



Issue number 22  
June 2012

# PASAI Bulletin

This Bulletin provides Audit Offices in the PASAI region with:

- \* updates on issues of interest
- \* recent developments affecting SAIs
- \* emerging matters
- \* general “newsworthy” items.

SAIs and development partners are encouraged to contribute to this publication as it will be beneficial to all as a forum for information exchange and provide an understanding of the issues faced by SAIs in the region. Auditors-General who are members of the INTOSAI committees and working groups should also use this Bulletin to highlight the progress of the work that they are involved in.

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## 1.0 Australian National Audit Office

### 1.1 Papua New Guinea – Deployment of Performance Audit advisor

In May 2012 Ms Nicola Rowe was deployed to the Papua New Guinea Auditor-General's Office (PNG AGO) to commence a 2-year deployment as a Performance Audit advisor under the AusAid funded Strongim Gavman Program (SGP). Ms Rowe joins Mr Wayne Jones, who has been deployed to the PNG AGO as a senior SGP advisor since January 2011. The Performance Audit SGP advisor reports to the Auditor-General, and works with the Head of the Performance Audit operational area to provide technical audit advice and build capacity on the operational aspects of establishing and maintaining an effective performance audit function for the PNG AGO.

### 1.2 Papua New Guinea – Visit by Auditor-General to ANAO

On 4 and 5 June we hosted a visit from the Auditor-General of Papua New Guinea, Mr Philip Nauga. Mr Nauga was accompanied Assistant Auditor-General Mr Andy Vui, Executive Support Officer, Mr Michael Kupa and senior SGP advisor, Mr Wayne Jones. The purpose of the visit was to discuss the priority activities for the PNG AGO and the areas of support currently provided by ANAO under the Papua New Guinea and Australian Audit Offices Twinning Scheme (PAAOTS) as well as possible areas of assistance for the future. Mr Nauga also visited the Audit Office of NSW and the Queensland Audit Office to discuss their contribution to the support of the PNG AGO under PAAOTS.

### 1.3 New powers for the Auditor-General

Amendments to the *Auditor-General Act 1997* passed by the Australian Parliament in December 2011 enable the Auditor-General, at the request of the Joint Committee of Public Accounts and Audit (JCPAA), to conduct performance audits of Commonwealth partners that receive Commonwealth funding for a Commonwealth purpose. The first audit under this extended mandate requested by the JCPAA is of the Mersey Community Hospital, located in northern Tasmania. The Commonwealth Government assumed ownership of the Mersey Hospital on 23 November 2007. The Tasmanian Government manages and operates the hospital under an Agreement with the Commonwealth first signed in August 2008 and renewed in June 2011. At this stage, the audit is expected to report before the end of 2012–13.

## 1.4 Implementation of a concurrent audit

The ANAO is participating in the conduct of a concurrent audit of the National Partnership Agreement on Homelessness. The concurrent audit approach was agreed through the Australian Council of Auditors-General (ACAG). To support the audits a common audit objectives and complementary timelines have been agreed.

Work is underway in the majority of jurisdictions whereby the audit offices are either planning for or undertaking concurrent audits relating to implementation of the National Partnership Agreement on Homelessness. These audits are focused on the efforts of the relevant states and territory departments in implementing the initiatives funded under the National Partnership Agreement. The ANAO's audit is focusing on the Australian Government's administration of the National Partnership Agreement on Homelessness including the monitoring and reporting of progress against the objectives and outcomes of the agreement. It is expected that the state and territory auditors-general will complete their reports by late 2012, with the ANAO tabling its report in the Parliament in early 2013.

