 participants from 14 SAIs for the tasks for which they are responsible.

The key-note address was delivered by Ms Kylie Coulson, a Senior Financial Management Specialist based in the World Bank’s Sydney office. She discussed the importance that the World Bank places on the work and value of SAIs and the World Bank’s commitment to sponsoring programs such as the

conference. Mr Bruce Robertson (Deputy Secretary-General of PASAI) also encouraged the participants, noting the special challenges that PASAI faces because of the distance between SAs and the need to work collaboratively to ensure the success of the region-wide initiative.

The conference ended on a high note with the working groups mapping out clearly the work to be completed in the development of the manuals and training materials.



1st Capacity Building “Kick-Off” Conference, Auckland, New Zealand, 21-29 June 2010

The working groups for manuals, guidelines, and training materials will be supported by the Technical and Methodology Advisor and the Capacity Building Advisor respectively. The contents of the training materials are provided in Appendix 2.

PASAI members will not be obligated to adopt the manuals. However, the manuals and guidelines will be used as a basis for region-wide training. SAs will be encouraged to adapt and modify the manuals to meet

their own needs and assist them in improving their operations and products. They will foster knowledge sharing within the PASAI community.

The manuals will include samples, templates, checklists, and other tools based on best practices in implementing auditing standards. Most (if not all) of the content will be adopted from the best already existing manuals of PASAI members. The working groups will ensure that the manuals and guidelines are consistent with INTOSAI and other appropriate professional standards.

5.2 Scoping study of other capacity building initiatives

The scoping study proposed at the Port Moresby Governing Board meeting, to explore the requirements of other capacity building initiatives provided in the PRAI, could not be carried out in 2010. The scoping study was intended to provide better estimates of scope and cost of each of these initiatives outlined in the PRAI:

- support for attainment of professional accountancy qualifications;
- continuous development and improvement – peer reviews and institutional strengthening designs;
- improve contracting management support;
- provide management and operational support;
- provide technical support; and
- facilitate secondments and attachments.

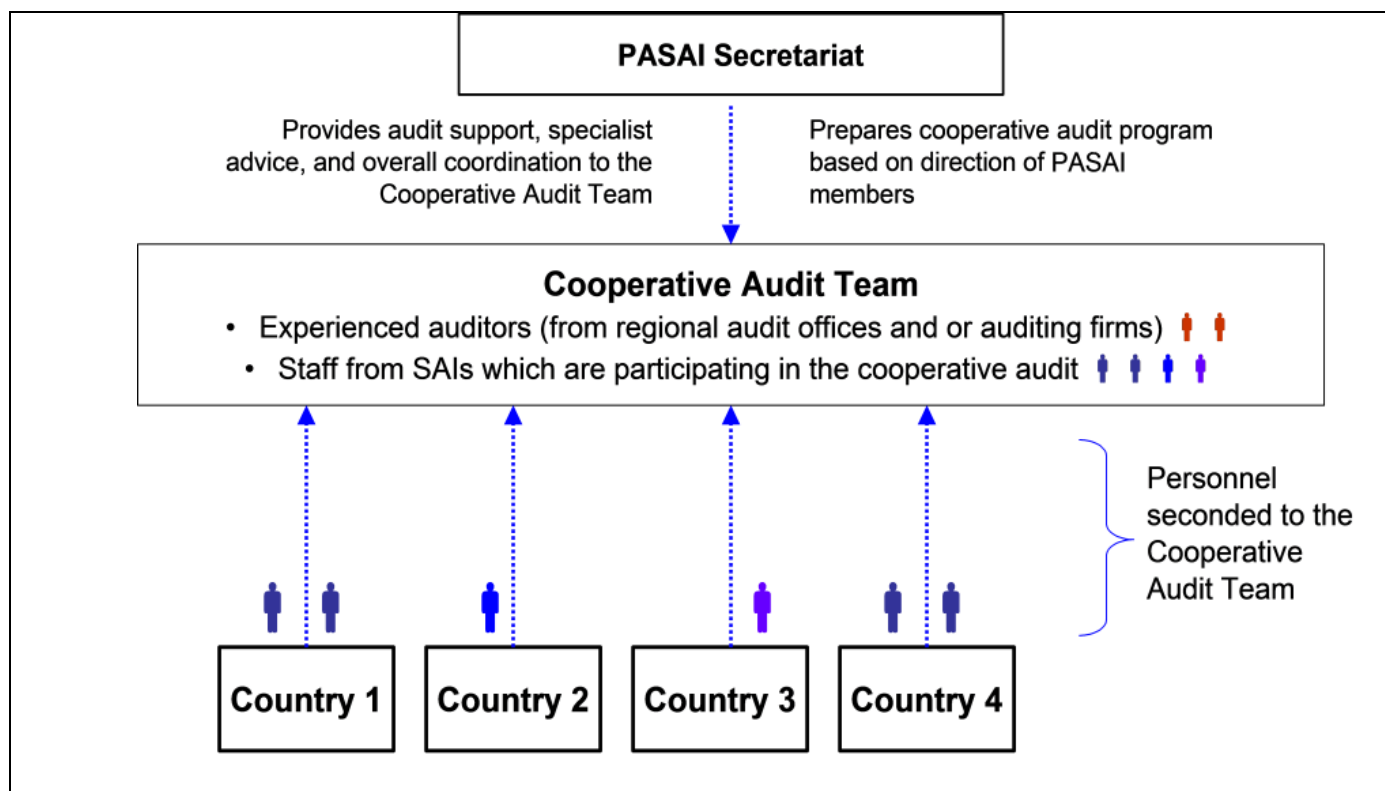
The Secretariat's proposal for funding of these initiatives by the European Union was unsuccessful.

6. CONDUCT CO-OPERATIVE AUDITS

Co-operative audits comprise financial and performance audits, and SAS programs.

Co-operative audits involve multiple institutions working together on an audit with the guidance of international experts. The aim is to raise the capacity of SAIs and also to produce a high quality regional report and individual national reports to be signed off by Heads of SAIs. The regional report may be used to identify common issues that regional governments, the Pacific Island Forum, development partners, and other stakeholders may wish to address through regional co-operation. Figure 6.1 illustrates the co-operative audit approach.

