



*"Pacific Auditors Working  
Together"*

# **Annual Report 2011/12**





**PACIFIC ASSOCIATION OF SUPREME AUDIT INSTITUTIONS**



## SECRETARY-GENERAL'S FOREWORD



This past year, 2011/12, has been one of steady achievement as PASAI has sought to implement the Pacific Regional Audit Initiative, the PRAI. The initiative goals constitute PASAI's strategic plan with the central objective of raising public auditing in the Pacific region to uniformly high standards. In working to realise this objective PASAI is progressively delivering the more transparent, accountable, effective and efficient use of public resources.

The year has certainly not been without its difficulties and challenges. On balance though, these have been successfully met and overcome to produce a year of progress.

There are four outputs to PASAI's strategic plan, the Pacific Regional Audit Initiative. These are:

- assist regional cooperation and coordination;
- build and sustain public auditing capacity;
- conduct cooperative audits;
- develop communications and advocate transparency and accountability.

The report is structured on these four outputs. We trust that delivering against these strategic outputs will serve to raise auditing skills and standards in the region.

I want to touch on just a few of the highlights of the year.

### Regional Co-operation and Co-ordination

There were a number of opportunities over the year for SAI personnel to come together to, in the broad, advance auditing co-operation and co-ordination in the region.

The PASAI Congress in Tonga in August 2011 considered a number of issues of significance to the PASAI membership. The Governing Board met twice in the year to guide the nature and direction of PASAI's work. The first meeting was in Tonga in August 2011, the second in New Zealand in February 2012.

There were also a number of international meetings in which the Secretariat and some SAIs participated. These included the INTOSAI Governing Board in October 2011, INTOSAI Donor Co-operation Steering Committee meeting in India in February 2012 and the Pacific Working Group on Environmental Auditing in Australia in April 2012.

### Capacity Development

Efforts to help enhance the capacity of public sector auditors in the Pacific involved the production and dissemination of a number of instructional products. Print and electronic versions of the Human Resource Management and Performance Audit Manuals and the Reporting and Quality Assurance Guidelines were made available to SAIs. There was also considerable activity in training delivery for auditors. The first Communicating Effectively Workshop was successfully run during the year with a second planned for 2012/13. Pilot trials of the remaining two of four levels or tiers of career path training were completed, with the training materials now being revised as a result of the pilot work.

### Co-operative Audits

The co-operative performance audit on access to safe drinking water was completed during the year. The overview regional report, which drew on the findings from the ten individual participant reports was published in June 2012.

Another co-operative performance audit is to be conducted in 2012/13. The topic for this, the fourth co-operative audit, is climate change adaption and disaster risk recovery. It is likely to be a vital topic of interest for most PASAI member states.

### Develop Communications and Advocate Transparency and Accountability

The report of the second more detailed and comprehensive study of transparency and accountability of public auditors in the region was published in June 2012. The study involved the participation of 80% of members in a comprehensive questionnaire and an in-depth analysis of six member states. The results of the study will provide a benchmark for future research in the field.

### AFROSAI-E

PASAI has created a positive relationship with AFROSAI-E with the adoption of their financial audit manual. The manual is expected to be released for use after the 15<sup>th</sup> PASAI Congress in Noumea in October 2012.

### Development of Secretariat

Over the year the PASAI Secretariat has considerably extended the range and depth of technical expertise available to it. This has involved the appointment of a Communication Advisor, a Strategic Management and Operational Guidelines (SMOG) Advisor and a Technical Support Advisor. In addition, the Executive Director will provide support to Auditors General and SAIs where required. This increased technical capacity, the continual development of our range of skills and our planning processes combine to promise an exciting and productive year ahead in 2012/13.

### Year Ahead

The year 2012/13 will be an important year for PASAI as we move from a set-up to implementation and measurement phase. PASAI is again appreciative of the development partners who have kindly indicated future support.



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

# TABLE OF CONTENTS

<b>PART A BACKGROUND AND HIGHLIGHTS .....</b>	<b>9</b>
<b>CHAPTER 1: INTRODUCTION .....</b>	<b>10</b>
<b>CHAPTER 2: PACIFIC REGIONAL AUDIT INITIATIVE .....</b>	<b>11</b>
PASAI's strategic plan .....	11
PRAI's impact and outcomes .....	12
Performance Measurement Framework.....	13
The achievement of the Four Strategic Goals of the Pacific Regional Auditing Initiative .....	15
Service Delivery and Cost Effectiveness of the PASAI Secretariat.....	16
Approach to Measurement Against the Framework.....	16
Funding.....	26
<b>PART B PASAI PROGRAMMES.....</b>	<b>28</b>
<b>CHAPTER 3: REGIONAL CO-OPERATION AND CO-ORDINATION .....</b>	<b>29</b>
PASAI Congress – Nukualofa, Tonga.....	29
Governing Board .....	31
Small Island States (SIS) Officials and Pacific Plan Action Committee Meeting .....	33
INTOSAI-Donor Co-operation Steering Committee Meeting – Jaipur, India .....	34
Pacific Working Group on Environmental Auditing (PWGEA) – Sydney, Australia.....	34
PASAI Secretariat.....	35
Achievements Against Performance Targets .....	36
<b>CHAPTER 4: BUILD AND SUSTAIN PUBLIC AUDITING CAPACITY .....</b>	<b>39</b>
Production of Manuals, Guidelines, and Training Materials .....	39
Certification .....	43
Peer Review.....	43
Management and Operational Support and Contract Management.....	43
<b>CHAPTER 5: CONDUCT CO-OPERATIVE AUDITS.....</b>	<b>46</b>
Management of Solid Waste .....	47
Access to Safe Drinking Water .....	47
Management of Sustainable Fisheries .....	48
4th Cooperative Performance Audit - Climate Change Adaptation .....	48
Performance Audit Stages.....	50
Results of the Cooperative Performance Audit Program .....	50
PASAI Performance Audit Manual (PAM).....	51
Sub-regional Audit Support Program .....	51
<b>CHAPTER 6: DEVELOP COMMUNICATIONS AND ADVOCATE TRANSPARENCY AND ACCOUNTABILITY.....</b>	<b>58</b>
Accountability and Transparency Project.....	58
Communicating Effectively Workshop .....	60

PASAI Bulletins and Media Releases .....	61
<b>CHAPTER 7: FUTURE CHALLENGES .....</b>	<b>63</b>
<b>APPENDIX I .....</b>	<b>65</b>
<b>APPENDIX II .....</b>	<b>67</b>
<b>PART C FINANCIAL STATEMENTS .....</b>	<b>71</b>



# **Part A**

## **Background and Highlights**

## CHAPTER 1: INTRODUCTION

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

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

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

During the 12 months to 30 June 2012, PASAI has produced some of the outputs of the Pacific Regional Audit Initiative (PRAI). These are summarised in this report. PASAI's outputs aim to raise the standard of public auditing in the Pacific region to uniformly high levels, enhance the impact of audit findings, assist with performance audits, and raise the capability of SAIs.

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

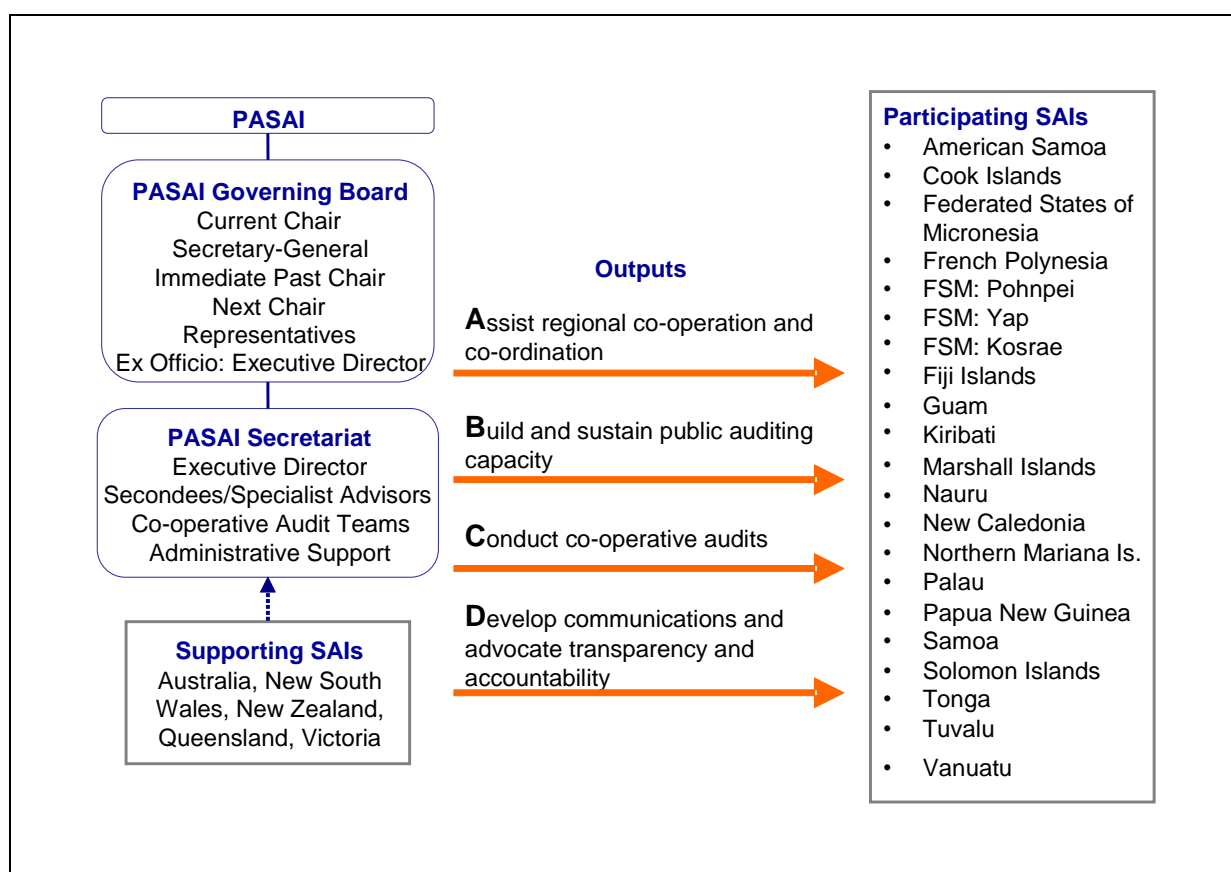
## CHAPTER 2: PACIFIC REGIONAL AUDIT INITIATIVE

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

### PASAI Strategic Plan

2.2 PRAI has been adopted as the strategic plan of PASAI. Its overarching objective is to raise public auditing in the Pacific region to uniformly high standards, which in turn is expected to improve transparency and accountability in managing and using public resources. Figure 2.1 illustrates the PRAI structure, and identifies participants and outputs.

**Figure 2.1: The Pacific Regional Audit Initiative**



2.3 PRAI will enable the public accounts of participating countries to be audited, in a timely manner, to uniformly high standards. It will also enhance the impact of audit findings and

assist with performance audits, including environmental audits. Furthermore, it is intended that by the end of 2012, 80% of participating SAIs will be at level three or higher on the PASAI Capability Model. PRAI will deliver the following outputs during the initial period of the initiative (2008-12):

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

### **PRAI's Impact and Outcomes**

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

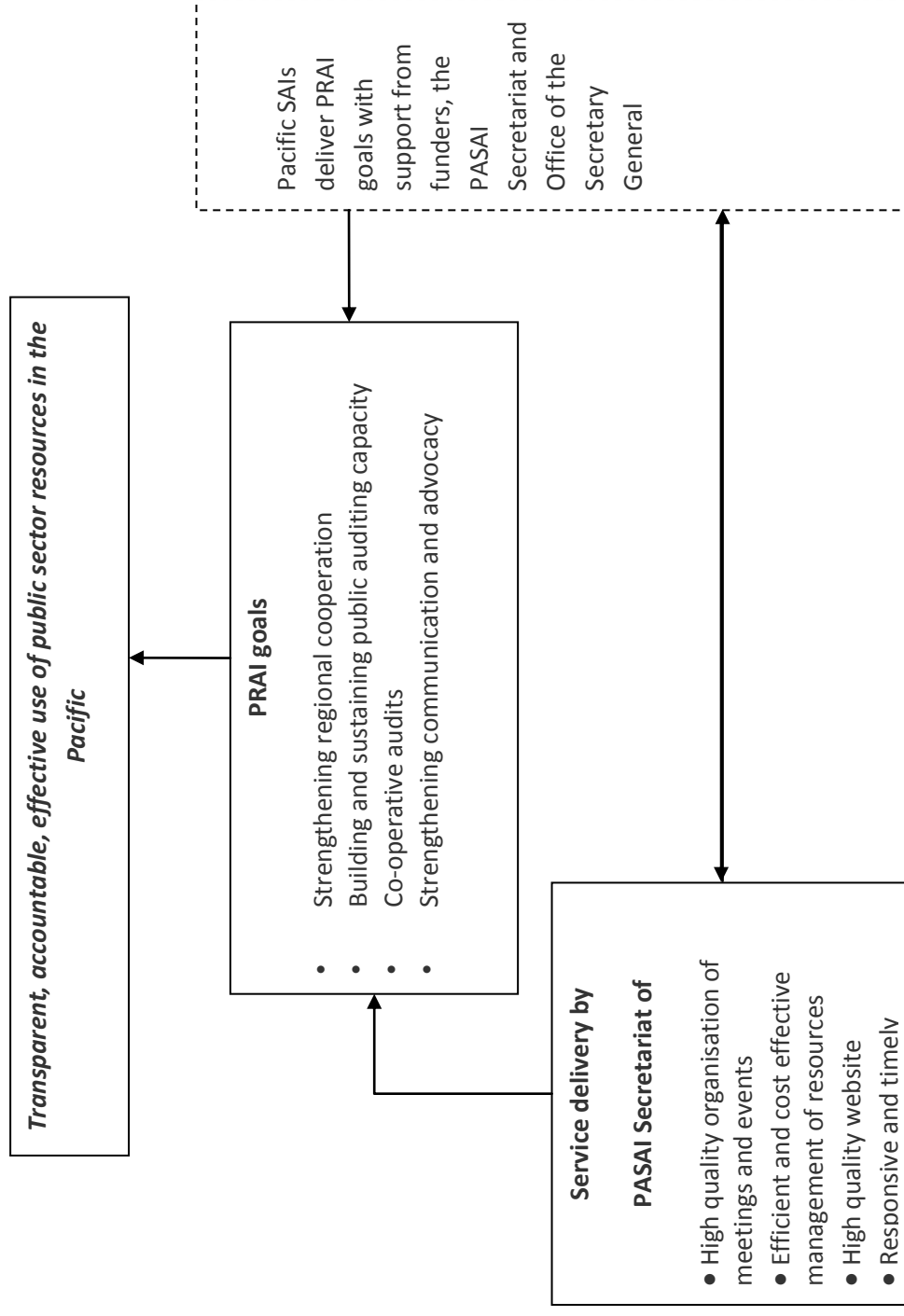
- participating jurisdictions remain committed to improving transparency and accountability and effective public auditing;
- public financial management including accounting systems, standards, and records in the region continue to improve; and
- PASAI members continue to work collaboratively.