*If you would like further information please contact: [webmaster@anao.gov.au](mailto:webmaster@anao.gov.au) or [ag1@anao.gov.au](mailto:ag1@anao.gov.au) by email.*

## 2.0 Office of the Federated States of Micronesia National Public Auditor (ONPA)

### ONPA publishes its Performance Audit report on Management of Tuna Fisheries

The Office of the National Public Auditor (ONPA) has published its Performance Audit report on Management of Tuna Fisheries. This is now available on the web at:

[http://www.fsmopa.fm/files/onpa/Final%20Audit%20Report%20No.%202012-03%20Compressed%20Version%20in%20MB%20size\(1\).pdf](http://www.fsmopa.fm/files/onpa/Final%20Audit%20Report%20No.%202012-03%20Compressed%20Version%20in%20MB%20size(1).pdf)

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## 3.0 Guam Office of Public Accountability

### The Guam Office of Public Accountability Received Full Compliance Rating for 2011 Peer Review



From L-R: Erwinne David, Gopinath Ramakrishnan, Rodalyn Marquez, Charles Hester, Haser Hainrick, Lourdes Perez, Public Auditor Brooks, Llewelyn Terlaje, Junior Patrick, Maripaz Perez, and Franklin Cooper-Nurse.

In November 2011, Public Auditor Doris Flores Brooks proudly announced that the Guam Office of Public Accountability (OPA) received a peer review rating of full compliance for its 2011 peer review, the highest level of compliance given to audit organizations. Public Auditor Brooks commended her hardworking and dedicated staff for their commitment and professionalism to strive for excellence and accountability within the Government of Guam. Since Public Auditor Brooks' first term, this was the fourth full compliance rating OPA received and the first time no management letter was issued.

As required by the United States (U.S.) Comptroller General's Government Auditing Standards (GAS), audit organizations performing audits in accordance with generally accepted government auditing standards must undergo an independent external quality control review, or peer review, every three years. As part of OPA's efforts to ensure compliance with GAS, the Public Auditor contracted with the Association of Pacific Islands Public Auditors (APIPA) to perform the review.

The APIPA peer review team consisted of team leader Haser Hainrick, National Public Auditor of the Federated States of Micronesia; Junior Patrick, Auditor General of the Republic of the Marshall Islands; Charles W. Hester, a former General Accounting Office Regional Director, now a U.S. Graduate School Consultant; and Erwin David, Auditor III of the Office of the FSM Public Auditor and observer. The team conducted its review in October 2011 and reviewed audits issued by OPA from January 1, 2008 to December 31, 2010.

In addition to Guam, peer reviews were also conducted for American Samoa, Palau, and Commonwealth of Northern Mariana Islands (CNMI). The following were the results of each review.

In September 2011, the American Samoa Government's Office of the Territorial Auditor received a satisfactory compliance rating with management letter comments. Its peer review team consisted of team leader Doris Flores Brooks, Public Auditor of Guam; Renato Cabigao, Audit Manager of the CNMI Office of the Public Auditor; Charles Hester, APIPA Peer Review Consultant; and Llewelyn Terlaje, Auditor III of the Guam OPA and observer. The team reviewed audits and attestation engagements issued during the period October 1, 2009 through July 31, 2011.



From L-R: Ronald Yow, Rodalyn Marquez, Charles Hester and Maripaz Perez.

In November 2011, the Republic of Palau Office of the Public Auditor received a qualified opinion. Its peer review team consisted of team leader Rodalyn Marquez, Audit Supervisor of the Guam OPA; Ronald Yow, Acting Public Auditor of the Federated States of Micronesia Yap State; Charles Hester; and Maripaz Perez, Auditor III of the Guam OPA and observer. The team reviewed audits and attestation engagements issued during the period January 1, 2008 through December 31, 2010.



From L-R: Satrunino Tewid, Ronald Yow, Michael Pai, Vince Duenas, and Rodalyn Marquez.

In February 2012, the Commonwealth of Northern Mariana Islands Office of the Public Auditor received a full compliance rating with management letter comments. Its peer review team consisted of team leader Satrunino Tewid, Acting Public Auditor of the Republic of Palau; Ronald Yow; Rodalyn Marquez; and Vince Duenas, Auditor III of the Guam OPA and observer. The team reviewed audits and attestation engagements issued during the period October 1, 2009 through September 30, 2011.

The peer reviews were funded by a Technical Assistance grant from the U.S. Department of the Interior, Office of Insular Affairs. The grant was approved by the Assistant Secretary of the Interior for Insular Areas Tony Babauta to support APIPA in meeting the GAS peer review requirements and standards. For more information, please visit <http://apipa.guamopa.org/>.