Figure 6.1: The co-operative audit approach



Co-operative audit team members work mainly in their own jurisdiction. However, the team will come together at the planning and reporting stages to obtain maximum guidance from the experts.

The SAS program is intended to enable the SAs of Kiribati, Nauru, and Tuvalu to audit the public accounts to uniformly high standards in a timely manner. The program involves co-operative financial audits of identified entities in the three countries, with the team visiting each country and completing each audit within 10 weeks.

6.1 Co-operative performance audit

6.1.1 Approach

Following a survey in 2009, PASAI members selected a number of topics for performance audits to be carried out on a co-operative basis by its members. The Palau Congress endorsed the following topics:

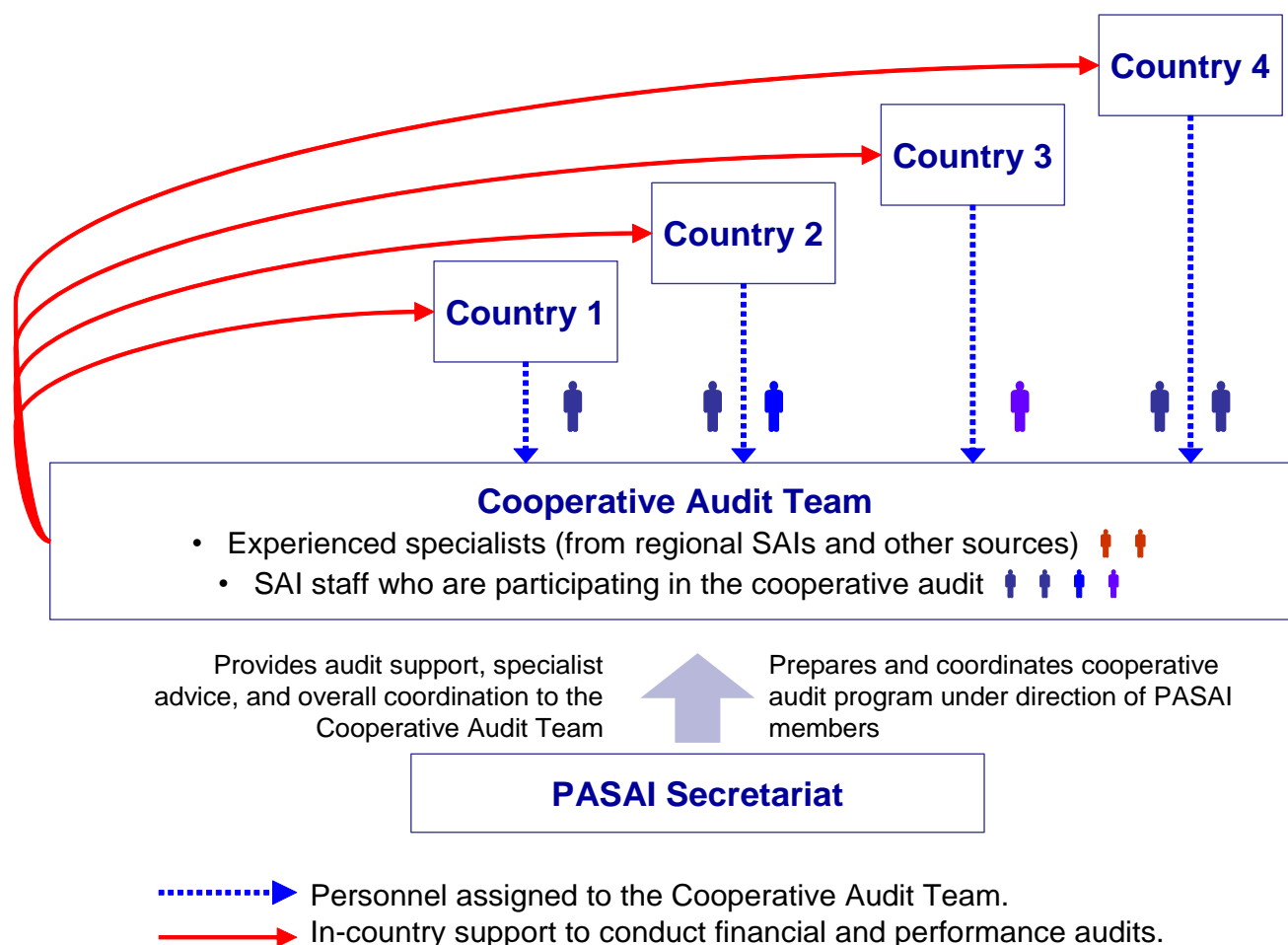
- (i) management of solid waste;
- (ii) access to safe drinking water; and
- (iii) sustainable fisheries.

The objective of the first co-operative performance audit was to assess the effectiveness of the management of solid waste within the jurisdictions of the participating audit offices by auditing:

- the existence of a legal and policy framework for solid waste management;
- the process by which the legal and policy framework is implemented, including whether risks to implementation have been considered; and
- compliance with the legal and policy framework, including monitoring arrangements.

Figure 6.2 illustrates the co-operative performance audit approach.

Figure 6.2: The co-operative performance audit approach



SAIs that participated in the first co-operative performance audit were the Cook Islands, the Federated States of Micronesia (FSM), Fiji, Guam, Palau, Papua New Guinea (PNG), the Republic of the Marshall Islands, Samoa, Tonga, and Tuvalu. Five of the 10 SAIs conducted their first performance audit during this exercise. The names of the participants are provided in Appendix 3.

6.1.2 Planning

The audit teams, in most cases comprising of two participants from each SAI, attended a planning meeting in Nadi, Fiji in October 2009. The objectives of this meeting were to develop individual SAI audit work plans that could be used to guide fieldwork.



Co-operative Performance Audit Planning Meeting, Nadi, Fiji,
19-26 October 2009

Audit teams developed audit criteria and audit questions. Teams then identified sources of evidence and information gathering techniques. At the end of the exercise, participants had completed their audit work plans, which were ready to be signed off by their Heads of SAIs.