## **Performance Measurement Framework**

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

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

**Figure 2.2 The PASAI Performance Measurement Framework**



There are three tiers to the framework:

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

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

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

The following details the three tiers of the framework and the achievements under each of them in financial year 2011/12.

Transparent, Accountable, Effective and Efficient use of Public Sector Resources in the Pacific

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

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

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

### **The achievement of the Four Strategic Goals of the Pacific Regional Auditing Initiative**

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

## **Service Delivery and Cost Effectiveness of the PASAI Secretariat**

2.9 The PASAI Secretariat was established in 2009 as “PASAI’s administrative organ”. Its role is to:

- keep PASAI’s records and files;
- administer its financial affairs;
- disseminate information to members;
- provide logistical support for meetings of the Congress, the Governing Board and PASAI’s work programs more generally.

Table 2.3 illustrates the achievements of the Secretariat.

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

2.10 During the 2011/12 year, further consideration of the performance measurement framework delayed the implementation of formal reporting systems to measure progress against the framework. The Secretariat will work to ensure formal reporting systems (ideally auditable system) are established to enable measurement of all performance targets and indicators for the 2012/13 year onwards.

2.11 For the purposes of providing progress information for the 2011/12 year, information included in the tables below has been drawn from various projects completed during the year and other sources to provide indicative data on achievements to date, as a result in a number of cases the data differs from that indicated in the framework and is used as a proxy for this year only.



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

Design summary	Performance targets/ indicators	Achievements to date
<b>Outcome</b>		
<p>The public accounts of participating countries are audited in a timely manner to uniformly high standards, with enhanced audit impacts and improved audit capability.</p>	<p>By the end of 2012, 70% of available public accounts and their components will have been audited to internationally-accepted standards within 12 months of the end of the financial year.</p> <p>Improvement by the end of 2012 of the PEFA PI-26 indicator to an average C rating.</p> <p>By the end of 2012, 80% of participating SAls will be at level three or higher on the PASAI Capability Model.</p>	<p>PASAI has completed the production of some of the manuals and training materials, and conducted co-operative audits, including the sub-regional audit support (SAS), which are essentially the first steps in raising capability in the region.</p> <p>6/20 SAls provided the PEFA assessments<sup>1</sup> in the 2011 survey. Five of these indicated a minimum rating of C while one remained at D. The SAls were not able to provide the assessment for the specific PI-26. A summary of the survey report is provided in Appendix I.</p> <p>As at end of 2011, the capability level of 55% of the SAls were assessed at level three. Tuvalu and Northern Mariana Islands SAls assessed themselves below their baseline level three, because of budget restrictions.</p>
<b>Impact</b>	<p>Improved transparency and accountability in managing and using public resources in island countries.</p> <p>Average one-step improvement by the end of 2012 of relevant public expenditure and financial accountability (PEFA) performance indicators (PI):</p> <ul style="list-style-type: none"> <li>• PI-10: public access to key fiscal</li> </ul>	<p>As shown above, only six SAls provided their most recent PEFA assessments but PASAI will obtain details in the 2012 assessment.</p>

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

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information;

- PI-25: quality and timeliness of annual financial statements;
  - PI-26: scope, nature and follow-up of external audit; and
  - PI-28: legislative scrutiny of external audit reports.
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**Table 2.2 Achievements of the PRAI Strategic Goals**

Strategic goals	Key performance indicators	Outputs	Output measures and targets 2011-12	Achievements 2011-12
<p><b>Strengthened regional cooperation between SAIs</b></p>	<p><b>At least 90% of SAI heads in the Pacific agree that regional co-operation has strengthened year on year</b></p>	<p>Common audit methodologies for SAIs for both financial and performance auditing</p> <p>The peer review programme is delivered</p>	<p>Shared audit methodologies are issued, updated and used by SAIs</p> <p>Technical assistance is increasingly provided by SAIs, rather than external consultants</p> <p>There is a trend of reduced expenditure on external consultancy for technical advice and assistance by SAIs and PASAI</p>	<p>Four manuals (Human Resources Management, Quality Assurance Guidelines, Reporting Guidelines and Performance Audit ) have been produced and released to SAIs in 2011-12. Copies are also available from the PASAI website <a href="http://www.pasai.org">www.pasai.org</a> .</p> <p>A Financial Audit Manual was considered by the PASAI Governing Board in February 2012. It decided to simplify the document and make it relevant to SAIs in the region. Rather than re-inventing the wheel, the Secretariat and the Secretary General’s Office decided to propose to the Governing Board to adopt the AFROSAL-E Audit Manual. The Secretariat has been in contact with the AFROSAL-E Executive Director on how to progress with this project.</p> <p>A paper on the peer review program will be tabled in the February 2013 Governing Board meeting. A project working group is scheduled to convene for a meeting in 2013. It is important to consider that there is a need to give time to SAIs to be trained and adopt the manuals before a meaningful review can be conducted. The delay in the production of the manuals, especially performance and financial audit manuals will have an effect on the peer review program.</p> <p>Some SAIs will continue to use consultants to improve their audits (e.g. Papua New Guinea, Solomon Islands, Tuvalu and Vanuatu) because of lack of expertise. There are others that will still need some support from the PASAI Secretariat in view of the difficulty in retaining qualified and experienced staff. A Technical Support Advisor will soon commence work to provide this support.</p>

<p><b>Public auditing capacity is strengthened</b></p>	<p><b>SAI capability improves year on year, measured by the PASAI capability model</b></p> <p><b>(individual SAs to establish appropriate targets)</b></p>	<p>Core competencies for audit staff are agreed and supported by an effective training program and the Sub regional Audit Support Program (SAS)</p> <p>An increase in the attainment of professional accountancy qualifications</p>	<p>Core competencies for financial and performance audit are agreed and implemented in all SAs by 2013</p> <p>SAs agree that training has demonstrably strengthened skills and auditing (measured by SAI survey)</p> <p>There is an increase in the number of qualified staff across the Pacific SAs (baseline study in 2012)</p>	<p>A generic set of competencies and job descriptions were completed in 2009. The PASAI Governing Board endorsed a structured training programme in November 2009.</p> <p>The 2012 survey revealed an increase in professionally qualified staff in SAs in the region from an average of 12% in 2007/08 to 23% in 2011. The survey report will be tabled at the Governing Board meeting on 1 October 2012.</p>
		<p>A peer review program strengthens quality of auditing</p>	<p>There is an increase in the number of SAs involved in the peer review program</p> <p>SAs agree that the peer review program is effective in driving improvements in both financial and performance auditing</p> <p>Peer review scores show incremental improvement in the quality of both financial and performance auditing</p>	<p>The peer review program will start in 2013 due to the delay in the production and adoption of the Financial and Performance Audit Manuals.</p>

			Improved contract management	90% of audit and consultancy contracts are completed on time and to budget	Contract management is included in the Strategic Management and Operational Guidelines (SMOG) project which has just started. The draft guideline is expected to be released for use by January 2013.
		Better strategic and corporate planning	Each SAI has a fully costed business plan, approved by its parliament	Financial auditing is completed according to international accounting standards, as adopted in each SAI country/jurisdiction	This is also part of the SMOG project. One of the outputs of the project will be for SAIs to produce a fully costed business plan after attending the management workshop scheduled for 6-14 December 2012.
		SAIs are responsive to financial reporting and auditing developments	Pacific SAIs are represented or actively participating on international working groups	INTOSAI has embarked on a major awareness programme on the roll-out of the International Standards of Supreme Audit Institutions (ISSAIs). A management workshop for SAIs in the region is being planned to be conducted on 3-5 December 2012. PASAI's Financial Audit Manual (which is expected to be approved by the Governing Board in October 2012) is ISSAI compliant and will be rolled out in 2013/14 and integrated into tier training.	A number of SAIs in the region are represented in the INTOSAI committees and working groups, and a list of these can be accessed from the PASAI website.
<b>Regional financial and performance audits are undertaken</b>	<b>Co-operative audits are completed on time to a high quality, measured by SAI survey and SAI stakeholder survey &amp;</b>	There are regular cooperative financial audits	There is an annual program of cooperative financial audits	Cooperative financial audits (CFA) will start once the Technical Support Advisor (TSA) is on board. A 2012 survey questionnaire to select the financial sectors and topics for the CFA has been circulated to SAIs and the results are expected to be discussed by the Governing Board on 1 October 2012 meeting and at the PASAI Noumea Congress.	

	<b>peer reviews</b>	There are regular cooperative performance audits	One cooperative performance audit is completed annually	<p>Since 2009, PASAI has completed 3 cooperative performance audits (CPA), solid waste management, access to safe drinking water and sustainable tuna fisheries. The regional reports of the waste and water audits are available from the PASAI website. The fisheries audit report will be drafted when the 10 participating SAIs make their reports public.</p> <p>PASAI will begin another CPA on climate change adaptation in November 2012.</p>
		Enhanced and more timely financial audits of public accounts	90% of financial audits are completed on time and to budget across the Pacific	<p>The 2012 SAI review survey revealed that the delays in financial audits were due to the non-provision of accounts and/or lack of supporting documentation by the entities. For example, the Sub-regional Audit Support (SAS) team was promised the accounts for the Tuvalu Whole of Government before the start of the audit in January 2012 but these were not produced when the team left the island state in March.</p> <p>The Executive Director's reports of his visits to Kiribati and Vanuatu revealed that apart from the delay in the submission of accounts for audit, the lack of government support to employ appropriately qualified staff, inadequate budget, effective management of audit portfolios and poor work ethics are some of the matters that are of critical concern to the two SAIs.</p>
<b>There is strengthened communication, transparency and accountability in</b>	Annual stakeholder survey shows year on year improvement in transparency and accountability	Stakeholders know about public auditing	The annual stakeholder survey shows that key public officials are aware of public auditing	<p>The stakeholder survey was carried out in the six countries (Guam, FSM, New Caledonia, Samoa, Solomon Islands and Tonga) during the 2011 accountability and transparency project and the report mentions that key officials are aware of public auditing.</p>

<b>the public sector</b>	There is advanced transparency and accountability	The annual stakeholder survey found that key public sector officials agree that there is greater transparency (including amongst parliamentarians)	The 2011 Accountability and Transparency Report noted some improvements since the 2009 study. The report is available from the PASAI website.
	There is effective communication of audit findings	The annual stakeholder survey demonstrates that parliaments and audited public entities in the Pacific are satisfied with the communication of audit findings	PASAI conducted communications training in 2011 and some SAIs have shown improvements in their reports since the training, for example, Guam and the Federated States of Micronesia.  No stakeholder survey has been completed on this topic yet.

**Table 2.3 Achievements of the PASAI Secretariat**

Objective	Output	Measure	Target	Achievements
PASAI website	High quality website	Annual satisfaction survey of SAIs	First year to provide baseline data, targets to be set in following years	While this was not covered in the survey, the secretariat has received a lot of encouraging comments from SAIs as well as international organisations.
Organisation of meetings and training events	Timely and efficient organisation of PASAI meetings	As above	As above	The organisation of meetings and training events were completed satisfactorily. The evaluation forms of delegates to the 2011 Tonga Congress show overwhelming appreciation of the manner the congress was organised. Delegates will also be asked to complete an evaluation of the Noumea Congress.  The Secretariat will conduct evaluations of the organisation of other events in 2012/13.
Management of PASAI finances and management of risks and governance arrangements	Accounts are audited and approved by external auditors. There are no arrears.  All audit recommendations are implemented	Annual audit results	There are no repeat issues and there is a reduced number of recommendations each year	The audit management letter for the audit of the 2011/12 accounts was received from auditors on 16 <sup>th</sup> August 2012. There were no repeat issues. Following the approval of the Governing Board, all recommendations will have been implemented.