*If you would like further information please contact: Guam Office of Public Accountability by TEL.00 1 671 475 0390 FAX 00 1 671 472 7951.*

## 4.0 Office of the Auditor-General New Zealand

### Report on INTOSAI PSC Steering Committee meeting 29-31 May 2012

Greg Schollum—the PASAI Representative on INTOSAI PSC Steering Committee is pleased to present his report on the 9th PSC Steering Committee meeting held in Johannesburg between 29-31 May 2012. The key matters discussed were as follows:

#### i) Update from the PSC Chair

The PSC Chair updated the Committee on a range of matters:

- the document setting out the purpose and authority of the ISSAIs has been completed and is available on the ISSAI website;
- the ISSAI rollout model has been developed as part of the ISSAI awareness raising programme;
- the PSC Secretariat is involved in the INTOSAI Taskforce on financial foresight. The primary aim of the Taskforce is to identify the gaps between the ambitions set out in the INTOSAI strategic plan and the available resources (including external funding) to deliver against those ambitions; and
- a new MOU between the PSC and IFAC has been prepared and is ready for signing.

#### ii) ISSAI maintenance

The Committee considered the maintenance schedule which had been prepared by the PSC Secretariat based on input from the various subcommittees and project teams.

The Committee noted the need for ISSAI 30 (Code of Ethics) to be reviewed and updated (commencing in 2013).

#### iii) ISSAI awareness raising

The Committee noted the following key matters in relation to awareness raising:

- following the XX INCOSAI in South Africa, the ISSAI framework is clearly visible to the INTOSAI community; there is an increasing number of visits to the ISSAI website;
- a lot of presentations have been given around the world on various aspects of the ISSAI framework;
- the compliance checklist for level 2 of the ISSAI framework developed by Sarah Lineham (SAI New Zealand) is on the ISSAI website and is soon to be translated into Arabic!;
- the SAI of Denmark has recently completed a gap analysis of its compliance with ISSAIs and plans to shortly put this onto the ISSAI website; and
- a number of regions within INTOSAI have been focusing their efforts on improving compliance at level 2 of the ISSAI framework.

#### iv) Harmonisation project – update of guidance at level 3 of the ISSAI framework

The PSC Secretariat provided the Committee with an update and led the discussion on the harmonisation project. Key matters discussed:

- the Committee has long held the ambition of updating the existing guidance at level 3 of the ISSAI framework – “Fundamental Auditing Principles”;
- the aim of the new guidance is to capture the essence of auditing in the public sector (ISSAI 100) and to further elaborate on the key principles inherent in:

- financial auditing (ISSAI 200);
- performance auditing (ISSAI 300); and
- compliance auditing (ISSAI 400);

- the guidance at level 3 of the ISSAI framework should link with guidance at both levels 2 and 4;
- the aim is to release on exposure ISSAIs 100, 200, 300 and 400 over the next few months;
- the Committee approved for exposure ISSAIs 100 and 300, subject to the project team and relevant subcommittee giving consideration to the matters raised by the Committee;
- the Committee agreed that ISSAI 100, and potentially ISSAI 300, should be released as exposure drafts in advance of ISSAI 200 and ISSAI 400;
- the Committee also agreed to the withdrawal of the existing material at level 3 upon final approval of ISSAIs 100, 200, 300 and 400. However, the Committee also decided to clearly signal this as part of the exposure process, and ask SAIs about the need to retain existing material at level 3 for a transition period.

#### v) Update from the Capacity Building Committee

The Committee received an update from the Capacity Building Committee (CBC) on the following matters:

- the CBC is working on a guide for SAIs covering strategic considerations before implementing ISSAIs;
- the CBC continues to be an active participant in the Donor Steering Committee; and
- the CBC is developing guidance for SAIs to self assess capability/capacity (as a precursor to seeking funding).