6.1.3 Fieldwork and reporting

After the signing off of the audit work plans by the Heads of SAIs, the audits were conducted between

October 2009 and April 2010. Apart from online support provided by the Secretariat and the Co-operative Performance Audit Advisor, Ms Claire Kelly, on-site assistance was also provided. Ms Kelly provided support to audit teams from Tonga, Fiji, and Tuvalu in January 2010; Palau, FSM, and the Republic of the Marshall Islands in February 2010; and in Samoa and PNG in March 2010.

The on-site support consisted of reviewing individual audit teams' evidence base against the audit work plan developed in October 2009. It also identified gaps in evidence. Teams were introduced to the draft report format (if new to performance auditing) and "walked through" the essential nature of reporting.

At the reporting stage, draft reports were written by the teams with support from the Advisor. This took place in Tuvalu, Palau, the Republic of the Marshall Islands, Samoa, and PNG. Time was limited in Fiji. Therefore, the draft report was reviewed in tandem with the check of the evidence base. In Tonga and FSM, support extended to some initial data analysis.

The audit teams convened again in Nadi, Fiji in April 2010 to finalise their audit reports. A timetable for clearance of the reports was also agreed to. The reports were cleared by the Heads of SAIs and exit interviews held with the responsible government agencies.

The co-operative performance audit on the management of solid waste has now been completed.

6.1.4 Results and outcomes

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

However, indicative outcomes to date are that audit team members who already had performance audit experience have improved their skills. Those with no previous experience now have some experience and a greater understanding of the performance audit process. Confidence in carrying out a performance audit is a key measure of success, and there was an observable increase in confidence across all audit teams.

During the planning and reporting meetings, team members were actively encouraged to peer review other team members' work. This was a very successful approach. Team members indicated that their understanding and knowledge of performance audits increased and that the quality of their audit work plans also improved. For participants with no previous performance audit experience, it was an opportunity to learn new concepts, audit techniques, and audit methodologies and foster the learning process.

Performance audit skills gained by participants in this first co-operative audit included:

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

At the end of the financial year, nine of the 10 participating SAIs had completed exit interviews with the relevant government agencies and had either received or were awaiting agency comments. A number of Heads of SAIs had signed off their audit reports. The next step will be identifying a date for public release in the respective jurisdictions.

The Co-operative Performance Audit Advisor has finalised the draft regional report of the audit based on the findings of the 10 SAI audits. The report will be tabled at the Governing Board meeting to be held in Nadi, Fiji on 5 July 2010 and at the 13th PASAI Congress in Kiribati on 7-9 July 2010. It is important to note that the report cannot be made public until each individual SAI report has been released, as it includes audit-in-

confidence information relevant to country audit reports. At the time of writing this report, three SAIs' reports had not been made public.

6.1.5 Funding

PASAI appreciates the following development partners that funded the co-operative audit on solid waste management:

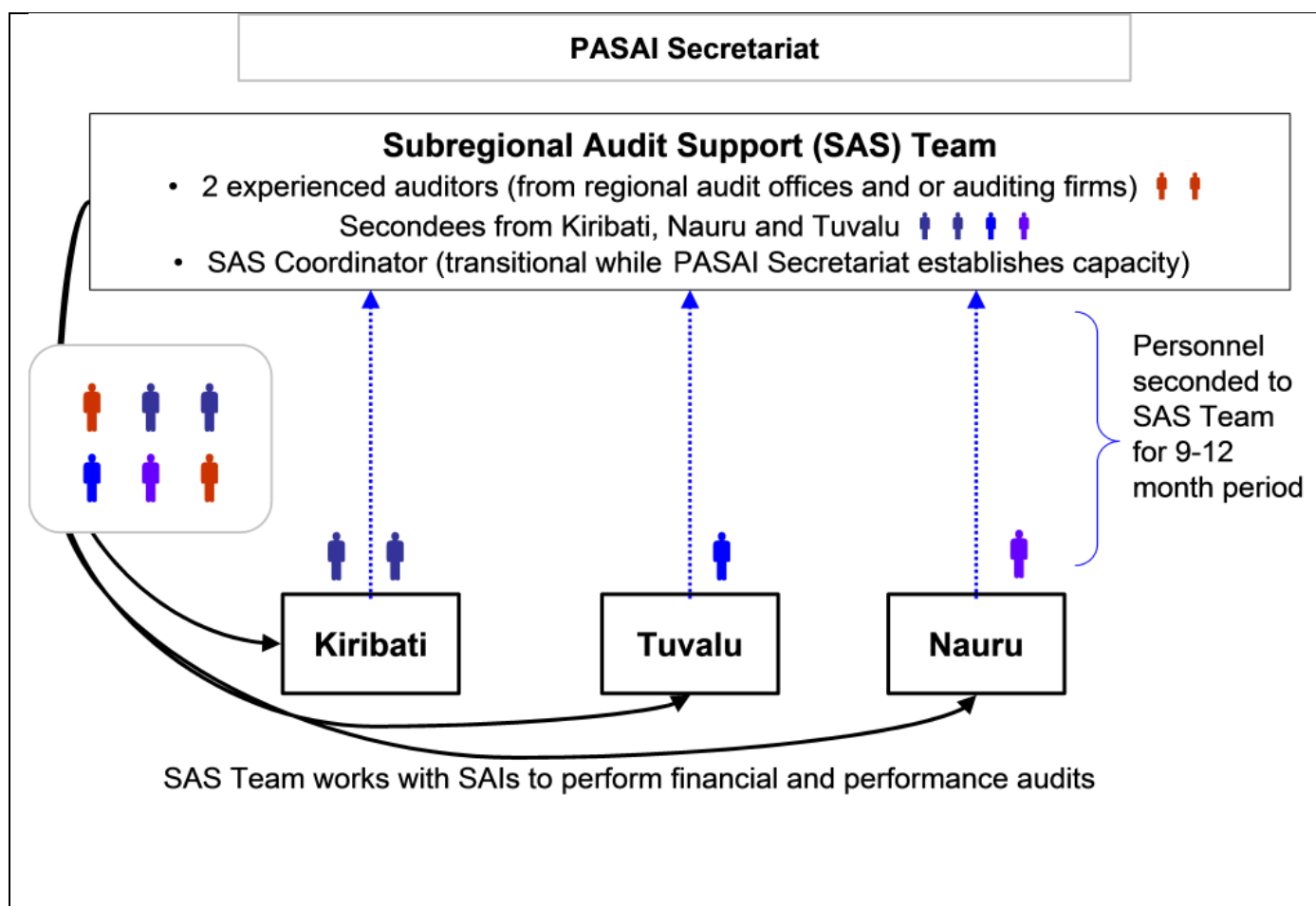
- IDI – travel and accommodation expenses of participants to attend the two meetings in Nadi, and Secretariat expenses;
- ADB – Audit Advisor and Program Co-ordinator costs;
- AusAID – Executive Director expenses.