<b>Donor relationship management</b>	Positive feedback from donors	Short questionnaire to donors	High satisfaction rating achieved from donors	PASAI will develop the questionnaire this year. No survey data, however interactions with donors continue to be positive.
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## Funding

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

2.13 PASAI received total funds of NZD 3,208,330 in financial year ending 30 June 2012. This comprises:

Revenue	2011/12 Actual \$NZ	2011/12 Budget \$NZ	2010/11 Actual \$NZ
Membership subscriptions	2,600	2,600	2,600
Development partner contributions	3,151,526	3,268,000	1,977,627
Interest	40,385	20,000	22,983
Other income	13,819	13,323	16,654
	<b>3,208,330</b>	<b>3,303,923</b>	<b>2,019,864</b>

2.14 The total revenue collected during the year comprises about 97% of budgeted revenue. This is an increase of 58% over the previous year's revenue.

2.15 PASAI appreciates the kind financial contributions from its development partners aimed at increasing the level of public auditing in the Pacific region. A total of NZD 3,151,526 was received from development partners during the year. To date, partners have provided PASAI a total of \$6,567,800 or 83% of amounts under the various grant agreements. The details of the funds received are as follows:

Development Partners	Total	Received to date <sup>2</sup>	Received in 2011/12
AusAID (AUD 3.75 million)	4,822,126	4,822,126	2,252,445
INTOSAI Development Initiative (IDI)	759,603	759,603	313,253
NZ-MFAT (NZD 1.6 million)	1,600,000	680,507	500,774
World Bank (USD 550,000)	696,119	305,564	85,054
	<b>7,877,848</b>	<b>6,567,800</b>	<b>3,151,526</b>

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

2.16 AusAID funding includes AU\$3 million over the years 2010 to 2012 and an additional support of AUD\$750,000 for two projects which should be completed by 2013. IDI funded the remuneration of the Capacity Building Advisor over the last two years and has agreed to continue to fund it in 2012 and 2013. IDI also funds specific projects. New Zealand MFAT funded two specific projects and has pooled the balance of its assistance over three years commencing February 2012. The World Bank has been funding specific projects since 2010.

2.17 The above contributions exclude the Asian Development Bank (ADB) funding. ADB funds six PASAI consultants directly including the Performance Audit Advisor, Capacity Building Expert, Sub-regional Audit Support (SAS) Program Coordinator, SAS Expert, Communications Advisor and Legal Advisor. ADB also funded the second round of the SAS program which started in Kiribati in June 2011 and ended in Tuvalu in March 2012. The total contribution of the bank for the year was \$705,492.

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

2.19 As at 30 June 2012, PASAI had funds on hand totalling \$3.2 million of which \$2.5 million will be applied to activities in 2012/13. In addition, PASAI expects to receive funds of \$1.4 million from its development partners and other sources. The details of the programmes and activities are provided in PASAI Business Plan 2012/13.

# **Part B**

## **PASAI PROGRAMMES**

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

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

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

- the Tonga PASAI Congress;
- two Governing Board meetings; and
- facilitation of the conduct of two co-operative performance audit meetings, the pilot of PASAI training materials, the second round of the SAS program, a communications workshop, and the accountability and transparency project 2011.

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

### **PASAI Congress – Nukualofa, Tonga**

3.4 The 14<sup>th</sup> PASAI Congress was held in Nukualofa, Tonga on 2-5 August 2011. It was attended by 21 heads of SAIs, 7 senior officers of SAIs and 14 other delegates. The SAIs not represented include the Commonwealth of the Northern Mariana Islands, Federated States of Micronesia (National Office), French Polynesia, Queensland and Vanuatu.

3.5 The acting Speaker of the General Assembly of Tonga, Lord Tu'i'afitu officially welcomed the delegates and delivered the opening address. He reinforced the important role that SAIs play in maintaining public confidence in the accountability relationship between the government of the day and the public. Lord Tu'i'afitu believed that the existence of independent SAIs in the Pacific adds value to the governments' financial information. He also acknowledged PASAI and the work it does to improve the standard of auditing throughout the Pacific. He specifically emphasised the importance of introducing performance audits, which are quickly appreciated by government agencies because of their observable immediate benefits.

3.6 The themes of the XX INTOSAI Congress held in Johannesburg in November 2010 were used as the basis for SAI briefings at the congress. These included: value and benefits of SAIs; environmental audits; and, general awareness of INTOSAI Standards (ISSAIs). Under value and benefits of SAIs, delegates discussed the following topics: SAIs as pillars of the democratic systems (model institutions); enhance public sector performance;

communications to stakeholders (simplicity, clarity and accessibility); and, SAIs make a difference to lives of citizens. Following is a summary of the discussions.

3.7 The Congress delegates discussed that the value of SAIs may be assessed by the audits it conducted, the follow-up of audit issues, improved timelines, surveys by select committees and key stakeholders, and peer reviews. SAIs communicate the value of their work by: reporting to Parliamentary select committees, entities, public expenditure commissions, Boards, management, audit committees, etc.; media releases; good practice guides; face-to-face meetings; website; workshops/ seminars; and annual reports.



3.8 The delegates expressed satisfaction with the achievements that have been made on environmental audits, especially those that were undertaken on a cooperative basis. An impact of the two audits that have been completed is the increase in capacity in 14 SAIs. In addition, 20 SAI performance audit reports on management of solid waste and access to safe drinking water have been released.

3.9 While there is limited use of the International Standards of Supreme Audit Institutions (ISSAIs), some SAIs in the region are already using the International Standards on Auditing (ISA), on which most of the ISSAIs on financial audit are based. The delegates noted that the inclusion of the ISSAIs in the manuals and training materials will encourage the adoption and use of the international standards in the region.

3.10 The Congress acknowledged the range of legislative frameworks that exists in the region. These are the Westminster, US and French models. A few countries have made changes to their legislation to improve the independence and operation of the SAIs.

3.11 The Secretary-General, on behalf of PASAI, thanked the hosts, the Tonga Audit Office and its Auditor General, Dr Pohiva Tu'i'onetoa, for organising a successful Congress. The delegates' attendance of the King of Tonga's birthday celebrations revealed the richness of the culture and tradition of the island nation. The Secretary-General, in closing, mentioned

that PASAI should be proud of its achievements to date and that it was essential that the results of PASAI activities have a lasting effect on the region.

### **Governing Board**

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

3.13 A number of changes were made to the membership of the Governing Board. Dr Pohiva Tu'i'onetoa, the Auditor General of Tonga, assumed the Chair as host of the 2011 PASAI Congress. Mr Francois Monti, Auditor General of New Caledonia, was confirmed as a member of the Board after the 2011 PASAI Congress confirmed the New Caledonia SAI as the host of the 2012 Congress. Mr Edward Ronia, Auditor General of Solomon Islands, was appointed as the Melanesian Group representative replacing Mr George Sulliman, Auditor General of Papua New Guinea. Similarly, Mr Stoney Taulung, Public Auditor of Kosrae State - Federated States of Micronesia (FSM) was appointed as the Micronesian representative replacing Mr Haser Hainrick, National Public Auditor of FSM.

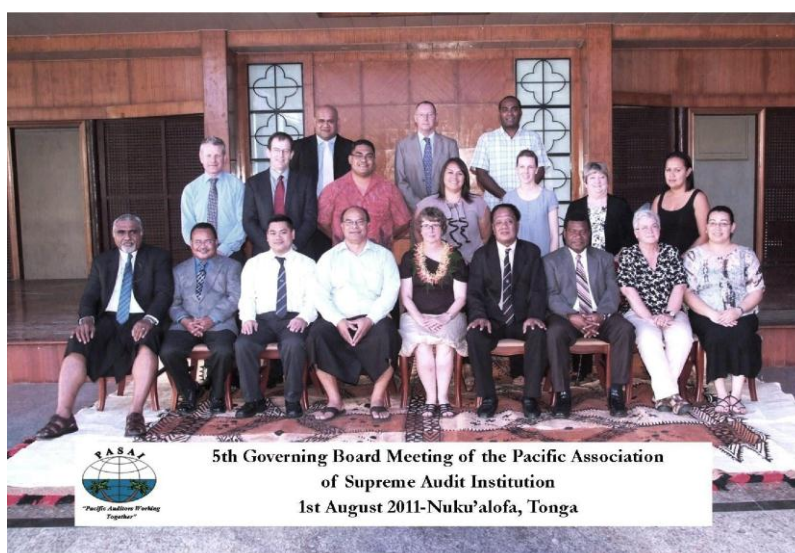
3.14 The members of the Governing Board are:

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

### *Fifth Governing Board Meeting – Nukualofa, Tonga*

3.15 The meeting in Nukualofa, Tonga on 1 August 2011 preceded the 14<sup>th</sup> PASAI Congress. Mr Haser Hainrick (who was being inaugurated for another term in the same week as the Congress) and development partners, IDI and the World Bank, were not able to attend. The Board considered and approved the PASAI Business Plan for 2011/12, PASAI program and performance management frameworks, PASAI projects, strategy and funding issues. The Board also discussed matters for the consideration of the PASAI Congress.

3.16 The Board noted particularly the start of the two very important PASAI projects, the Sub-regional Audit Support (SAS) program and the accountability and transparency project. The second round of the SAS program started over a year after the first round was completed. The SAS team comprise four new secondees from the three countries and new consultants as SAS Program Coordinator and SAS Expert.



3.17 The second accountability and transparency project commenced after more than a year since the first project was completed in 2009. With a more in-depth study of selected countries, the Board noted the scoping and benchmark paper outlining the areas to be covered in the project.

### *Sixth Governing Board Meeting – Auckland, New Zealand*

3.18 The sixth meeting of the Governing Board held in Auckland, New Zealand on 1-2 February 2012 was attended by 4 members of the Governing Board and development partners, including ADB, AusAID, and NZAID. Apologies were received from the Chairman, Dr Pohiva Tu'i'onetoa (Auditor General of Tonga) and Edward Ronia (Auditor General of the Solomon Islands). The SAI of Kiribati was not represented as the head of SAI, Mr Raimon Taake had completed his tenure.





3.19 The meeting re-confirmed the PASAI performance measurement framework as a monitoring tool for PASAI activities and SAI capability improvements as well as the interim 6 months financial report to December 2011. The Board also:

- considered the draft Financial Audit Manual and decided that more work was needed to simplify and make it relevant for SAIs in the region;
- confirmed the instructional teams for PASAI courses;
- noted that the Australasian Council of Auditors-General needed to be consulted on secondments and attachments of staff of SAIs from the region;
- considered the communications strategy of cooperative audit reports as well as other PASAI reports so that the contents get maximum impact in the region;
- noted the improvement in competency in the staff of the Sub-regional Audit Support (SAS) SAIs of Kiribati, Nauru and Tuvalu, and the enhancement of outputs in the completed audits
- considered the finalisation of the Accountability and Transparency Report 2011.

3.20 The Board also approved the 3 year plan in principle and confirmed the 18 months of activity to June 2013. Following this, PASAI and development partners will consider a review of the PRAI and discuss a long-term strategy and funding.

### **Small Island States (SIS) Officials and Pacific Plan Action Committee Meeting**

3.21 Mr Eroni Vatuloka and Mr Bruce Robertson presented at the Small Island States (SIS) and the Pacific Plan Action Committee meeting on 15-17 August 2011 on the progress of PRAI and more specifically, the transformational impact that the two programs, the Sub-regional Audit Support (SAS) and co-operative performance audits have had in the Pacific island countries. The presentations were well received by the two committees. Following

the meeting, PASAI produced a media release and a flyer that were distributed at the Forum Island Leaders meeting held in Auckland in September 2011.

### **INTOSAI-Donor Co-operation Steering Committee Meeting – Jaipur, India**

3.22 Mr Bruce Robertson and Mr Eroni Vatuloka also attended the INTOSAI donors' co-operation steering committee meeting held in Jaipur, India on 22-25 February 2012. Mr Robertson and Mr Vatuloka also attended an IFAC meeting which was held prior to the INTOSAI-Donor Cooperation meeting.

3.23 Delegates discussed the funding of capacity building development proposals from SAIs and regional offices. They also agreed to establish a pooled fund for capacity development and discussed a framework for measuring SAI performance.

3.24 The meeting noted the progress made on the program to implement the International Standards on Auditing (ISSAIs) and the matching of proposals with donors and supporting SAIs. Expressions of interest were received for 14 proposals during the meeting. Delegates were also made aware of the need for SAIs and regional secretariats to populate a new SAI development database, which will enhance coordination of support.

### **Pacific Working Group on Environmental Auditing (PWGEA) – Sydney, Australia**

3.25 The 7<sup>th</sup> RWGEA meeting was held in April 2012 in Sydney, hosted by the New South Wales Audit Office. The RWGEA heard presentations from the OAG, New Zealand, the Australian National Audit Office as well as individual Australian State Audit Offices on their environmental audits. PASAI delegates from the Cook Islands, Fiji, Kiribati and the Solomon Islands also attended and presented on their involvement in environmental auditing.