#### vi) Update from the Knowledge Sharing Committee

- The Committee received an update on 2 key projects currently being worked on by the Working Group on Value and Benefits:
  - development of ISSAI 2 based on the Value and Benefits Framework considered at the XX INCOSAI; and
  - development of a performance measurement framework for SAIs to use to assess their performance.
- New Zealand is chairing the project team developing ISSAI 2, and I reported to the Committee on our progress to date. Useful input was provided on ways to improve the draft of ISSAI 2 prior to it being released as an exposure draft in September 2012.
- The accords from the XX INCOSAI recorded that the INTOSAI community would like to see ISSAI 2 included at level 1 of the ISSAI framework to complement ISSAI 1 (the Lima declaration). We intend to ask SAIs to confirm this as part of the exposure process for ISSAI 2.
- The draft performance measurement framework includes the following aspects:
  - SAI performance (outputs with some focus on outcomes/impacts);
  - independence and legal framework;
  - strategy and organisational development;
  - audit standards and methodology;
  - management and support structures;
  - human resources; and
  - communication and stakeholder management.
- The Committee noted that the project team intends to develop performance indicators for each of the aspects noted above.
- The Committee noted that the Donor Steering Committee sees this as a very important initiative.

#### vii) Update on the IDI ISSAI implementation planning meeting

- The Committee received an update from the IDI Secretariat on the meeting held in Johannesburg 28-29 May 2012. Key matters noted:

- the INTOSAI strategic plan requires IDI to assist SAs to implement ISSAs focusing on levels 2 and 4 of the ISSAI framework;
- IDI is well aware of the need to also focus on level 3 in due course once ISSAs 100, 200, 300 and 400 have been approved;
- The IDI implementation strategy includes the following steps:
  - to conduct a needs assessment at regional and SAI level;
  - to create capacity, including audit manuals and model audit files;
  - to facilitate implementation and support rollout; and
  - the development of a knowledge sharing forum (web based);
- The IDI sees the focus of training on training facilitators from regions (“train the trainer” approach).
- The World Bank noted that funders were very supportive of the IDI initiative.

#### viii) Update from the INTOSAI General Secretariat

The Committee received an update from the General Secretariat, including:

- the UN resolution in December 2011 supporting the position of SAs and their independence;
- the guidance on auditing public debt is due out soon;
- the dates for the next INCOSAI are 22-27 October 2013.

#### ix) Update from IFAC

The Committee received an update from Jim Sylph of IFAC as follows:

- IFAC appreciates the input of INTOSAI into the work of both the IAASB and IPSASB;
- IFAC is currently working on a project reviewing the nature of audit reporting and based on discussions so far, the private sector is impressed with the nature of reporting by public sector auditors. An IFAC consultation paper on this topic is due out soon;
- the sovereign debt crisis looms large on IFAC’s agenda; and
- in the view of IFAC, Governments need to be more transparent in their financial reporting based on accrual accounting.

#### x) Update from the Institute of Internal Auditors (IIA)

The Committee received an update from a South African representative of the IIA as follows:

- internal auditors in the public sector also need to build capacity;
- there is pressure on the level of resources available for internal audit in the public sector; and
- IIA values its co-operation with INTOSAI internationally as reflected in the MOU between IIA and INTOSAI.

#### xi) Update from the World Bank

The Committee received an update from the World Bank including the following matters:

- the World Bank sees a high correlation between the openness of Government in relation to budget information and the strength of the SAI. (New Zealand was ranked 2nd in the world by the World Bank); and
- the World Bank provides direct financial support for some SAs, including loans.



#### xii) Withdrawal of INTOSAI GOVs 9200 series

The Committee agreed to withdraw some outdated guidance on financial reporting within the ISSAI framework.

#### xiii) Closure of the project on transparency and accountability

The Committee agreed to close the project on transparency and accountability now that the work of the project team is complete.

#### xiv) Theme discussion – the future of the PSC

The Committee was asked by the PSC Secretariat to conduct a brainstorming session on the future of the PSC beyond 2013. A range of useful ideas was generated which the Secretariat will further consider in advance of the next meeting of the Committee.

#### xv) Reports of subcommittees

Subcommittees were asked to report to the Committee by exception, and the only subcommittee to do so was the Accounting and Reporting subcommittee chaired by Canada.

The Accounting and Reporting subcommittee noted the concern raised by New Zealand about the increasing complexity in financial statements as highlighted in “Losing the excess baggage”.