6.2 Sub-regional audit support program

6.2.1 Objective and approach

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

Figure 6.3: The SAS approach



6.2.2 First round of the SAS program

PASAI has completed the first round of the SAS program (from July 2009 to April 2010) where four secondees from the three countries worked with a team of two experts to audit selected entities in the three countries. The program also involved training other audit officers, Ministry of Finance officials, and government entity representatives in the three countries. It is anticipated that the SAS program will

run for three rounds with the second round expected to start in 2011.

The secondees were led by two international consultants, Mr Alex George and Ms Beulah Daunakamakama, who have extensive practical auditing and training experience. While in each country, the core SAS team was supplemented by other local audit staff (Tuvalu – two staff, Kiribati –five staff, and Nauru –three staff) to ensure that the audit framework being adopted was made widely known.

The SAS program team comprised of:

NAME	POSITION
Alex George	SAS Program Co-ordinator
Beulah Daunakamakama	Audit Expert
MaketaraMetutera	Secondee, Kiribati
TaatiMamara	Secondee, Kiribati
BanabatiTeaotai *	Secondee, Nauru
SelaiManagreve	Secondee, Tuvalu
ValeniNatano	Secondee, Nauru

**replaced TaatiMamara on the Nauru phase of the SAS program*

The “CARKEYS” audit framework currently utilised by Audit New Zealand (operating arm of the New Zealand SAI) was adopted by the three island states. The framework is risk-based and focuses on controls,

analytical reviews, and key items in the financial statements.



SAS Committee meeting, Suva, Fiji, 17-18 May 2010

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

- workshop style training for audit staff and local finance counterparts;
- meeting with local development partners;
- providing auditing support to other local audit teams;
- providing public financial management advice, as needed;
- team building activities;

- providing feedback to audit staff based on PASAI competency framework; and
- completing financial audits within a common audit framework.

Before the team travelled to Tuvalu, the consultants spent two weeks preparing material for the workshops. The consultants also collated and edited documents from various SAIs and other sources to produce a set of standard documents to be used in each audit. A standardised filing system (for electronic and hard copy documents) was also adopted for each country. This ensured that there was consistency in storage to retrieve information easily and also to allow for efficient merging of electronic information for back-up purposes.

While on audits, all secondees were challenged to take on various tasks to prepare them to lead audits when they returned to their respective offices. In addition to the documentation of audit section testing, secondees were asked to:

- chair meetings with the client;
- attend planning meetings;
- draft key planning documentation and file notes;
- lead status updates with the clients;
- review audit fieldwork ; and
- draft management reporting documents.

The following audits were conducted in each country:

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

6.2.3 Results and outcomes

A report on the first year of the SAS program was reviewed by the SAS Committee when it met in Suva, Fiji in May 2010. Generally, the results of the program were satisfactory in the three countries despite the lack of documentation that was found to be prevalent.

Although better progress was desirable in the completion of audits, the progress that was made reflected the reality of the standard of expertise available in the respective finance departments. However, the experts reported pleasing results in the increase of confidence by secondees to carry out various aspects of the audit process.

Although the extended absence from home for all involved was challenging, all agreed that the knowledge obtained from the workshops and practical experience had a significant impact on the secondees and local audit staff. The SAS program provided an effective capacity building vehicle through intense training from the workshops, which was then reinforced by daily on-the-job training while completing real audits.

It was important that the experts encouraged secondees to take the lead when they returned home. This was seen as essential for the ongoing viability of the program.

The SAS team being in each country for about 10 weeks gave a unique opportunity to customise the program for the local environment. One such initiative

was to plan an office team building event for the Kiribati National Audit Office (KNAO). This successful day included a classroom session to encourage discussion and ownership of being a professional and working as a team. After discussions, the SAS team and the KNAO staff participated in a number of team building activities to reinforce the concepts discussed in the classroom session.

Another essential ingredient to the SAS program was to ensure that the secondees were given appropriate feedback on the work that they completed while on the program. Feedback was given based on the competency framework that was prepared by PASAI's Capacity Building Consultant, Ms Lin Weeks. The SAS consultants noted an improvement in all cases in the level of competencies gained from the training received.

PASAI is excited to be involved in this capacity building program, and looks forward to the compounding benefits yet to materialise from rounds two and three of the program. The initial results are promising and with further reinforcement of what was taught in round one will continue to improve the quality of audits carried out in Kiribati, Nauru, and Tuvalu.

Because of the challenges encountered in the quality of the financial statements that had been prepared, round two of the SAS program will welcome the recruitment of an Accounting and Financial Reporting Expert who will support finance teams. This support is intended to help the entities in preparing the financial

statements and improve the quality of information that is made available for audit.

6.2.4 Funding

PASAI appreciates the ADB for funding the SAS program.

7. DEVELOP COMMUNICATIONS AND ADVOCATE TRANSPARENCY AND ACCOUNTABILITY

PASAI has developed communications and advocated transparency and accountability in the region through the following activities:

- producing the first annual report on accountability and transparency in the Pacific region;
- releasing media articles to the public; and
- producing the PASAI Bulletin, after taking over the responsibility from the Fiji Office of the Auditor-General.

7.1 Annual report on transparency and accountability

Under the guidance of the Transitional Working Group and the Legal Advisor, the Secretariat prepared and circulated electronic copies of an accountability questionnaire in June 2009 and provided hard copies to delegates who attended the PASAI Congress held in Palau in July 2009. Completed questionnaires were received from 21 SAIs (a 91% response rate) in August 2009. These were analysed and a report was produced for the Governing Board to consider at its meeting in Port Moresby, Papua New Guinea on 9-10 November 2009.