3.26 Ms Claire Kelly, the Cooperative Performance Audit Advisor, presented on what has been achieved to date through the three cooperative environmental audits that Pacific SAIs have conducted under the Cooperative Performance Audit (CPA) Program. She considered where improvements were needed. The meeting agreed that it would be desirable for audit teams to have greater involvement in planning the audit topic. It also supported the notion of greater flexibility within the broad audit topic to allow individual offices to focus on the key issues in their jurisdictions. This approach has been used for other WGEAs' coordinated audits.

3.27 Mr Jonathan Keate of the OAG, NZ, in his role as Coordinator of the RWGEA, presented the results of the survey he had conducted to identify which environmental audit topics Pacific Auditors-General were interested in conducting. The first preferred topic was climate change adaptation.



Delegates of the RWGEA meeting held in April 2012

3.28 Mr Marc Overmars, an ADB consultant working on climate change in Suva Fiji, assisted the meeting in narrowing the topic of climate change adaptation to the more manageable focus of what Pacific countries are doing to adapt to climate change. In particular, the meeting looked at planning processes to manage environmental risks in key sectors with a focus on natural disaster risk management and recovery.

3.29 Ms Tuuli Rasso, from the INTOSAI Working Group on Environmental Audit (WGEA) presented information on the guidance available to SAIs to support their environmental audits. She demonstrated the WGEA guidance on auditing climate change, an eLearning tool developed by the WGEA to assist SAIs to develop audits on climate change. She also updated the meeting on a coordinated audit of climate change adaptation currently underway in Europe.

3.30 Overall, the meeting concluded that it would be advisable to adopt the coordinated audit approach used by 14 SAIs around the world to audit their governments' management of climate change (released November 2010). By adopting this model, Pacific SAIs would cooperate in the design of the regional audit but with the capacity to then focus on how their individual governments are planning to adapt to climate change and managing natural disaster risks and recovery.

### **PASAI Secretariat**

3.31 The PASAI Secretariat was kept busy throughout the year with the organisation of various activities: the Tonga PASAI Congress; two Governing Board meetings; two cooperative performance audit meetings, two piloting of capacity building training materials; a communications training; and the accountability and transparency project 2011.

3.32 PASAI made two recruitments during the year. Mrs Sinaroseta Palamo-Iosefo was appointed Capacity Building Advisor in February 2012, replacing Mr Allen Parker. Mrs Iosefo

worked previously with the Betham & Co Chartered Accountants and as Audit Manager and Director with the Samoan SAI. Mr Parker took over from Mr Paul Allsworth as Director of Audit of the Cook Islands in November 2011.

3.33 The PASAI Secretariat has recruited Mr Thomas Holland as its Strategic Management and Operational Guidelines (SMOG) Advisor to lead a working group drawn from SAIs in the region to develop a PASAI guideline. Mr Holland is the Deputy Auditor General of Papua New Guinea and has been seconded to PASAI for the SMOG Advisor role.

3.34 PASAI has recruited a Technical Support Advisor to provide accounting and auditing advice and support to SAIs in the region.

### **Achievements Against Performance Targets**

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

**Table 3.1 Achievements Against Performance Targets**

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

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<b>Design summary</b>	<b>Performance targets</b>	<b>Achievements</b>
Establish enhanced PASAI Secretariat	<p>PASAI Governing Board and Secretary-General appointed by August 2009.</p> <p>Enhanced PASAI Secretariat established by August 2009.</p>	<p>The Governing Board and Secretary-General were appointed in August 2009 during the PASAI Congress in Palau. The Board membership has changed each year since 2009 in keeping with the PASAI Charter.</p> <p>The PASAI Secretariat was opened for business in Auckland, New Zealand on 18 January 2010.</p>
Support regional co-ordination	<p>Support for three PASAI Congresses and (four) PASAI Governing Board meetings, as well as participation in regional and international meetings.</p>	<p>Three Congresses have been completed (Palau, August 2009; Kiribati, July 2010; Tonga, August 2011), and a fourth Congress will be held in Noumea, New Caledonia on 2-5 October 2012.</p> <p>Six meetings of the Governing Board have been completed (Palau, August 2009; Papua New Guinea, November 2009; Fiji, July 2010; New Zealand, February 2011; Tonga, August 2011; New Zealand, February 2012). A seventh meeting is being organised, to be held in Noumea, New Caledonia on 1 October 2012.</p> <p>PASAI was represented at the INTOSAI-Donor Steering Committee meeting which was held in Jaipur India in February 2012 and the Regional Working Group on Environmental Auditing (RWGEA) in April 2012.</p>
Prepare strategies for common methodologies	<p>Strategy and plan for moving toward common audit methodologies prepared by (March 2010).</p>	<p>The strategy and plan for moving towards common audit methodologies was developed and approved at the Palau Congress in 2009. The production of five manuals and four training materials started after the two capacity building conferences in June and November 2010. Four manuals have been produced to date.</p>
Prepare programs for co-operative audits and peer reviews	<p>Rolling program for co-operative audits and peer reviews approved by (August 2009) and updated annually.</p>	<p>A program of co-operative performance audits was approved at the Palau Congress and audits started in October 2009. The Governing Board will consider a peer review proposal at its meeting in February 2013.</p>

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Establish PASAI  
website

PASAI website operational by  
(September 2009).

An enhanced PASAI website ([www.pasai.org](http://www.pasai.org)) was  
launched on 15 October 2010. The website is updated  
on a regular basis.

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

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

- (a) preparing guidance and training materials;
- (b) developing generic competencies and delivering structured training programs;
- (c) supporting the attainment of professional qualification;
- (d) supporting peer reviews and institutional strengthening designs;
- (e) supporting improved contract management;
- (f) providing management and operational support; and
- (h) facilitating secondments and attachments.

4.2 Building on development activities completed in the prior year, the 2011/12 capacity building program emphasised the review, revision, and final production of manuals and the revision and delivery of training programs.

4.3 Additional capacity building activities were also initiated in 2011/12 in the areas of professional certification/qualification, peer reviews, strategic planning and contract management, technical support and co-ordinating secondments and attachments.

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

#### *Manuals*

##### Background

4.4 The PRAI assessment indicated a need for manuals and guidelines which could be used by PASAI members to ensure that the work they perform would be consistent with ISSAIs and other appropriate professional standards. Five specific areas were identified: human resource management, financial auditing, performance auditing, quality assurance, and reporting. In 2009, the Governing Board established working groups to prepare manuals and guidelines based on accepted international standards and incorporating samples, templates, checklists and other tools drawn from current best practices across the region or from other regional working groups.

4.5 The Board also endorsed a multi-stage review process that included subject matter experts, PASAI's Technical and Methodology and Capacity Building Advisors, a Governing Board champion, the Executive Director, and the Communications Advisor/Editor. Manuals

would be considered final and ready for production when reviewed by the Governing Board and endorsed at a PASAI congress.

4.6 Although PASAI members are not obligated to adopt the manuals, SAIS are encouraged to adapt them (or modify their own manuals) to enhance the quality of their reports and build a common knowledge base in the region. The manuals will be used as the basis for the career path training and on-the-job training associated with the SAS program and the co-operative performance audits.

### Status

4.7 Three manuals were endorsed at the August 2011 PASAI Congress. The Human Resource Management, Quality Assurance, and Reporting Guidelines have been printed and distributed to all PASAI members. Each manual also contains a CD with an e-copy of the manual and e-copies can also be obtained on PASAI's website. Portions of the Quality Assurance and Reporting Guidelines have been incorporated into training materials.

4.8 At their February 2012 meeting, the Governing Board discussed the Performance Audit Manual (PAM) and the Financial Audit Manual (FAM). They endorsed the PAM and suggested that with some further modification, it could be prepared for the October 2012 Congress. However, the Board noted that the structure and complexity of the FAM needed to be re-assessed. The FAM's restructuring and rewriting began shortly thereafter. However, major staff changes at the Secretariat combined with the complexity of the FAM have delayed the FAM's progress.

4.9 Toward that end, the Secretariat has approached AFROSAI-E to determine if their manual, which is ISSAIs compliant, could be adopted by PASAI. AFROSAI-E has kindly agreed and this will be proposed to the Governing Board on 1 October 2012.

### *Training*

#### Background

4.10 When the PRAI assessment was conducted, training courses in the region were being offered irregularly as opportunities were presented by IDI or other donors. They were usually organised around a particular topic or type of audit. The PRAI design included a skill-based, career path training proposal based on establishing a set of generic, region-wide competencies. By 2009, PASAI adopted the competencies and endorsed a four-tiered training program to assist staff in achieving the competencies. Additionally, the PRAI incorporated suggestions for a special communication course and for induction training. In 2010, working groups drawn from SAIs began developing training programs for Tier 1- fundamentals of government auditing; Tier 2- intermediate government auditing; Tier 3- supervisory roles in government auditing, and Tier 4- managing government audits.



4.11 The Governing Board also approved the course development process. Working with the Capacity Building Advisor and coordinating with the Technical and Methodology Advisor, each working group prepared training materials consistent with the manuals being drafted. Once materials were completed, pilot courses were conducted and extensive feedback was collected. Based on this feedback, the working groups and the Capacity Building Advisor began making revisions and the materials will be finalised for future courses.

#### Status

4.12 Although there have been some delays and setbacks with the training programs, there have also been significant accomplishments.

4.13 As noted earlier, staff turnover had a serious impact and there have been delays in the final production of the training materials. However, with a new Capacity Building Advisor and a new Communications Advisor joining the PASAI Secretariat in February 2012, it is anticipated that we will still be able to meet PASAI's goal of offering at least four courses each year.

4.14 All of the training courses have been piloted. Tier 2 and Tier 3 (intermediate and supervisory courses) were piloted in 2010/11. Tier 1 and Tier 4 (fundamentals and management) were piloted in July and November 2011. The Communicating Effectively Workshop pilot was held in November 2011.

4.15 With the pilots complete, courses are now going through the next review and revision process. The second Tier 2 class, offered in May 2012, incorporated changes suggested in the pilot. It is now going through a final review process before going to the Communications Advisor for editing and final production. The second offerings of Tiers 1, 3 and 4 and the Communicating Effectively Workshop will be held next year, and then they will also be finalised.

4.16 As at 30 June 2012, a total of 83 participants and 15 coordinators (from SAIs in the region) had attended six PASAI training workshops. The 83 participants were from 17 SAIs as shown in the Table 4.1:

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

SAI	Training/workshops					
	Tier 1	Tier 2(2)	Tier 3	Tier 4	Coms.	Total
American Samoa		1		1	1	3
Cook Islands	1	3	1	1	1	7
Fiji	4	6	4	3	2	19
FSM-National		2	1	1	2	6
FSM-Kosrae					1	1
FSM-Pohnpei	1	1		1		3
FSM-Yap	1	1	1			3
Guam	1	3	1		1	6
Kiribati	1	3	1	2	1	8
Marshall Islands	1	1	1	1		4
Nauru	1	1	1			3
Palau	1	2			1	4
Papua New Guinea	2	3	2	3	2	12
Samoa	3	5	1	2	2	13
Solomon Islands	1	3	1		1	6
Tonga	1	6	1	3	2	13
Tuvalu	1	1	1	1	1	5
	<b>20</b>	<b>42</b>	<b>17</b>	<b>19</b>	<b>18</b>	<b>116</b>
Coordinators	3	6	3	3		15*
	<b>17</b>	<b>36</b>	<b>14</b>	<b>16</b>	<b>18</b>	<b>101</b>

[All of the above were pilot training with the exception of one of the two Tier 2.]

[\*The coordinators include one who participated 4 courses and one who participated in 2.]

Four SAIs, French Polynesia, New Caledonia, Northern Mariana Islands and Vanuatu were not represented in the workshops.<sup>3</sup> The contents of the training programs are provided in Appendix II.

All in all, 101 audit staff from 17 SAIs were trained in the six PASAI training programs that were conducted in 2011/12. In addition, 11 coordinators or trainers from the region assisted in the training.

4.16 Most significantly, at their February 2012 meeting, the Governing Board adopted a new action planning policy that is being piloted with participants from the Communicating Effectively Workshop. Participants in PASAI training courses will be asked to prepare an action plan at the conclusion of the class. In this plan, they will be asked to describe what they plan to accomplish in their SAI, based on the course they have just completed.

<sup>3</sup> With only 3 auditors and an AusAID technical assistance, the SAI was not able to send its officers to any of PASAI workshops. The SAI focused on completing 7 years outstanding audits (2005-2011) of the Vanuatu Whole of Government accounts. To date, it has successfully completed the audits of 2005-2010 accounts.

Periodically the participants and the heads of their SAIs will be asked to provide feedback about progress being made. In this way, the impact of the training may be more accurately assessed.

4.17 At the February 2012 meeting, the Governing Board also decided to delay further action on the induction materials/training project until all of the manuals and all of the already piloted courses were issued in their final forms.

### **Certification**

4.18 PASAI unfortunately has not progressed in this area in the last financial year. The SAIs are assumed to have progressed with accreditation with their local professional bodies.

### **Peer Review**

4.19 As a result of the delay in the completion and implementation of the Performance Audit and Financial Audit Manuals, the peer review program has been delayed. To make a meaningful review of the work of a SAI, it ought to be allocated some time to implement the PASAI standards detailed in the manuals and guidelines.