The Committee agreed that this was a matter which it should be concerned about. The SAI of Canada also intends to follow up the matter directly with the IPSASB.

#### xvi) Update of Code of Ethics (ISSAI 30)

The Committee agreed that it needs to set up a project team to review and update ISSAI 30. The PSC Secretariat agreed to provide input into a discussion on this matter at the next Committee meeting.

#### xvii) Next meeting of the Committee

The next meeting of the Committee will be hosted by the SAI of Sweden in Stockholm between 17-19 June 2013.

If you would like further information please contact: Greg Schollum by TEL.+64 4 917 1500 .

## 5.0 Auditor-General's Office of Papua New Guinea

The Auditor-General of Papua New Guinea is a Constitutional Officer under section 213 of the Constitution appointed by the Head of State. Section 213 provides for the independence of the Auditor-General in terms of planning, executing and reporting on audits performed by the Auditor General's Office (AGO). In the performance of his functions under the Constitution, the Auditor-General is not subject to the control or direction of any person or authority.

Mr Philip Nauga was appointed as the acting Auditor-General on 14 October 2011 and was appointed as Auditor-General for a period of six years on 28 March 2012. A key focus area for Mr Nauga's term will be an expanded role for performance audits.



Mr Nauga (pictured left) has been with the AGO since 1980, having progressed from audit trainee to Deputy Auditor-General in 2008. He has worked in all areas of the AGO, including Corporate Services, and the Statutory Bodies, Provincial Government and National Government audit branches.

He is a graduate of the University of PNG in 1986 with a Bachelor of Arts (Commerce) degree and has a Master of Business Administration from the Central Queensland University in 1996. Mr Nauga is also a PNG Certified Practicing Accountant.

The Auditor-General is also the Chairman of the Accountants Registration Board (ARB).

## 6.0 Victorian Auditor-General's Office (VAGO)

### 6.1 VAGO Annual Plan

The 2012-13 Annual Plan was tabled on 23 May 2012. The Plan continues to provide a four year forward estimate of audit areas of focus, including a rolling cycle of areas of financial audit focus, such as grants, payroll, leave management and information security. Our annual planning process aims to minimise change to the forward audit program and maximise opportunities for agencies to prepare for and engage with the planning and conduct of individual audits. Emerging issues and priorities or changed circumstances, however, can result in changes to the scope, timing and/or presence of audits in the Multi-year Strategy. VAGO's Annual Plan is available at <http://www.audit.vic.gov.au/publications/20120523-Annual-Plan/20120523-Annual-Plan.pdf>.

### 6.2 Recent reports to Parliament

Three audit reports were tabled in Parliament in April - all on the results of performance audits. Three performance audit reports and one financial audit report were tabled in May. Two audit reports on the results of performance audits have so far been tabled in June 2012. 33 financial and performance audit reports have been tabled so far since 1 July 2011, with a further 2 due for tabling before 30 June 2012.

All VAGO reports are available at [http://www.audit.vic.gov.au/reports\\_\\_publications/reports\\_by\\_year.aspx](http://www.audit.vic.gov.au/reports__publications/reports_by_year.aspx)

### 6.3 Review of the *Audit Act 1994*

Following consultation with VAGO, the Public Accounts and Estimates Committee conducted an Inquiry into the Audit Act 1994 and tabled its final report in October 2010. The government tabled its response in Parliament in April 2011. As previously reported VAGO is in consultation with Government on potential amendments.

### 6.4 IBAC Update

The 3rd IBAC Bill passed both Houses of Parliament in May and is awaiting Royal Assent. Its purpose is to amend the *Independent Broad-based Anti-corruption Commission Act 2012* to provide for examination powers, referral powers and other matters. Key areas to note from this 3rd Bill are that the definition of 'corrupt conduct' is being limited to indictable offences (note though that this was already included in the 2nd IBAC Bill). The Bill includes the ability to share information



undertake coordinated investigations, and make referrals to integrity bodies (which includes the Auditor-General) - all of these need amendments to our Audit Act 1994 to work in practice. The secrecy provisions for IBAC officers included in the Bill are quite stringent and it also provides powers to issue confidentiality notices in respect of investigations if there are reasonable grounds that the disclosure could prejudice the investigation, the safety or reputation of the person or a fair trial.