The Governing Board deliberated on the report and suggested that it needed to be reviewed by an expert. The review was completed in May. At its meeting in Nadi, Fiji on 5 July 2010, the Board received the commentary and approved the publication of the report.

The objective of the report is to determine the status of accountability and transparency in the Pacific region and provide a basis for improving these in the future. The focus is on establishing accountability and transparency mechanisms that exist in the various jurisdictions in the Pacific region and measure them against the Pacific Forum Eight Principles of Accountability and other measures, including the INTOSAI Mexico Declaration on SAI Independence and other best practices.

The annual report will over time allow the Secretariat to assess trends in the development of transparency and accountability in the region. It will also highlight regional status of SAI independence, audit findings follow-up, and other issues of concern to SAIs.

7.2 Media releases

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

7.3 The PASAI Bulletin

PASAI took over responsibility for producing the PASAI Bulletin from the Fiji Office of the Auditor-General. The Bulletin aims to educate the public on the importance of accountability and transparency in the Pacific region. The first issue of the Bulletin was released on 30 June 2010.

The Bulletin contained updates of PASAI programs and highlights of activities conducted and upcoming activities; brief information on the accountability and transparency study and report; key developments in SAIs; technical updates, especially on accounting and auditing standards; and other matters of interest.

7.4 Other activities

Communications training and editorial services are two activities under this part of the PRAI that have yet to start. PASAI hopes to run the two activities in the 2011/12 financial year, when funds become available.

Communications training will help SAs and staff in presenting their audit findings to public accounts committees and to auditees. Depending on the needs of the SAs, the training may be developed for different persons but emphasis will be given to SAs media liaison officers or those who perform similar work.

PASAI will provide limited editorial support to SAs, to improve the communication of audit findings and recommendations. The scope of this work may be extended to include, for example, preparing media releases when a proposed Communications Expert has been recruited to organise communications training for SAs in the region.

8. FUTURE CHALLENGES

The support from PASAI's development partners and its member SAs is critical to raising the standard of public auditing in the Pacific region. Development partners play a key role in providing necessary funding and SAs' commitment to the activities of PASAI will ensure successful programs.

The signing of a three-year partnership agreement between AusAID and PASAI marked an important

milestone for public auditing in the Pacific – a first for PASAI in its 39 years of existence. The other development partners are finalising their assistance to PASAI based on their commitments to the PRAI objectives. The challenge for PASAI and its partners is to formulate clear deliverables and milestones to ensure effective monitoring and evaluation.

The 2010 work programme had to be revised on a number of occasions when funding was delayed. The administrative process taken to fund the newly established PASAI Secretariat and its activities took longer than expected. The delay in funding resulted in having to postpone activities, re-adjust programs, and commit unnecessary administrative costs. Therefore, in the coming year, PASAI will work closely with partners to plan PASAI activities and develop the annual work program to ensure timelines are realistic.

The sporadic funding of programs makes planning difficult, especially when a comprehensive plan such as the PRAI is being adopted. Some development partners prefer to fund specific activities and did not take on board all the relevant costs. Therefore, these were picked up by other partners that contributed to the pooled fund.

The PRAI was developed over a two-year period before the document was put to the PIF leaders to endorse the initiative in 2008. Some of the data that was used as a basis for the PRAI is now out-of-date. Therefore, some of the PRAI deliverables and milestones may no longer be relevant. This means that, in the year ahead, focus

should be placed on reviewing the deliverables in the interests of co-financing partners who will evaluate PASAI's performance. The evaluation will determine continued financial support and changes that might be made to improve efficacy and efficiency.

The development partners will need to review and approve the work carried out to develop a PASAI project management framework. It is essential that the framework enables compliance with grant agreements.

SAIs' support is equally important. Effective communication by SAIs is vital for the PASAI Secretariat to carry out its operations satisfactorily. Regular feedback and updates on PASAI activities are essential for sound project management. PASAI will work with SAIs to ensure that this is improved in the future.

Identifying appropriate and competent participants for PASAI activities is another matter that the Secretariat will focus on in the future. The success of the activities depends on the performance of the participants.

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

Human Resources Management Manual

Leader: FSM – National [HaserHainrick]

Members: Cook Islands [Margret Numanga], FSM – Kosrae [StoneyTaulung], Samoa [SinarosetaPalamolosefo]

Materials from: Australia – NAO, NSW, QNS; FSM – Pohnpei, Yap; Fiji; New Zealand; PNG; Tonga

Financial Audit Manual

Leader: Cook Islands Kiribati [MaketaraMetutera]

Members: FSM – Yap [Maria Mitrad], Tuvalu [SelaiManagreve], ADB – PFM Co-ordinator [Beulah Daunakamkama]

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

Performance Audit Manual

Leader: Solomon Islands [Peter Johnson]

Members: Guam [Llewelyn R Terlaje], Republic of the Marshall Islands [AtmitaJohnathan], Tonga [SepiutaMoala]

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

Reporting Guidelines

Leader: Tuvalu [Isaako Kine]

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

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

Quality Assurance Guidelines

Leader: PNG [Thomas Holland]

Members: FSM – National [Evelyn Paul], Fiji [FinauNagera], Tonga [Maamaloa Fotofili]

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

Peer Review Manual

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

Tier 1 Fundamentals of Government Auditing

Leader: Fiji [Atish Kumar]

Members: Republic of the Marshall Islands [Karen Joklur], Samoa [Jaslyn Mariner], PNG [Peter Siperau]

Materials from: Australia – NSW, QNS; Cook Islands; FSM – Pohnpei, Yap; New Zealand; Palau; Solomon Islands; Tonga

Tier 2 Intermediate Government Auditing Skills

Leader: Tonga [Lotomo'ua Faleafa]

Members: Fiji [EsalaNiubalavu], Samoa [Violet RoebeckFaasavalu], Solomon Islands [Randal Noda]

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

Tier 3 Supervisory Roles in Government Auditing

Leader: Fiji [Atunaisa Nadakuitavuki]

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

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

Tier 4 Managing Government Audits

Leader: Tonga [FatafehiFonua]

Members: PNG [Joel WiaWak], Kiribati [ToromonMetutera], New Caledonia [Thierry Moutard], Solomon Islands [Scott Milne]

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

Tier 5 Leadership in Government Accountability

No working group is required.