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

#### Background

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

#### Status

4.21 The development of the manuals and training programs will soon be complete. Accordingly the PASAI Secretariat is moving forward in recruiting and hiring the staff to move the PRAI from development into sustainable implementation. A Strategic Management and Operational Guidance Advisor was recruited and hired in June 2012. With a new working group, he will be developing strategic planning guidelines and related training so SAI heads can improve their strategic planning practices. They will also develop contracting guidance to be applied to the contracting out, monitoring, and evaluating processes used by SAIs.

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

**Table 4.2 Achievements Against Performance Targets**

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

<b>Design summary</b>	<b>Performance targets</b>	<b>Achievements</b>
Develop generic competencies and deliver structured training program	Generic set of competencies and job descriptions confirmed by (September 2009).	Generic set of competencies and job descriptions completed in 2009.
	PASAI Governing Board endorses structured training programme by (December 2009)	Governing Board endorsed the structured training program in PNG, November 2009.
	Guidance materials/manuals prepared by (June 2010), covering financial and performance audits, investigations, operations and peer review	<p>Guidance materials (manuals/guidelines) for Human Resource Management, Reporting, and Quality Assurance endorsed and published in 2011.</p> <p>The Performance and Financial Audit Manuals will be presented to the 2012 Congress for endorsement.</p> <p>Work on guidance materials for investigations, operations, peer reviews and induction are not yet started.</p>
	<p>For each structured training program, regional training courses for 200 participants conducted by (December 2012)</p> <p>(Note: later modified to having four training programs conducted in each fiscal year)</p>	<p>Tier 1, 2, 3, and 4 pilots conducted, attended by 63 participants and 12 coordinators.</p> <p>Communicating Effectively Workshop piloted, attended by 20 participants.</p> <p>Revised Tier 2 training conducted, attended by 20 participants and 3 coordinators.</p> <p>(four courses – Tier 1 and 4, Communicating Effectively pilots and the revised Tier 2 course offered in 2011/12).</p>

Support attainment of professional accountancy qualifications	Barriers to professional qualifications reduced by December 2012	The Chairman of the Certification Committee presented on options on attainment of professional qualifications at the Tonga PASAI Congress in August 2011 but heads of SAIs are assumed to prefer to progress this with their local professional bodies.
Support improved contract management	Contracting out model prepared by (March 2012) and contract management support provided to (21) SAIs by (December 2012)	Strategic Management and Operational Guidelines Advisor recruited and working group established in June 2012 to develop contracting out and strategic planning guidance.
Provide management and operational support	Management and operational support provide to (21) SAIs by (December 2012)	Based on needs expressed by the SAIs, management and operational support will be provided to the SAIs in 2012/13.
Provide technical support	Technical support provided to (21) SAIs by (December 2012)	Recruiting initiated for a Technical Support Advisor to assist SAIs in implementing the guidance materials and training programs.
Co-ordinate and support peer reviews	Peer reviews supported for (12) SAIs by (December 2012)	PASAI will allow SAIs to adopt the Performance Audit Manual (recently issued) and the Financial Audit Manual (to be issued after the October 2012 Congress) before it can conduct a meaningful peer review of the SAIs. The peer review program will start in 2014/15.

## CHAPTER 5: CONDUCT CO-OPERATIVE AUDITS

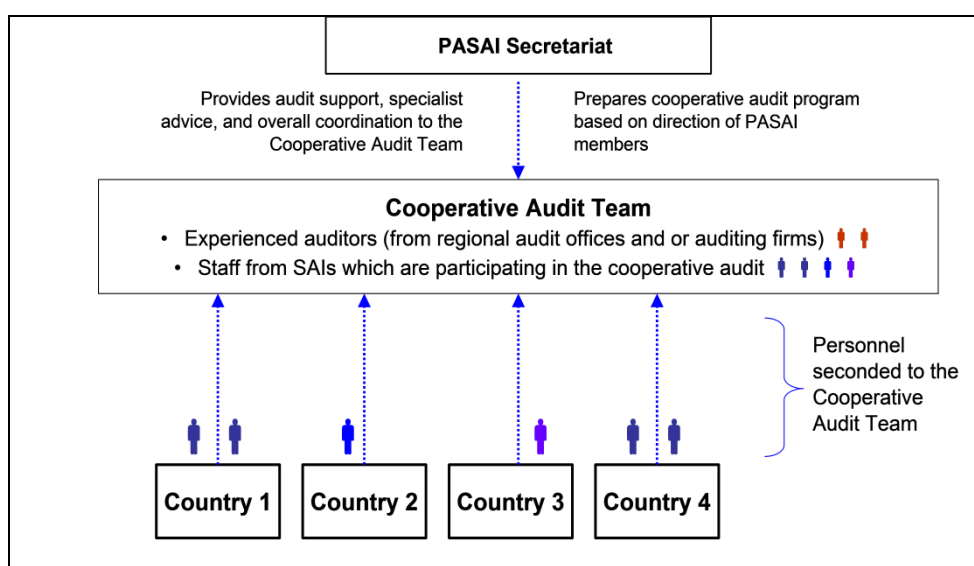
5.1 PRAI provides that PASAI will conduct cooperative audits with member SAIs by (a) conducting cooperative financial audits; (b) conducting cooperative performance audits, including environmental audits; and (c) supporting a sub-regional audit approach for Kiribati, Nauru and Tuvalu (SAS), with the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

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

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

5.3 Figure 5.1 illustrates the cooperative audit approach.

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



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

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

5.6 Following a survey in 2009, PASAI members selected a number of performance audit topics to be conducted on a cooperative basis. The Palau Congress in 2009 endorsed the topics of: management of solid waste; access to safe drinking water; and management of sustainable fisheries.

### **Management of Solid Waste**

5.7 PASAI completed the first cooperative performance audit on the management of solid waste in 2010. Participating SAIs included: 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. The majority of the SAIs (eight of ten) have released their country specific audit reports in their respective jurisdictions. These reports have had varying positive impacts, including the Guam legislature adopting a recommendation from the Guam Office of the Public Auditor's report to establish a new legislative framework for the management of solid waste in Guam. This law will put in place a Guam Solid Waste Authority to oversee solid waste management operations.

#### *Regional Overview Report*

5.8 A regional report was completed and released at the PASAI Congress in Tonga in August 2011. To ensure audit-in-confidence requirements were not compromised, the regional report was released without identifying the two countries that had not made public their country audit report in their jurisdiction.

### **Access to Safe Drinking Water**

5.9 The audit topic and high-level lines of enquiry, were endorsed by heads of SAIs at the PASAI Congress in Kiribati in July 2010. The approach adopted was similar to that agreed for the first cooperative performance audit on the management of solid waste.

5.10 A core of SAIs that participated in the first cooperative performance audit participated in the second cooperative performance audit. They included: Cook Islands, Fiji, Palau, Papua New Guinea, Samoa, Tonga and Tuvalu. Three new SAIs participated in the second audit: FSM – Kosrae, FSM – Yap and Kiribati. In addition, more experienced SAIs adopted a range of strategies to increase their performance auditing capability by including a number of auditors new to performance auditing – two each from the Cook Islands, Kiribati and PNG and one each from Kosrae, Yap, Samoa, Tonga and Tuvalu. This exposure to performance auditing is helping to build a critical mass of performance auditors in the PASAI region.

5.11 PASAI completed the second cooperative performance audit on access to safe drinking water in 2011. The majority of SAIs (eight of ten) have released their country specific audit reports in their respective jurisdictions. These reports have had varying positive impacts, including requests from legislatures to undertake more performance audits.

5.12 A regional report was released in June 2012 and is available on the PASAI website [www.pasai.org](http://www.pasai.org) . To ensure audit-in-confidence requirements were not compromised, the regional report was released without identifying two countries that had not made public their country audit reports in their jurisdiction.

### **Management of Sustainable Fisheries**

5.13 The audit topic and high-level lines of enquiry were endorsed by heads of SAIs at the PASAI Congress in Tonga in August 2011. The approach adopted was slightly different to that agreed for the previous two cooperative performance audits as it was a much more complex audit involving a range of stakeholders and commercial fishing interests of distant water fishing nations.



5.14 A core of SAIs that participated in the first and second cooperative performance audits participated in the third. They included: Cook Islands, the Federated States of Micronesia , Fiji, Kiribati, Palau, Samoa, Tonga and Tuvalu. Two new SAIs participated in the third audit: Nauru and the Solomon Islands.

5.15 The SAI of the Federated States of Micronesia publically released its report on 22 June. However as at 30 June 2012, owing to the complexity of the audit, a number of audit teams were still finalising their fieldwork.

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

5.16 Planning for this 4th cooperative performance audit commenced in late 2011 with the Coordinator of the Regional Working Group on Environmental Auditing (RWGEA) surveying

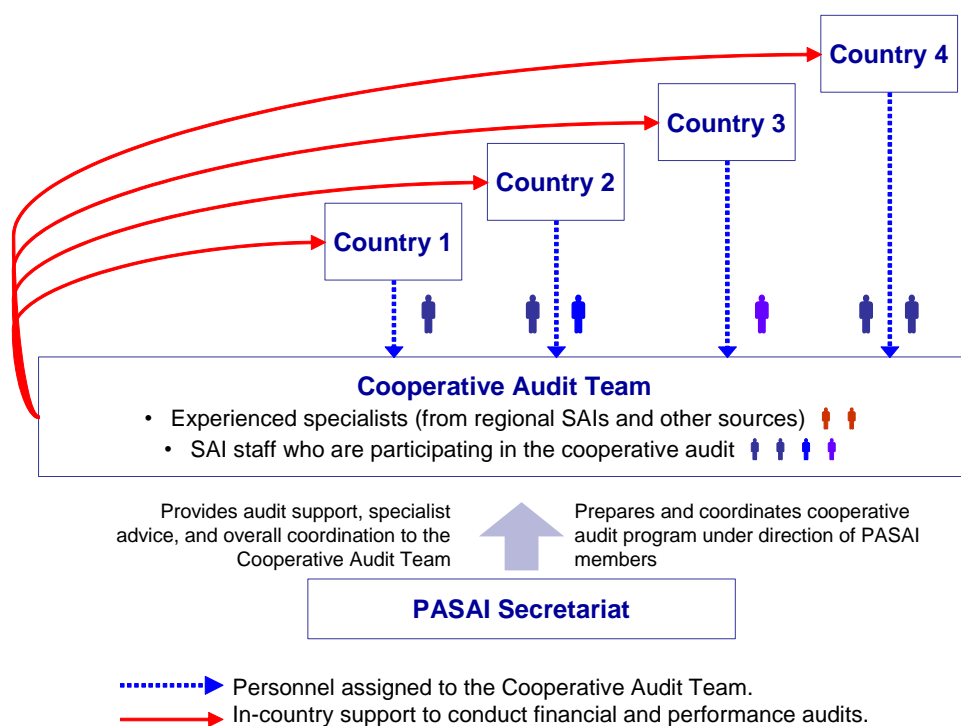


heads of SAIs as to their preferred topics for future environmentally focused cooperative audits. The first preference was an audit on climate change. At its meeting in early 2012, the PASAI Governing Board considered the survey results and referred planning on this broad subject to the RWGEA meeting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

5.17 The RWGEA meeting concluded that it would be advisable to focus the audit on individual Pacific country climate change adaptation and disaster risk and recovery strategies. It was suggested that PASAI adopt the coordinated audit model used by 14 SAIs around the world to audit their governments’ management of climate change. By adopting this model, Pacific SAIs would cooperate in the design of the regional audit with the capacity to then focus on how their individual governments are planning to adapt to climate change. This approach will necessitate minor adjustments to the cooperative performance audit methodology that had been used for the first three cooperative performance audits.

5.18 Figure 5.2 illustrates the cooperative performance audit approach.

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



## **Performance Audit Stages**

### *Planning*

5.19 Audit teams attend a planning meeting, once the audit topic and high-level lines of enquiry are endorsed by auditors-general. At this meeting, participants develop audit criteria to support the assessment of the audit objective and lines of enquiry, and formulate an audit work plan. At the end of this phase, each audit team has a completed and peer reviewed Audit Work Plans for endorsement by their Heads of SAIs so that the audit can commence.

### *Fieldwork and analysis*

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

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

### *Reporting*

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

5.23 The PASAI Secretariat agrees with heads of SAIs on the completion and release of the audit report in individual jurisdictions so that the regional report can be compiled and released in a timely manner for regional stakeholders and development partners.

## **Results of the Cooperative Performance Audit Program**

5.24 The success of the cooperative 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 post its completion in 2012.

5.25 However, results to date indicate that audit team members with performance audit experience have improved their skills. Many now hold positions of audit team leader in the second and third cooperative audits, and those with no prior experience now have some experience and a greater understanding of the performance audit process. This level of skill and confidence in carrying out performance audits will increase over time as a core of experience is developed through and supported by the cooperative audit approach.

5.26 Performance audit skills gained by participants in the second and third cooperative audits built on and reinforced skills gained in the first audit and are extended to more Pacific island auditors. These include:

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

5.27 Audit team members also provided valuable reflection on and insight into the audit approach. These lessons have proven useful in the design of future cooperative performance audits.