## 6.5 Changes in executive staff

Natalia Southern, the new Assistant Auditor-General Performance Audit, started on 16 May and VAGO welcomes her to this important leadership role.

## 6.6 Recent and upcoming international secondments, delegations and presentations

Natalia Southern, the new Assistant Auditor-General Performance Audit, started on 16 May and VAGO welcomes her to this important leadership role.

- Office of the Auditor-General New Zealand – VAGO hosted two sector managers from New Zealand in May. They were in Australia to discover how we gather, analyse, share and report on intelligence obtained during fieldwork and relationship meetings that could impact future performance audits in their own offices. In addition they were interested to find out about how we plan our work program and also how we report to Parliament.
- Jiangsu Provincial Audit Department – A delegation from the Audit Department are due to visit in June/July 2012 in order to identify ways to improve performance audit

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## 7.0 PASAI Secretariat

### PASAI training boosts auditing skills in the Pacific

Some 20 auditors from countries across the Pacific took part in a two week training program in Nadi, Fiji in late May aimed at improving the auditing capabilities of staff in Pacific government auditing institutions. It focused on the whole audit process from the initial planning phase through to the reporting stage.

The Pacific Association of Supreme Audit Institutions (PASAI), the official association of government auditing bodies (commonly called Supreme Audit Institutions or SAIs) was the driving force behind organising and running the auditor training program.

PASAI's charter is to promote transparent, accountable, effective and efficient use of public sector resources in the Pacific region. As Eroni Vatuloka, PASAI Executive Director says, 'running training programs to expand the skills of public sector auditors is fundamental to PASAI meeting its objectives.'

'This training program, *Intermediate Government Auditing*, is just one example of the four levels of training PASAI offers and will continue to offer in the coming months and years,' Mr Vatuloka said.

'Our overall aim of the training is to improve the capabilities of government auditors at all skill and experience levels. The training materials in this case cover the auditing process in both financial and performance audits as well as other types of audits that auditors at intermediate levels might get exposed to such as fraud, waste and abuse, interviewing skills and

assessing computer data reliability.

Our goal is to continue to work hard to build and sustain auditing skills and capacity across government in the Pacific region. It is of vital interest to the entire population that we continue and succeed in this task,' he said.

I urge all those in government auditing to consider participating in the training regularly on offer Mr Vatuloka said. The training offered was developed in response to a survey of SAI personnel who identified a need for a career path that provides auditors at all levels with skill based training appropriate for their responsibilities at work. 'Check the website [pasai.org](http://pasai.org) for current details,' he added.

Mr Yoshisuke Kondoh, Secretary of the Japanese Embassy in Fiji in closing the workshop said that the skills and knowledge participants obtained in the two weeks will be very useful for them.



Mr Kondoh added that the impact of the training will be realized when there is observable transformation in the way Audit Offices do things at their own offices, and the enhancement of the work of their SAIs.

The 20 participants in the intermediate government auditing program came from the Cook Islands, Fiji, FSM, Guam, Kiribati, Marshall Islands, Palau, Samoa, Solomon Islands, Tonga and Tuvalu.

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## 10.0 Asian Development Bank

### ISSUES IDENTIFIED FROM A REVIEW OF AUDIT REPORTS FOR ASIAN DEVELOPMENT BANK (ADB) PROJECTS IN THE PACIFIC

An article, written by ADB for the March 2012 PASAI Bulletin, highlighted the basic ADB requirements for financial reporting and auditing of ADB projects. This article focuses on the significant issues identified from a review of submitted financial statements and audit reports to raise awareness of particular areas that need improvement.

from the independence of government auditors, normally assured under a constitutional or legal provision designed to ensure independence.

While the project executing agencies are primarily responsible for preparing annual financial statements for ADB projects, the government auditors are responsible for issuing the auditor's report on the project financial statements and preparing the related management letter. This means that both the executing agencies and the auditors share a common responsibility for ensuring that the submitted audit reports and financial statements are of the quality required by ADB.