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

Appendix 2: Outline of the training courses

Topics marked with an asterisk (*) should include practice sessions during the course as they are skills to be learned in the classroom and taken back to the job for reinforcement through on-the-job training.

Tier 1: Fundamentals of Government Auditing

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

Topics covered include:

- Role of the government auditor
- Structure and content of auditing standards
- Applying the standards to the audit process
 - Steps or phases in conducting an audit and the associated products
 - Evidence: types, sources, standards, limitations*
 - Interviewing*
 - Taking notes and summarising information*
 - Preparing an interview write-up*
 - Preparing and indexing working papers*
- Report writing principles
 - Structure and purpose of the report
 - Overcoming common sentence level problems*
 - Developing unified and coherent paragraphs*
- Time/work flow management*
- Basic briefing skills

Tier 2: Intermediate Government Auditing Skills

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

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

New topics covered include:

Fundamentals of audit planning

- Understanding the auditee's entity
- Developing audit objectives/assertions and scope
- Determining materiality
- Assessing risk
- Determining audit approach
- Determining sampling
- Preparing audit plan
- Performing substantive procedures/tests
- Analytical review
- Designing of audit program
- Evaluations and forming audit conclusions

Fundamentals of carrying out the field work

- Identifying/applying appropriate data collection strategies*
- Preparing questionnaires and structured interviews/interviewing skills*

Report writing

- Understanding the readers and their needs*
- Moving from data to message*
- Developing conclusions and recommendations*
- Preparing titles/subtitles (captions/sub-captions)*
- Referencing a report*

Assessing internal controls*

Preventing and detecting fraud*

Applying commonly used statistical applications

Assessing the reliability of computer processed data

Advanced briefing skills

Tier 3: Supervisory Roles in Government Auditing

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

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

New topics include:

Planning an audit

- Assessing data collection strategies and assigning staff to complete tasks*
- Identifying potential risks or challenges*
- Communicating work assignments*
- Applying project management tools to monitor progress*

Report writing

- Reviewing and revising the work of others*
- Evaluating the need for and developing visual aids*

Supervision

- Understanding your style and the technical and human resource responsibilities of supervision
- Time management
- Managing good/bad performance
- Motivating and monitoring others
- Conducting effective meetings*
- Coaching and OJT (providing constructive feedback)*
- Preparing audit plans of complex audits
- Presentation skills for trainers

Tier 4: Managing Government Audits

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

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

New topics include:

- Employing quality standards to assess reports and achieve impact

Applying negotiation and conflict resolution skills (with staff, clients, and auditees)
Transforming the message in written reports into oral presentations
Dealing effectively with the media and the public
Understanding coaching, supervising, and mentoring
Components of a strategic plan
Components of an operational plan
Linking the operational plan to the strategic plan
Budgeting and allocating resources to audits
Increasingly complex management tasks and concepts

Tier 5: Leadership in Government Accountability

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

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

Topics to be addressed include:

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

Appendix 3: Participants of the co-operative performance audit on management of solid waste

No.	Participants	Country
1	Ngatokorua John Elikana	Cook Islands
2	Elizabeth SusieTaivairanga	Cook Islands
3	Allen Parker	Cook Islands
4	YolandaLeben	Federated States of Micronesia
5	PehresPedrus	Federated States of Micronesia
6	Mere Take Waqanicagica	Fiji
7	NuniaVeiqali Michael	Fiji
8	Karen TatiosJoklur	Republic of the Marshall Islands
9	Elizabeth Jack	Republic of the Marshall Islands
10	Romana LaiBlailles	Palau
11	Andy VuiAndaganTungal	Papua New Guinea
12	YamboGoso	Papua New Guinea
13	Utuone Vena	Tonga
14	Sepiuta A.M.FMoala	Tonga
15	SinarosetaPalamo-Iosefo	Samoa
16	Dennis Elijah Chan Tung	Samoa
17	AigafouAmpelosaTehulu	Tuvalu
18	Vincent Jon GuerreroDuenas	Guam

Section 2

Financial Statements

**Pacific Association of Supreme Audit Institutions
Incorporated**

Financial Statements
For the Year Ended 30 June 2010

Pacific Association of Supreme Audit Institutions Incorporated

Contents

For the year ended 30 June 2010

Page	2	Directory
	6	Statement of Responsibility
	7	Independent Auditors' Report
	8	Statement of Financial Performance
	9	Statement of Movements in Equity
	10 - 11	Statement of Financial Position
	12 - 14	Statement of Accounting Policies
	15 - 19	Notes to the Financial Statements

Pacific Association of Supreme Audit Institutions Incorporated

Directory

For the year ended 30 June 2010

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

Pacific Association of Supreme Audit Institutions Incorporated

Directory (Cont'd)

For the year ended 30 June 2010

Office Holders

Chairperson:

Paul Allsworth
Director of Audit
Cook Islands
(to 20 July 2009)

Satrunino Tewid
Public Auditor
Palau

Secretary-General:

Kevin Brady
Controller and Auditor-General
New Zealand
(to 20 July 2009)

Bruce Robertson
Assistant Auditor-General/Deputy Secretary-General
PASAI
Representing the Controller and Auditor-General
New Zealand
(20 July 2009 to 5 October 2009)


Lyn Provost
Controller and Auditor-General
New Zealand
(from 5 October 2009)

Governing Board:

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

Executive Director:

Eroni Vatuloka

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

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

Pacific Association of Supreme Audit Institutions Incorporated

Statement of Responsibility For the year ended 30 June 2010

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

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

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

In the opinion of the Governing Board:

- the statement of financial performance is drawn up so as to give a true and fair view of the surplus of PASAI Incorporated for the financial year ended 30 June 2010
- the statement of financial position is drawn up so as to give a true and fair view of the state of affairs of PASAI Incorporated as at 30 June 2010, and
- there are reasonable grounds to believe PASAI Incorporated will be able to pay its debts as and when they fall due.