### **PASAI Performance Audit Manual (PAM)**

5.28 Over the course of the second cooperative performance audit, a parallel process was put in place to further enhance the performance auditing capabilities of SAIs in the region. This was the development of the PASAI PAM. The manual is designed to support performance audit activities amongst PASAI members and will also be a useful adjunct and support for the cooperative performance audit approach. To support local experience and learning, the manual is heavily reliant on the use of and adherence to International Standards of Supreme Audit Institutions (ISSAIs) and provides relevant Pacific examples drawn from audit approaches developed by SAIs involved in the cooperative approach as well as examples from other SAIs within the region.

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

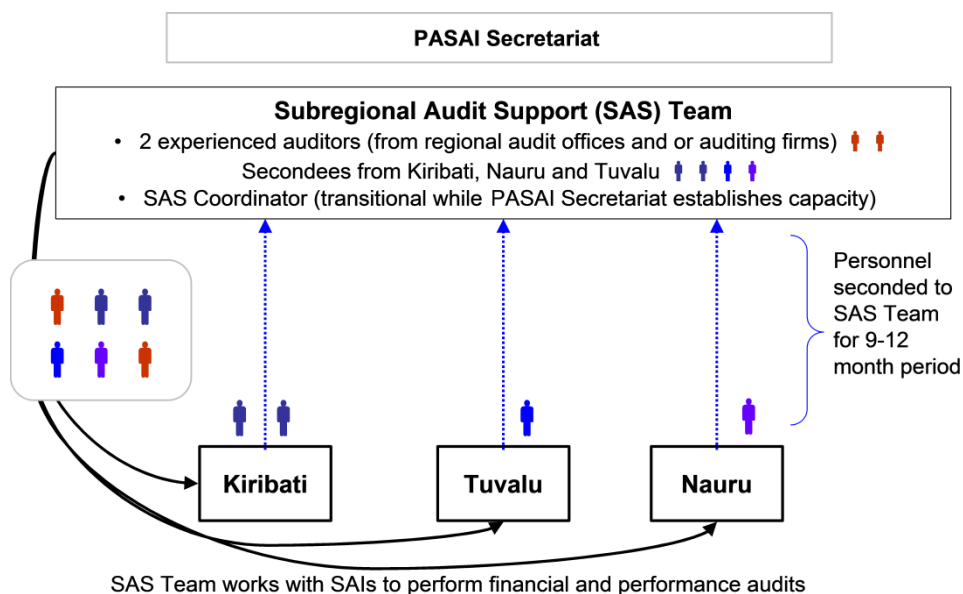
#### *Objective and approach*

5.29 The objective of the SAS program is to enable the public accounts of Kiribati, Nauru,

and Tuvalu to be audited to uniformly high standards in a timely manner through increasing skills in the audit offices. The program involves co-operative financial audits of specified entities in the three countries, with the team visiting each country and completing each audit in a period of 10 weeks.

Figure 5.3 illustrates the SAS approach.

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



### The Team

The Team for the second round of the SAS program comprised:

Name	Position
Mr Ross Hilton	SAS Programme Co-ordinator
Mr Matt Major	Audit Expert
Mr Tematang Raimon	Secondees, Kiribati
Ms Teaaau Rereneti	Secondees, Kiribati
Ms Gillian Itsimaera	Secondees, Nauru
Mr Mase Tumua	Secondees, Tuvalu



Back Row – Matt Major (Audit Expert), Ross Hilton (Project Co-ordinator)  
 Front Row - Mase Tumua (Secondee, Tuvalu), Tematang Raimon (Secondee, Kiribati), Teaaua Rereneti (Secondee, Kiribati)  
 Absent - Gillian Itsimaera (Secondee, Nauru)

5.30 The full team met for the first time in Kiribati. Ross Hilton (Project Coordinator) brought background in project management and finance, Matt Major (Audit Expert) brought extensive audit experience from his time at Audit New Zealand, the operational auditing arm of the office of the Auditor General in New Zealand. The secondees all brought a wealth of local knowledge and skills that would prove very valuable for the team.

5.31 The team quickly formed a tight bond. The bond and connection in the team is very important. Members of the program are away from their friends and family for extended periods of time.

#### *Country Visits and Audits*

<b>Location</b>	<b>Trip Dates 2011-12</b>	<b>Audit</b>
Auckland	13-17 June	Planning Meeting
Kiribati	21 June – 31 August	Kiribati Provident Fund 2007 Public Utilities Board 2009
Nauru	19 September – 8 November	Nauru Utilities Corporation 08/09 Nauru Utilities Corporation 09/10
Tuvalu	23 January – 27 March	Tuvalu Whole of Government 2009

### *Auckland - Planning meeting*

5.32 A planning and familiarisation meeting was held in Auckland at the Secretariat during the week beginning 13 June 2011. This meeting was attended by Ross Hilton and Matt Major from the SAS team, Eroni Vatuloka from the PASAI Secretariat and Beulah Daunakamakama the Public Audit Expert from the first round of SAS. Ms Daunakamakama provided a briefing to the SAS consultants on what to expect from the different offices and countries. This was very useful as neither of the consultants had experience with any of the SAS countries. The consultants also spent some time purchasing resources that would be required by the program. The most significant of these was a laptop for each of the secondees.

### *Kiribati*

5.33 The team arrived in Kiribati on 21 June. The SAS consultants were impressed with the size of the audit office. The first week in country was spent preparing and delivering a workshop on the purpose of SAS, a refresher of the skills learnt in the first round, and the plan for this round. The SAS team and several local staff then started the audit of the Public Utilities Board. Half of the team then moved to the audit of the Kiribati Provident Fund. The state of the accounts provided for audit was disappointing. It was pleasing to see the concepts and templates provided in the first round of SAS being used by the office in their other audits. The SAS team also provided assistance and guidance on audits outside of the two core SAS audits.

### *Nauru*

5.34 The team arrived in Nauru on 19 September 2011. The audits planned for this phase were Nauru Utilities Corporation (NUC) and Nauru Phosphate Corporation (Ronphos). The team started with the audit of NUC. Management of NUC approached the SAS team and asked if they would be able to complete audits over two years of accounts. This was discussed with the Audit Office and Ronphos. A decision was made to focus on NUC and not audit Ronphos as this would bring the accounts of NUC largely up to date. Again the quality of accounts was poor however a new finance manager had recently been appointed who was making significant improvements in the operation of finance inside NUC. A “morning stand up” routine was introduced in Nauru. During morning stand up each team member discussed what they did yesterday what they will do today and any issues they are facing. This helped to build communication in the team. It also assisted team members to build confidence in public speaking.

### *Tuvalu*

5.35 The Team arrived in Tuvalu in late January 2012. The arrival in country was delayed a week due to cancelations of flights. The team was scheduled to assist with the audit of the Tuvalu Whole of Government audit. On arrival the accounts were not yet ready for audit.

Options for the visit were discussed and it was agreed that the team would focus on completion of systems documentation and assisting the government where possible in the preparation of the accounts. The SAS consultants assisted the finance department in meetings over cash versus accrual accounting and which accounting standards the government should report under. Additional assistance was provided on the preparation of accounting policies. The Tuvalu Audit Office has had the assistance of AVI technical advisors for several years. The benefit of this was clear to the SAS team. The Tuvalu Office was organised and using the concepts and templates of the first SAS round. During this phase Friday afternoon workshops were implemented. These focused on developing skills required for auditing. Some of the workshop topics were, presentation skills, interview skills, fraud and how to spot it, and CARKEYS.<sup>4</sup>

### *Results*

5.36 The success of the SAS program can be measured through increased capability and improved performance by the auditors and offices that participated. All secondees involved with the program developed significantly both in terms of audit skills and as individuals. All secondees reported that they had much higher levels of confidence and now felt comfortable performing interviews of audit clients.

5.37 The second round of the program built on the CARKEYS audit methodology and templates implemented in the first round. Two of the offices had continued with the use of the CARKEYS methodology and templates after the first round. The second round provided these offices the opportunity to clarify areas of uncertainty. The development of a common methodology across the countries is positive as it allows for synergies.

5.38 Staff in all three SAIs were eager to work with the SAS team. This was positive as the additional support by local staff will assist in the development of the SAS methodology that the secondees are now championing in their respective SAIs.

5.39 In all three countries, on the job training was provided through the assistance of audits. Management reports and audit opinions for Kiribati and Nauru are nearing completion. The SAS team is working with the audit offices and clients to achieve this.

### *Challenges*

5.40 A program such as SAS will always face a range of challenges. It is not possible to identify many of these until such time as a team is in country.

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<sup>4</sup> CARKEYS is an audit assurance model (acronym for Control testing, Analytical Review, Key item testing and Sampling) which is used to decide the audit approach that will be used and determine when sufficient testing has been performed.

5.41 The quality of accounts provided for audit was very low. This was an issue identified in the first round. A plan had been put in place to have an “accounting and financial reporting expert” arrive and assist the audit clients before the SAS team arrived. Unfortunately, this did not eventuate in time for the second round of SAS and would have provided a great benefit. In both Tuvalu and Nauru new accounting staff had been recruited before the audit. In both cases they were making good progress on addressing the accounting issues, unfortunately these were not resolved in time for the SAS team visits.

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

Table 5.1: Achievements Against Performance Targets

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



		<p>demonstrated improvement in SAI capacity to carry out performance audits throughout the PASAI region.</p> <p>The challenges of the program include the lack of support from SAIs to complete the audits quickly, the late tabling of the reports, and the lack of commitment by some participants.</p>
Undertake sub-regional audit support program	By December 2012, audits of public accounts of participating sub-regional countries are completed and presented to public accounts committees.	<p>Two rounds of the SAS program have been completed. The first was from August 2009 to April 2010 and the second was from June 2011 to March 2012. A report of the first round of the project is available from the PASAI website. A report of the second round of the program is being drafted.</p> <p>Audits were completed for six entities, two from each country. Only Tuvalu Whole of Government was audited. Therefore, it was not possible to get all the accounts of government audited and submitted to the PAC.</p>

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

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

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

### **Accountability and Transparency Project**

#### Objectives

6.3 The overall objective of the project was to produce a report showing the current state of accountability and transparency in the Pacific region, particularly as it relates to the use of public resources. The report was the second in a series, and followed the first report that was published in 2010.

6.4 PASAI's goal was to produce an updated report on transparency and accountability in the region that could be used as a basis for:

- communication with governments in the region (including regional meetings of ministers); and
- broader advocacy about the role of SAIs and associated governance mechanisms in achieving accountable, transparent use of public resources.

#### Key Achievements

6.5 The report is the result of a detailed study carried out by PASAI's consultant, Ms Aolele Su'a Aloese. The study:

- was based on a range of international and regional benchmarks and good practice principles and measures, taking into account the full range of institutional practices across PASAI members' jurisdictions;
- examined accountability from both an internal SAI perspective and externally, using nine areas of focus which included SAI independence, budget formulation, legislative oversight of public expenditure, standards of ethics and conduct, control of

corruption, the practice of corporate governance, access to information, media independence, and community/NGO participation;

- gathered data from a questionnaire that was sent to all PASAI member SAIs, followed by in-depth studies in six Pacific jurisdictions; and
- considered ways in which SAIs and other institutions of accountability can make a positive contribution, for example through broadened scope of audit (including performance based auditing), better quality reporting and communication (including use of language, websites, etc), and encouragement of improved ethical and governance practices and information disclosure across the public sector.

6.6 The six jurisdictions selected for in-depth study were the Federated States of Micronesia (National), Guam, New Caledonia, Samoa, Solomon Islands, and Tonga. The fieldwork in those jurisdictions included verifying a sample of the local SAI's observations, and interviewing members and officials of legislatures, government officials, and representatives of NGOs and civil society organizations to provide an objective view of public accountability in each jurisdiction.



From left to right: Lyn Provost, Aolele Su'a Aloese and Robert Buchanan.

6.7 The project was endorsed by the Congress of PASAI at its meeting in Tonga in August 2011, and at the same time the detailed project plan was approved by the Governing Board. The overall direction of the study had earlier been discussed with key stakeholders (including the Pacific Islands Forum Secretariat, the United Nations Development Programme, and Transparency International) in July 2011. Following the completion of fieldwork in November 2011, a draft of the report was circulated to those stakeholders for

comment in early 2012. Valuable feedback was received. The draft report was also the subject of expert review by two academics based in the region.

6.8 Funding for the project was kindly provided by the New Zealand Ministry of Foreign Affairs.

### Discussion

6.9 The study has achieved the objectives set out in the project plan. Others will need to judge, over time, whether the report has achieved the goal of providing a resource that can be used in a way that contributes to the outcome of transparent, accountable and effective use of public sector resources in the Pacific.

6.10 PASAI hopes that the greatest benefit of the report's wide coverage, including the in-depth studies of jurisdictions selected from across the region, will be to identify areas of good practice that have emerged in one part of the region that can usefully be applied in another. To this end, the report contains a number of "good practice indicators" in the areas of focus, as well as specific recommendations directed at SAIs. The report includes commentary about how the development of new practices in those areas of focus can improve the overall state of accountability and transparency.

The Secretariat will develop an approach to measure uptake of the report's recommendations and good practice indicators, and will report on this in the coming year in accordance with PASAI's performance measurement framework.

6.11 This will influence a decision on whether to undertake a third study in the 2013/14 financial year.

### 2011 Report

6.12 The 2011 Accountability and Transparency report was published on schedule in July 2012.

### ***Communicating Effectively Workshop***

6.13 The first *Communicating Effectively* workshop attended by 18 participants from 13 SAIs in the region was held in Nadi, Fiji on 2-11 November 2011.