#### **Ongoing issues identified in the review of recently submitted audit reports for ADB's projects in the Pacific**

ADB's review of recently submitted audit reports and project financial statements for some of ADB's projects in the Pacific identified the following issues. These issues are currently being followed up with the project executing agencies.

##### **Audit report and management letter findings:**

- Incomplete audit opinion provided in the auditor's report, as required by the financing agreement and the project administration manual.

*The most common missing opinion in the auditor's report is non-compliance with the requirement in the financing agreement for the auditor to express an audit opinion on the: (i) utilization of the imprest account, (ii) statement of expenditures, (iii) use of loan/grant proceeds, and (iv) compliance with financial covenants, aside from the regular audit opinion on the fair presentation of the financial statements. This means that where applicable and provided for in the financing agreement, a total of 5 audit opinions are to be provided in the auditor's report.*

- Management letters issued by the auditor are not provided to ADB for some projects.

*ADB requires its project implementing agencies to provide a copy of the management letter to ADB to be aware of issues that can affect the project activities. It is important for auditors to prepare management letters to provide additional information about the existing systems and procedures that the financial statements alone will not be able to provide.*

- Non-compliance with international standards on audit, even if the auditor's report states that it has been prepared in accordance with International Standards on Auditing.

*Some examples of this include the non-identification of the title of each statement in the auditor's report that comprises the financial statements audited, non-indication of the date of signing of the auditor's report, and absence of a clear expression of the auditor's opinion on whether the financial statements present fairly or give a true and fair view.*

##### **Audited project and agency financial statement findings:**

- Late submission of audited financial statements.

*In many cases, ADB receives project financial statements beyond the required deadline. The late submission gives insufficient time for the review of these statements and does not allow timely action on issues.*

- Incomplete submission of project financial statements.

*The most common example is the non-submission of the notes to the financial statements or if submitted, are not detailed or comprehensive enough. Notes to financial statements form an integral part of the project financial statements as it provides additional disclosure and narrative explanation of the accounts including the significant accounting policies adopted.*

- Inconsistent format and presentation of audited financial statements with ADB requirements.

*The most common finding is the non-classification or grouping of the payments according to the expenditure category in the loan or grant agreement. While ADB does not require a standard format for the project financial statements, at a minimum, the disbursements should reflect the expenditure category for which the payment has been charged. This allows for reconciliation with the eligible disbursement allocations in the financing agreement.*

- Non-submission of the audited entity financial statements for revenue earning implementing entities where required in the financing agreement.

*This requirement is usually specified in the financing agreement and project related documents for revenue earning entities to satisfy ADB of the financial viability of the project and that of the agency implementing the project.*

#### **Guide for reviewing ADB financial reporting and audit requirements for projects**

Most of the financial statement and audit requirements are outlined in the project documents. It has been emphasized in ADB's previous article in the PASAI Bulletin that the auditor needs to understand the project and review relevant project documents to enable it to understand the purpose for which funds are provided and become aware of the relevant audit and reporting requirements to be complied with. To this end, the ADB project documents and the relevant sections that highlight the financial reporting and audit requirements are as follows:

- Financing (loan/grant) Agreement – particular covenants section;
- Report and Recommendation of the President to the Board of Directors – accounting, auditing and reporting section; and
- Project Administration Manual – financial management and auditing section.

Other than reviewing project documents, it may be necessary for the auditors to visit the site of the ADB project. This will allow the auditor to have a clear view and understanding about the project and how it is progressing as well as reconcile actual physical progress in relation to the recorded financial activities that are being audited.

#### **The way forward**

Government auditors and executing agencies are encouraged to review the issues identified above for future reporting. ADB will continue to work with auditors to raise the quality of audit reports for ADB projects.

*For further information on this article, please contact Genevieve A. Buenaventura, Financial Reporting and Audit Analyst at the ADB by email [gbuenaventura.consultant@adb.org](mailto:gbuenaventura.consultant@adb.org) or [gtabuenaventura@gmail.com](mailto:gtabuenaventura@gmail.com)*

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