Signed on behalf of the Governing Board by:

Satrunino Tewid  Date: 2/2/11
Public Auditor of Palau, Chair PASAI

 Date: 2/2/11
Lyn Provost
Controller and Auditor-General of New Zealand

 Date: 2/2/11
Eroni Vatuloka
Executive Director



INDEPENDENT AUDITORS' REPORT

To the Members of Pacific Association of Supreme Audit Institutions Incorporated

We have audited the financial statements on pages 7 to 20 which comprise the Statement of Financial Position as at 30 June 2010, the Statement of Financial Performance and Statement of Movements in Equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Governing Board's Responsibilities for the Financial Statements

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

Auditors' Responsibilities

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

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

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

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

Opinion

In our opinion, the financial statements on pages 7 to 20 present fairly, in all material respects, the financial position of Pacific Association of Supreme Audit Institutions Incorporated as at 30 June 2010, and its financial performance for the year then ended in accordance with generally accepted accounting practice in New Zealand.

CST Nexia Audit

**CST Nexia Audit
Chartered Accountants
Manukau City**

2 February 2011

Pacific Association of Supreme Audit Institutions Incorporated

**Statement of Financial Performance
For the year ended 30 June 2010**

2008/09 NZ\$		Notes	2009/10 NZ\$
	Revenue		
1,890	Membership		1,813
30,762	Development Partner Contributions	3	1,723,191
9,283	Foreign Exchange Gains		0
263	Interest		1,817
0	Other Income		2,076
<u>42,198</u>	Total Revenue		<u>1,728,897</u>
	Less Expenses		
0	Personnel Expenses	4	112,757
39,858	Program Participant Costs		340,858
506	Secretariat Operational Expenses	7	52,206
0	Contractors and Consultants		20,478
186	Bank Fees		3,461
0	Bad Debts		0
152	Doubtful Debts		(79)
0	Foreign Exchange Losses		0
0	Depreciation	9	11,419
<u>40,702</u>	Total Expenses		<u>541,100</u>
<u>1,496</u>	Surplus/(Deficit) for Year		<u>1,187,797</u>

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

Pacific Association of Supreme Audit Institutions Incorporated

Statement of Movements in Equity For the year ended 30 June 2010

2008/09 NZ\$		2009/10 NZ\$
10,678	General Funds at Start of Year	12,174
1,496	Surplus/(deficit) for the Year	<u>1,187,797</u>
<u>1,496</u>	Total Recognised Revenues and Expenses for the Year	<u>1,187,797</u>
<u>12,174</u>	General Funds at End of Year	<u>1,199,971</u>

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

Pacific Association of Supreme Audit Institutions Incorporated

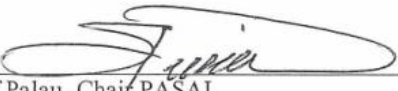
**Statement of Financial Position
As at 30 June 2010**

30/6/09 NZ\$		Notes	30/6/10 NZ\$
<u>12,174</u>	General Funds		<u>1,199,971</u>
<u>12,174</u>	General Funds – 30 June 2010		<u>1,199,971</u>
	Represented by:		
	<i>Current Assets</i>		
11,187	Cash and Bank	5	1,057,446
833	Accounts Receivable	6	1,550
154	Sundry Debtor-NZ Withholding Tax		154
0	Prepayments		13,513
115	Meetings and Training fund		0
<u>12,289</u>	Total Current Assets		<u>1,072,663</u>
	<i>Current Liabilities</i>		
115	IDI Training Advances		0
0	Trade Creditors & Accruals		35,274
0	Employee Entitlements		9,690
0	Income In Advance		24,115
<u>115</u>	Total Current Liabilities		<u>69,079</u>
	<i>Non-current Assets</i>		
<u>0</u>	Property, Plant and Equipments	9	<u>196,387</u>
<u>12,174</u>	Net Assets		<u>1,199,971</u>

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

Pacific Association of Supreme Audit Institutions Incorporated

Statement of Financial Position (Cont'd)
As at 30 June 2010

Satrunino Tewid  2/2/11
Public Auditor of Palau, Chair PASAI Date:


Lyn Provost
Controller and Auditor-General of New Zealand Date: 2/2/11


Eroni Vatuloka
Executive Director Date: 2/2/11

Pacific Association of Supreme Audit Institutions Incorporated

Statement of Accounting Policies For the year ended 30 June 2010

1. STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

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

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

Statutory Base

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

Measurement Base

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

Financial Reporting Framework

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

Differential Reporting

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

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

Pacific Association of Supreme Audit Institutions Incorporated

Statement of Accounting Policies (Cont'd) For the year ended 30 June 2010

2. PARTICULAR ACCOUNTING POLICIES

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

Revenue Recognition

PASAI derives revenue from member subscriptions that are recognised when invoiced. Members' subscriptions are invoiced in US dollars and any foreign exchange gain or loss is recognised at the time of receipt or at balance date.

Grants and contributions received from development partners are recognised in the statement of financial performance when the requirements under the grant agreement have been met. Any grants for which the requirements under the grant agreement have not been met are carried as liabilities until all the conditions have been fulfilled.

All other revenue is recognised on an accrual basis.

Donated Services

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

Receivables

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

Income Tax

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

Foreign Currency

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

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

Cash and bank

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

Pacific Association of Supreme Audit Institutions Incorporated

Statement of Accounting Policies (Cont'd) For the year ended 30 June 2010

Property, Plant and Equipment

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

Depreciation of property, plant and equipment is calculated on a straight line basis so as to expense the cost of the assets to their residual values over their useful lives.

Employee Entitlements

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

Goods and Services Tax (GST)

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

Changes in Accounting Policies

The above accounting policies have been applied on bases consistent with those used in the prior year.