6.14 The workshop supplements the career path, skill based training offered in PASAI's Tier 1-Tier 4 courses. The Tier 1-4 courses emphasize the skills auditors need at various levels to gather and analyze information to develop accurate, objective, timely and complete audits of government entities and programs. The *Communicating Effectively* workshop supplements these courses by focusing on presenting the audit message clearly, concisely and convincingly.

6.15 Participants completed a variety of activities during the pilot program and provided extensive feedback. Participants examined tools and techniques to improve the readability of their written products and practiced writing and reviewing report segments. They also practiced oral communication skills as their report presentations were videotaped and critiqued. Based on evaluation data, modifications have been made in content of the program which will be offered again in September 2012.

6.16 PASAI introduced “action plans” in this workshop, and they are now part of all PASAI training. At the conclusion of the course participants were asked to develop a plan describing what, based on the training, they intend to do when they return to their SAI. The PASAI Secretariat is following up on the action plans at 6 and 12-month intervals in order to assess the impact of the training.

### **PASAI Bulletins and Media Releases**

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

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

**Table 6.1 : Achievements Against Performance Targets**

<i>Strategic Output D: Develop communications and advocate transparency and accountability</i>		
<b>Design summary</b>	<b>Performance targets</b>	<b>Achievements to date</b>
Educate stakeholders on the value of public auditing	Brochure on the value of public auditing prepared and disseminated by June 2010.  At least (six) media articles published widely each year on public auditing from 2010 to December 2012.	PASAI has yet to produce a brochure but has produced media articles following the congresses (three) and the SAS meetings (three). It has also produced articles for other media outlets regionally and internationally.
Advocate enhanced transparency and accountability	PASAI report on regional accountability and transparency issues (covering the regional status of SAI independence, audit finding follow-up, and other issues of concern) released annually from 2009 to 2012.	PASAI has produced a 2011 Accountability and Transparency report and this is available from the PASAI website. This is in addition to a first report produced in 2009/10. The Governing Board will decide when to conduct the next report.
Provide editorial and	Three communications training	The first communications training course was

communications advice	<p>courses for 80 participants conducted by December 2012.</p> <p>- Editorial support provided on [80] SAI reports by December 2012.</p>	<p>conducted in October/November 2011. The training covered amongst other things, the Reporting Guidelines and Quality Assurance Guidelines. The second communications training will be conducted in September 2012.</p> <p>Editorial support has not started as the Communications Officer has just commenced work. Some editorial work will start in financial year 2012/13.</p>
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## 7.0 FUTURE CHALLENGES

7.1 *Mobility of staff* – The guarantee for sustainable livelihood in the Pacific Island countries is a challenge for the communities in the region. Rising poverty and high cost of living have resulted in qualified and skilled people looking for opportunities in developed countries. This high mobility of staff has affected a lot of SAIs' operations in the region, especially when there is already few qualified staff in the region. SAIs should make all efforts to retain experienced staff because skills and knowledge acquired over a period of time are quite difficult to replace.

7.2 The mobility of qualified and experienced staff is an issue not only for SAIs but for the governments in the Pacific. Creating an environment for the qualified staff to remain in the island countries demands more than just an attractive remuneration.

7.3 *Performance measurement framework* - The PASAI performance framework approved in Tonga in August 2011 has been described by some development partners as requiring certain refinements. The framework was considered too broad and not specific on the results and outcomes of the PASAI programmes. As a result, performance reporting is not oriented towards achieving explicit outputs and outcomes, within specified timelines.

7.4 PASAI is optimistic that the current independent review of the Pacific Regional Audit Initiative will consider an appraisal of the performance measurement framework with a view to making it more relevant to the organisation. This however would require the inputs of all members, development partners and stakeholders.

7.5 *Preparation of accounts* - The delay in the audits of some public entities in the region is attributed to the delay in the preparation of the accounts. The effective financial management and reporting of public sector programmes are therefore essential for an accountable and transparent government. Recognising this, the Pacific Island Forum Secretariat has a strategic objective for good governance programme to "improve transparency, accountability, equity and efficiency in the management and use of resources in the Pacific."

7.6 PASAI will work with other regional organisations such as PFTAC and PIFMA, and development partners to develop strategies to improve financial management in the Pacific.

7.7 *Accounting standards* – Over the last three years, PASAI activities have concentrated on training and workshops on auditing standards. While a lot of SAIs have raised capacities in the areas of auditing, there seems to be a wide gap existing in improving capacities in accounting standards.

7.8 The authors of PRAI considered that this was not an area that SAIs require training thus excluded it from the design. This was also not necessary as a number of SAIs in the region have as minimum qualification requirement, a degree in accounting or in a related field. In

addition, some SAIs require those in managerial positions to have professional certification. This however did not resolve the required updating of accounting skills and knowledge which was generally lacking. In addition, some SAIs minimum qualification requirements were less than a degree in accounting.

7.9 PASAI's training in accounting standards were conducted in 2004, 2005 and 2006 which was funded by the European Union and administered by the University of the South Pacific. The facilitators of the training included academics from the University of the South Pacific and partners of chartered accounting firms. The 3 one-week training were found to be useful and practical to the participants. This is an area PASAI will focus on in the independent review of the PRAI and consider PASAI's role in the area in future phases of the PRAI.



## APPENDIX I



### Summary of Report on Trend of Improvements Survey –

June 2012

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The Governing Board in its meeting of 1 February 2012 resolved to conduct a survey on SAI improvement/progress over the last few years. This was important as the key performance indicators in the PRAI specify this action. As the baseline data exists from the PRAI 2007/08 diagnostic study, the Board agreed that SAIs complete progress made against these data and report back to the Governing Board.

A two-step approach was used in the survey. A one-page survey was sent to all SAIs on 19 April 2012 and the Executive Director verified and confirmed the results with each head of SAI by phone. A summary of the results was sent and endorsed by each head of the SAI.

The survey was developed based on the data collected during the PRAI diagnostic study in 2007/08. This initial study data was filled onto each SAI survey as baseline for the exercise. Against these baseline data, the SAIs were requested to complete their achievements as at 31 December 2011 in four major areas: audit mandate, human resources, the Public Expenditure and Financial Accountability assessment, and capability level.

A summary of the results of the survey is as follows:

*Audit mandate* – The survey indicates that most SAIs in the region are trying their best to update the outstanding audits. The lack of resources and restrictions on audits or making their reports public are issues that PASAI should be concerned about. While there has been an increase in capacity in performance audits, financial audit is slowly progressing.

There have been some improvements in the financial audits completed by SAIs where in the others, there were delays arising from the shortage of resources or non-preparation of accounts by clients. Performance audits improved and this is attributed to the cooperative performance audits program that was undertaken in the region.

*Human resources* – SAIs in the region have recruited more professionally qualified staff over the years. Despite the absence of professionally qualified staff in Kiribati, Palau, Solomon Islands and Vanuatu, the SAIs appear to be operating satisfactorily. The ability of the SAI to recruit qualified staff depends on the availability of funds as well as professional staff in the jurisdiction. It also depends on the flexibility of public service rules to recruit the necessary staff and retain them in the long term.

On average, staff holding professional qualifications rose from 12% in 2007/08 to 23% in 2011. The major increases relate to American Samoa which increased by 33%, Fiji by 32%, FSM-Yap by 30% and FSM-National by 27%. The SAIs that had their qualified staff declined over the same period include Northern Mariana Islands which decreased by 14% and Papua New Guinea which decreased by 4%. FSM Kosrae qualified staff remained the same. Kiribati, Solomon Islands and Vanuatu SAIs do not have any professionally qualified staff. Others had moderate increases.

*Capability assessment* – A little over 50% of SAIs in the region assessed themselves as 3 or above under the PASAI Capability Model. The SAIs noted that they are functional but there are indications that the political situation and budget restrictions have thwarted effective progress. In addition, there is the attitude that agencies with no direct inputs to economic development will be the first to face budget cuts if re-prioritisation of projects is made.

As at end of 2011, the capability levels of 55% of the SAIs were assessed at level 3. Fiji, FSM-Yap, Northern Mariana Islands and Tuvalu downgraded their capability assessments because of lack of professional qualified staff, restrictions on budgets or the absence of a parliament.

*PEFA assessment* - Of the 7 SAIs (39%) that provided their PEFA assessments (relating to 2005-2010) in the 2011 survey, 6 indicated a minimum rating of C while one remained at D. The SAIs were not able to provide specific assessment for PI-26.

The timely audit of the public accounts to uniformly high standards, with enhanced audit impacts and improved audit capability, could not be established clearly from the survey because of the lack of PEFA assessments.

## APPENDIX II

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

### Tier 1 – Fundamentals of government auditing

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

Topics covered include:

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

### Tier 2 – Intermediate government auditing skills

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

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

New topics covered include:

- 1.1 Learning contract  
*Financial Audit*
- 2.1 Understanding the auditee's entity
- 2.2 Developing audit objectives/assertions and scope
- 2.3 Determining materiality and tolerable error
- 2.4 Assessing risk

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

### Tier 3 – Supervisory roles in government auditing

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

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

New topics include:

- 1.1 Learning contract
- 1.2 Role of the supervisor – characteristics of a good supervisor
- 2.1 Planning an audit – audit risk, materiality, and tolerable error
- 2.2 Planning an audit – overview of preparing the audit planning memorandum (APM)
- 2.3 Case study materials – conducting a planning meeting
- 2.4 Writing the APM
- 2.5 Reviewing the APM sections
- 2.6 Going through a model APM
- 2.7 CARKEYS – audit approach
- 2.8 Financial audit – audit highlights memorandum (AHM)
- 2.9 Financial audit – review of working papers

- 2.10 Financial audit – management letter
- 2.11 Financial audit – audit opinion
- 3.1 Presentation skills
- 3.2 Providing effective feedback
- 3.3 Managing poor performance
- 3.4 Motivating and retaining employees
- 4.1 Defining performance audit
- 4.2 Planning the performance audit – audit objectives and scope
- 4.3 Planning the performance audit – lines of enquiry
- 4.4 Planning the performance audit – audit criteria
- 4.5 Planning the performance audit – audit approach
- 4.6 Planning the performance audit – development of the audit programme
- 4.7 Executing the performance audit – gather audit evidence
- 4.8 Executing the performance audit – document and analyse audit evidence
- 4.9 Executing the performance audit – derive preliminary audit conclusions
- 5.0 Reporting on the performance audit – discuss with the auditee
- 5.1 Reporting on the performance audit – preparing the audit report
- 5.2 Time management
- 5.2 Ethical leadership

#### Tier 4 – Managing government audits

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

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

New topics include:

- 1.1 Learning contract
- 1.2 Expectations, roles, and responsibilities of senior managers
- 1.3 Role of senior managers in planning
- 1.4 Role of senior managers in quality assurance
- 1.5 Managing poor performance
- 1.6 Time management
- 1.7 Dealing effectively with the media and the public
- 1.8 Components of a strategic plan
- 1.9 Components of an operational plan
- 1.10 Linking the operational plan to the strategic plan
- 1.11 Role of senior managers in post audit process
- 1.12 Leadership imperatives
- 1.13 Knowledge, skills, and abilities for senior managers

#### Tier 5 – Leadership in government accountability

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

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

Topics to be addressed include:

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

### Communicating Effectively

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

# **Part C**

## **Financial Statements**

**Pacific Association of Supreme Audit  
Institutions Incorporated**

**Financial Statements**

For the Year Ended 30 June 2012



**Pacific Association of Supreme Audit Institutions  
Incorporated**

**Contents  
For the year ended 30 June 2012**

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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 - 21	Notes to the Financial Statements

**Pacific Association of Supreme Audit Institutions  
Incorporated**

**Directory  
For the year ended 30 June 2012**

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

**Address** PASAI Secretariat  
1<sup>st</sup> floor, 46 Parnell Road  
PO Box 37276  
Parnell  
Auckland 1151  
  
[www.pasal.org](http://www.pasal.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** (Continued)  
**For the year ended 30 June 2012**

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**Office Holders**














Chairperson Raimon Taake  
Auditor General  
Kiribati (to 2 August 2011)






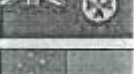







Pohiva Tuionetoa  
Auditor General  
Tonga

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

Governing Board: Pohiva Tuionetoa – Tonga (Chair)  
Raimon Taake – Kiribati (Past Chair)  
Francois Monti – New Caledonia (Host of next  
Congress)  
Edward Ronia – Solomon Islands  
(Melanesian rep)  
Stoney S. Taulung– Kosrae (Micronesian rep)  
Fuimaono Camillo Afele (Polynesian rep)  
Lyn Provost – New Zealand (Secretary-  
General and other Rep)

Executive Director: Eroni Vatuloka

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

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

**Pacific Association of Supreme Audit Institutions Incorporated**  
**Statement of Responsibility**  
**For the year ended 30 June 2012**

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

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

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

In the opinion of the Governing Board:

- the statement of financial performance is drawn up so as to give a true and fair view of the surplus of the association for the financial year ended 30 June 2012
- the statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the organisation as at 30 June 2012, and
- there are reasonable grounds to believe the association will be able to pay its debts as and when they fall due.

Signed on behalf of the Governing Board by:

<u>foa Pohiva Tulonetoa</u>	<u><i>Pohiva</i></u>	<u>12/9/12</u>
Auditor General of Tonga, Chair PASAI		Date:
<u>Lyn Provost</u>	<u><i>Lyn Provost</i></u>	<u>13/9/12</u>
Controller and Auditor-General of New Zealand		Date:
<u>Eroni Vatuloka</u>	<u><i>Eroni Vatuloka</i></u>	<u>18/9/12</u>
Executive Director		Date:



## INDEPENDENT AUDITORS' REPORT

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

We have audited the financial statements on pages 8 to 21 which comprise the Statement of Financial Position as at 30 June 2012, the Statement of Financial Performance and Statement of Movements in Equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### Governing Board's Responsibility for the Financial Statements

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

#### Auditors' Responsibility

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

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

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

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

#### Opinion

In our opinion, the financial statements on pages 8 to 21 present fairly, in all material respects, the financial position of Pacific Association of Supreme Audit Institutions Incorporated as at 30 June 2012, 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**

**18 August 2012**



Pacific Association of Supreme Audit Institutions Incorporated

Statement of Financial Performance  
For the year ended 30 June 2012

		2011/12 Actual \$NZ	2011/12 Budget \$NZ	2010/11 Actual \$NZ
	Notes			
<b>Revenue</b>				
Membership subscriptions		2,600	2,600	2,600
Development partner contributions	3	3,151,526	3,268,000	1,977,627
Interest		40,385	20,000	22,983
Other Income	4	13,819	13,323	16,654
<b>Total Revenue</b>		<b>3,208,330</b>	<b>3,303,923</b>	<b>2,019,864</b>
<b>Expenditure</b>				
Personnel Expenses	5	375,844	382,419	372,177
Program Participant Costs		718,384	1,466,000	623,580
Secretariat Operational Expenses	7	326,696	378,000	256,938
Contractor and Consultant Expenses		150,146	1,002,000	113,883
Bank Fees		3,605	3,000	3,089
Bad Debts		0	0	0
Doubtful Debts		0	0	0
Foreign Exchange (Gains)/Losses		-385	0	357
Depreciation	9	56,017	54,800	54,876
<b>Total Expenditure</b>		<b>1,630,307</b>	<b>3,286,219</b>	<b>1,424,900</b>
Tax Expense		12,600	5,000	4,735
<b>Surplus/(Deficit) for Year</b>		<b>1,565,423</b>	<b>12,704</b>	<b>590,229</b>

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



Pacific Association of Supreme Audit Institutions Incorporated

Statement of Movements in Equity  
For the year ended 30 June 2012

	2011/12 Actual \$NZ	2011/12 Budget \$NZ	2010/11 Actual \$NZ
General Funds at start of year	1,790,200	1,790,200	1,199,971
Surplus/(Deficit) for Year	1,565,423	12,704	590,229
Total Recognised Revenues and Expenses for the year	1,565,423	12,704	590,229
General Funds at end of year	<u>3,355,623</u>	<u>1,802,904</u>	<u>1,790,200</u>

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

Pacific Association of Supreme Audit Institutions Incorporated

Statement of Financial Position  
As at 30 June 2012


		2011/12 Actual \$NZ	2011/12 Budget \$NZ	2010/11 Actual \$NZ
	Notes			
General Funds		3,355,623	1,802,904	1,790,200
<b>General Funds</b>		<b>3,355,623</b>	<b>1,802,904</b>	<b>1,790,200</b>
<i>Represented by:</i>				
<b>Current Assets</b>				
Cash and Bank		3,203,350	1,663,000	1,557,342
Accounts Receivable	6	75,324	10,000	61,956
Prepayments		37,469	76,000	76,828
<b>Total Current Assets</b>		<b>3,316,143</b>	<b>1,749,000</b>	<b>1,696,126</b>
<b>Current Liabilities</b>				
Trade Creditors and Accruals		25,707	14,155	14,696
Employee Entitlements		12,918	14,000	14,841
Income in Advance	4	16,160	13,096	13,348
<b>Total Current Liabilities</b>		<b>54,785</b>	<b>41,251</b>	<b>42,885</b>
<b>Non-current Assets</b>				
Property, Plant and Equipment	9	102,038	103,155	158,055
<b>Total Non-current Assets</b>		<b>102,038</b>	<b>103,155</b>	<b>158,055</b>
<b>Non-current Liabilities</b>				
Income in Advance	4	7,773	8,000	21,096
<b>Total Non-current Liabilities</b>		<b>7,773</b>	<b>8,000</b>	<b>21,096</b>
<b>Net Assets</b>		<b>3,355,623</b>	<b>1,802,904</b>	<b>1,790,200</b>

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

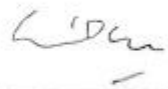
Pacific Association of Supreme Audit Institutions Incorporated

Statement of Financial Position (Continued)  
As at 30 June 2012

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for Pohiva Tuionetoa  13/9/12  
Auditor General of Tonga, Chair PASAI Date:

 13/9/12  
Lyn Provost Date:  
Controller and Auditor-General of New Zealand

 18/9/12  
Eroni Vatuloka Date:  
Executive Director

## Pacific Association of Supreme Audit Institutions Incorporated

### Statement of Accounting Policies For the year ended 30 June 2012

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#### 1. STATEMENT OF ACCOUNTING POLICIES

##### Reporting Entity

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

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

##### Statutory Base

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

##### Measurement Base

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

##### Financial Reporting Framework

These financial statements have been prepared in accordance with "Old GAAP" in New Zealand. Old GAAP comprises New Zealand financial reporting standards and statements of standard accounting practice that existed prior to the introduction of New Zealand equivalents to International Financial Reporting Standards. PASAI has chosen to apply Old GAAP because it meets the criteria for doing so; that is, it was applying Old GAAP at 30 June 2011, and it is neither publicly accountable nor large as defined in the External Reporting Board's Standard A1: *Application of Accounting Standards*.

##### 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** (Continued)  
**For the year ended 30 June 2012**

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**2. PARTICULAR ACCOUNTING POLICIES**

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

**Revenue Recognition**

PASAI derives revenue from member subscriptions that are recognised when invoiced.

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

All other revenue is recognised on an accrual basis.

**Donated Services**

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

**Receivables**

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

**Income Tax**

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

**Foreign Currency**

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

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

**Pacific Association of Supreme Audit Institutions Incorporated**

**Statement of Accounting Policies (Continued)  
For the year ended 30 June 2012**

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**Cash and bank**

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

**Property, Plant and Equipment**

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

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

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

**Operating Leases**

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

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

**Employee Entitlements**

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

**Goods and Services Tax (GST)**

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

**Changes in Accounting Policies**

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

Pacific Association of Supreme Audit Institutions Incorporated

Notes to the Financial Statements  
For the year ended 30 June 2012

3. Development Partner Contributions

	2011/12 Actual \$NZ	2011/12 Budget \$NZ	2010/11 Actual \$NZ
Asian Development Bank	0	1,094,000	21,847
INTOSAI Development Initiative (IDI)	367,624	294,000	282,690
The Australian Government's Aid program (AusAID)	2,252,445	1,100,000	1,315,090
The World Bank	85,054	280,000	220,510
The New Zealand Government's Aid Program (NZAid)	500,774	500,000	179,733
Returned funds	-54,371	0	-42,243
	<b>3,153,526</b>	<b>3,268,000</b>	<b>1,977,627</b>

Note that following completion of programs funded by IDI funds amounting to \$54,371 (2011: \$42,243) that were unused were returned.

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

**World Bank expenditures**

Development of Audit guidelines and manuals	54,507
Preparation of training materials	30,472
Other administrative costs	75
	<b>85,054</b>

**Pacific Association of Supreme Audit Institutions Incorporated**

**Notes to the Financial Statements (Continued)**  
**For the year ended 30 June 2012**

**4. Other Income**

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

	2011/12 Actual \$NZ	2011/12 Budget \$NZ	2010/11 Actual \$NZ
Revenue in 2010/11	16,654	16,654	16,654
Revenue in 2011/12	13,323	13,096	0
Income in Advance - current	13,323	13,323	13,323
Income in Advance - term	7,773	8,000	21,096
	<u>51,073</u>	<u>51,073</u>	<u>51,073</u>

**5. Personnel Expenses**

Payroll	365,737		371,469
Relocation and Recruitment	10,107		708
	<u>375,844</u>	<u>382,419</u>	<u>372,177</u>

**6. Accounts Receivable**

General Debtors	71,474		59,524
Interest Receivable	341		705
Membership fees outstanding 2011/12 and prior	575		1,800
Membership fees outstanding 2012/13	3,007		0
Less: Provision for Doubtful Debts	73		73
	<u>75,324</u>	<u>10,000</u>	<u>61,956</u>



Pacific Association of Supreme Audit Institutions Incorporated

Notes to the Financial Statements (Continued)  
For the year ended 30 June 2012

7. Secretariat Operational Expenses

	2011/12 Actual \$NZ	2011/12 Budget \$NZ	2010/11 Actual \$NZ
Internet web hosting	1,477	2,000	3,708
IT Support	7,935	11,000	4,820
Equipment lease	5,423	6,000	4,709
Cleaning	4,489	5,000	4,060
Repairs and Maintenance	1,298	3,000	0
Telephone	9,282	12,000	7,102
Stationery and office supplies	7,672	15,000	8,317
Accounting	0	0	529
Auditing costs	9,200	9,200	9,200
Printing, postage and publishing costs	58,041	65,000	1,088
Secretariat staff travel	84,062	46,000	84,579
Rent	90,906	110,000	89,705
Staff training	1,587	2,000	472
Insurance	5,339	10,000	2,161
Other consumables and catering	39,985	81,800	36,488
	<b>326,696</b>	<b>378,000</b>	<b>256,938</b>

Please note the approved budget for Secretariat staff travel was incorrectly stated at \$46,000 when it was intended to be \$104,000.

8. Technical Assistance Grant

During the year the Asian Development Bank (ADB) (under Technical Assistance Grant 7494-REG: Implementing the Pacific Regional Audit Initiative co-financed by the Japan Special Fund and the Government of Australia) has supported the implementation of the Pacific Regional Audit Initiative, principally through funding the remuneration and associated expenses of consultants (including travel, per diem and other expenses) \$US261,204 (Approximate New Zealand dollar conversion \$313,445) and the costs associated with the Sub-regional Audit Support (SAS) program \$US326,706 (Approximate New Zealand dollar conversion \$392,047). The SAS program includes costs of consultants and also travel, accommodation and per diems and other expenses of the program secondees.

**Pacific Association of Supreme Audit Institutions Incorporated**

**Notes to the Financial Statements (Continued)**  
**For the year ended 30 June 2012**

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

**Expenditure included in PASAI budget but incurred directly by ADB**

	2011/12 Budget \$NZ
Program participant costs	760,000
Contractors and Consultants	334,000
	<u>1,094,000</u>

**9 Property, Plant and Equipment**

	2011/12 Actual \$NZ	2011/12 Budget \$NZ	2010/11 Actual \$NZ
<b>Office Furniture and Equipment</b>			
Cost	47,717		47,717
Accumulated Depreciation	11,051		6,280
Closing Balance	<u>36,666</u>		<u>41,437</u>
<b>Computer Equipment</b>			
Cost	47,246		47,246
Accumulated Depreciation	44,142		25,243
Closing Balance	<u>3,104</u>		<u>22,003</u>
<b>Office Fit out</b>			
Cost	129,387		129,387
Accumulated Depreciation	67,119		34,772
Closing Balance	<u>62,268</u>		<u>94,615</u>
<b>Total Property, Plant and Equipment</b>	<u>102,038</u>	<u>103,155</u>	<u>158,055</u>
<b>Depreciation is made up as follows:</b>			
Office Furniture and Equipment	4,771		4,772
Computer Equipment	16,899		17,892
Office Fit Out	32,347		32,212
	<u>56,017</u>	<u>54,800</u>	<u>54,876</u>

**Pacific Association of Supreme Audit Institutions Incorporated**

**Notes to the Financial Statements** (Continued)  
**For the year ended 30 June 2012**

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**10. FINANCIAL INSTRUMENTS**

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

**11. CREDIT RISK**

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

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

**12. INTEREST RATE RISK**

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

**13. CURRENCY RISK**

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

**14. FAIR VALUES**

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

**15. POST BALANCE DATE EVENTS**

There were no significant post balance date events. (2011: \$Nil)

**Pacific Association of Supreme Audit Institutions Incorporated**

**Notes to the Financial Statements (Continued)**  
**For the year ended 30 June 2012**

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**16. CONTINGENT LIABILITIES**

**a. Bank Guarantee – Premise Lease Undertaking**

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

**b. Make Good Provision**

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

**c. Development Partner Contributions**

On 2 February 2012, the Commonwealth of Australia, through the Australian Government's Aid Program (AusAID), signed a funding agreement of \$964,946 (\$A750,000) with PASAI Incorporated. The contract funds two specified activities and will expire in June 2015. Any unspent funds at the expiry date of the contract or on termination of the contract by mutual consent have to be repaid to AusAID. The ultimate outcome of the two activities financed under the contract cannot be determined with an acceptable degree of reliability at this time.

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

There were no contingent liabilities other than those listed above in 2011.

## 17. COMMITMENTS

There were no capital commitments at balance date (2011: \$Nil).

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

	2011/12 Actual \$NZ	2010/11 Actual \$NZ
Current	93,721	88,059
Non-Current	53,973	137,786
	<u>147,694</u>	<u>225,845</u>