Pacific Association of Supreme Audit Institutions Incorporated

Notes to the Financial Statements For the year ended 30 June 2010

3. DEVELOPMENT PARTNER CONTRIBUTIONS

2008/09 NZ\$		2009/10 NZ\$
0	Asian Development Bank	262,698
51,123	INTOSAI Development Initiative (IDI)	231,429
0	The Australian Governments Aid program (AusAID)	1,254,590
<u>(20,361)</u>	Returned Funds	<u>(25,526)</u>
<u>30,762</u>		<u>1,723,191</u>

Note that following completion of programs funded by IDI and ADB funds amounting to \$25,526 that were unused were returned.

4. PERSONNEL EXPENSES

Personnel expenses are made up of the following:

0	Payroll	83,980
0	Secretariat staff travel	21,277
0	Relocation and recruitment	7,500
<u>0</u>		<u>112,757</u>

5. FUNDS HELD IN TRUST

The Office of the Controller and Auditor-General was appointed Secretary-General of PASAI. Prior to the establishment of the Secretariat in January 2010, all monies received were held in trust for PASAI. Following the establishment of the Secretariat separate bank accounts were opened. As at 30 June 2010 a small amount of funds continued to be held by the Office of the Controller and Auditor-General controls on behalf of PASAI Inc.

At balance date, a total of \$9,236 (2009: \$11,187) was held in trust.

6. ACCOUNTS RECEIVABLE

0	Interest Receivable	331
985	Total membership fees outstanding	1,292
152	Less: Provision for Doubtful Debts	73
<u>833</u>		<u>1,550</u>

Accounts receivable represent US\$50 membership fees outstanding as at 30 June 2010. A portion of this balance relates to fees outstanding for year prior to the current reporting period.

Pacific Association of Supreme Audit Institutions Incorporated

Notes to the Financial Statements (Cont'd) For the year ended 30 June 2010

7. SECRETARIAT OPERATIONAL EXPENSES

2008/09		2009/10
NZ\$		NZ\$
506	Internet web hosting	3,272
0	IT Support	1,748
0	Withholding tax on interest	343
0	Equipment lease	1,241
0	Cleaning	1,557
0	Telephone	4,695
0	Stationery and office supplies	5,271
0	Accounting and auditing costs	10,158
0	Printing, posting and publishing costs	1,372
0	Other consumables	193
0	Rent	21,355
0	Insurance	1,001
<u>506</u>		<u>52,206</u>

8. TECHNICAL ASSISTANCE GRANT

During the year the Asian Development Bank (ADB) (under Technical Assistance Grant 6499-REG: Strengthening Governance and Accountability in Pacific Island Countries (Phase 2), and Technical Assistance Grant 6360-REG: *Strengthening Governance and Accountability in Pacific Island Countries* co-financed by the Japan Special Fund and the Government of Australia) has supported the implementation of the Pacific Regional Audit Initiative, principally through funding the remuneration and associated expenses of consultants (including travel, per diem and other expenses) and the cost of meetings and workshops. Consultants have been recruited and contracted directly by ADB for audit, legal, capacity development, project management and administrative support and advice. These transactions have occurred directly between the Asian Development Bank and the respective consultants or other third parties and have not been recognised in these financial statements.

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

Pacific Association of Supreme Audit Institutions Incorporated

Notes to the Financial Statements (Cont'd) For the year ended 30 June 2010

9. PROPERTY, PLANT AND EQUIPMENT

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

2008/09 NZ\$		2009/10 NZ\$
	Office Furniture and Equipment	
0	Cost	47,717
0	Accumulated Depreciation	-1,508
<u>0</u>	Closing balance	<u>46,209</u>
	Computer Equipment	
0	Cost	37,184
0	Accumulated Depreciation	-7,351
<u>0</u>	Closing balance	<u>29,833</u>
	Office Fit out	
0	Cost	122,905
0	Accumulated Depreciation	2,560
<u>0</u>	Closing balance	<u>120,345</u>
<u>0</u>		<u>196,387</u>

Depreciation is made up as follows:

0	Office Furniture and Equipment	1,508
0	Computer Equipment	7,351
0	Office Fit out	2,560
<u>0</u>		<u>11,419</u>

10. RELATED PARTY TRANSACTION

Prior to the establishment of the PASAI Secretariat, the functions of the Secretariat were provided on a voluntary basis by the Office of the Auditor-General of New Zealand. During this time, the Office of the Auditor-General of New Zealand paid certain costs on behalf of PASAI. These costs have been subsequently reimbursed by PASAI.

In 2009 the audit fee of \$4,500 (GST incl.) was borne by the Office of the Auditor-General of New Zealand, who was acting as the Secretariat at that time. No other payments have been made.

Pacific Association of Supreme Audit Institutions Incorporated

Notes to the Financial Statements (Cont'd) For the year ended 30 June 2010

11. FINANCIAL INSTRUMENTS

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

12. CREDIT RISK

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

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

13. INTEREST RATE RISK

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

14. CURRENCY RISK

PASAI invoices all membership fees in US dollars. PASAI incurs currency risk as a result of the conversion of these foreign currency receivables to New Zealand dollars at the time of receipt or balance date. The currency risk associated with these balances is considered minimal and therefore PASAI does not hedge its foreign currency exposure.

15. FAIR VALUES

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

16. POST BALANCE DATE EVENTS

There were no significant post balance date events. (2009: \$Nil)

17. COMPLETION OF ANNUAL REPORT

Article 12, section 5(c) of the PASAI Charter requires the annual report to be submitted for audit within three months of the balance date. Due to delays establishing the tax status of PASAI Inc in New Zealand this deadline was not achieved in the current year.

Pacific Association of Supreme Audit Institutions Incorporated

Notes to the Financial Statements (Cont'd) For the year ended 30 June 2010

18. CONTINGENT LIABILITIES

a. Bank Guarantee – Premise Lease Undertaking

As a condition of the lease of the Secretariat premises at 46 Parnell Road a deposit of \$41,604.14 has been made with PASAI Inc's banker and it held by the bank on behalf of the landlord until such time as the lease expires or the landlord notifies the bank that in writing that the undertaking is no longer required.

b. Make Good Provision

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

There were no contingent liabilities in 2009.

19. COMMITMENTS

There were no capital commitments at balance date (2009: \$Nil).

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

2008/09		2009/10
NZS		NZS
0	Current	62,697
0	Non Current	165,583
<u>0</u>	Total	<u>228,280</u>