



# PASAI Bulletin

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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.

## 1.0 Australian National Audit Office

### Amendments to the *Auditor-General Act 1997*

In December 2011, the Federal Parliament passed a number of significant amendments to the *Auditor General Act 1997*. The amendments give legislative effect to the majority of the recommendations of a report of the Joint Committee of Public Accounts and Audit (JCPAA), Report 419 that was the culmination of a comprehensive review of the Act by that committee. The amendments represent the most significant enhancement of the Auditor-General's mandate since the addition of efficiency audit powers in 1979. In summary, the main changes are:

- enabling the Auditor-General, at the request of the JCPAA or the responsible Minister, to conduct performance audits of state and territory entities that receive Commonwealth funding for a Commonwealth purpose;
- having the authority to assess the performance of contractors that are engaged by the Commonwealth for a Commonwealth purpose;
- providing specific authority for the Auditor-General to undertake audits of key performance indicators;
- providing explicit authority to conduct assurance engagements and to utilise the same information-gathering powers that exist for the conduct of financial and performance audits, where such engagements have been identified as priorities by the JCPAA; and
- clarifying the application of privileges (such as legal professional privilege) and the rule of law relating to the public interest, to the Auditor-General's access powers. In effect the Act clarifies that the Auditor-General's access powers are not affected by claims of legal professional privilege or other privilege, and where information is provided to the Auditor-General, such claims are not affected by its disclosure to the Auditor-General.

In announcing these amendments to the staff of the Australian National Audit Office (ANAO), the Auditor-General, Mr Ian McPhee, indicated that while these amendments will bring with them new responsibilities and challenges, they also reflect the confidence that the Parliament and the Government has in the work of the ANAO.

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 Cook Islands Audit Office

### 2.1 FINANCIAL AUDITS:

During the period 1 October 2011 to 31 March 2012, a total of 20 financial audit reports have been completed to be tabled in Parliament.

### 2.2 SPECIAL REVIEWS & INVESTIGATIONS:

During the period 1 October 2011 to 31 March 2012, a total of 4 special reviews and investigations are in draft form to be completed and tabled in Parliament. These were as a result of the identification of a high-risk or genuine and valid complaint from a member of the public, or initiated by the Director of Audit.

### 2.3 CROWN AUDIT:

The Cook Islands Government Consolidated financial statements combine the annual statutory accounts of Ministries (24), Island Administrations (10), Offices of Parliament(2), Corporations, Public Authorities and Companies (15) and other entities (8).

Before the consolidated financial statements for 30 June 2009 can be prepared, the Audit Office must first complete the audits of the above mentioned entities. The last of the 2009 audits were completed in February 2012. During this period planning and fieldwork has continued on the Crown Parent accounts for 2009. The final consolidated financial statements are now expected to be presented and audited by the end of April 2012.

### 2.4 STAFF TRAINING & DEVELOPMENT:

#### 2.4.1 Audit New Zealand (ANZ), Wellington, New Zealand - 17 – 21 October 2011

Financial Audit Manager, Margret Numanga of the Cook Islands Audit Office (CIAO) was nominated to attend a one week training attachment with Audit New Zealand in Wellington, NZ. This attachment was funded by New Zealand Ministry of Foreign Affairs and Trade through the short term training attachment programme, supported and managed by Ms Ngarangi Tangaroa-Teio, Manager and staff of Tertiary Awards Programme, Department of National Human Resources Development (DNHRD).

Specific outcomes included:

- Effective communication with stakeholders, specifically in the area of written reports (management reports and audit opinions).
- Development in terms of performance management – the importance of timely, structured and effective management of staff performance management and dealing with issues identified.
- Development of audit methodology, specifically the areas of planning and quality review/reporting.

#### 2.4.2 PASAI Communications Workshop, Nadi, Fiji – 2 – 11 November 2011

Senior Audit Manager, Marcelle Rossouw, attended this Communications Workshop which highlighted that a SAI's effectiveness is measured by the impact of its work, and that to have impact the SAI's message must be heard, accepted and acted upon.

The workshop focused on equipping SAI's with standards, tools and techniques to improve the effectiveness of their communication and consisted of class sessions, practical exercises and presentations.

### **2.4.3 Pacific Association of Supreme Audit Institutions (PASAI) Tier 4 Managing Government Audits Pilot Training Workshop, Nadi Fiji – 17-25 November 2011**

Financial Audit Manager, Margret Numanga of the Cook Islands Audit Office was nominated to attend the Tier 4 pilot training workshop held in Nadi, Fiji. This workshop is the first of audit training courses under the which is a follow on of the PASAI Capacity Building “Kick-off” Conference held in June 2010.

The Pacific Association of Supreme Audit Institutions (PASAI) recently held the first of two Capacity Building Conferences to launch the working groups involved in preparing the audit and training manuals under the PRAI Initiative that was adopted at the PASAI Congress in Palau in 2009.

### **2.1 DIRECTOR OF AUDIT SETS NEW GOALS:**

Changes are afoot in the Cook Islands Audit Office with the arrival of new auditor general Allen Parker.

Parker spent 12 years working at Audit as the manager of special reviews before leaving to join the Pacific Association of Supreme Audit Institutions (PASAI) in Auckland for two years.

He is now back in Rarotonga working with old colleagues and happy to be home.

Parker is of Cook Islands and Tahitian descent.

From his time with PASAI Parker has been able to see how other audit institutions in the Pacific operate and gain a broader understanding of their relationships with governments, donor organisations and development agencies.

He says this has enabled him to identify some good practices, such as what should be contained in an audit offices annual report and how to report to key stakeholders.

Parker has some ideas for the Cook Islands Audit Office, but he says before they can be considered staff must catch up with outstanding financial audits.

I’m not afraid to say that we are quite behind in our financial audits. Its a legislative requirement to complete them so we must do that.

I was hoping to come in and start afresh straight away but we have to catch up and get that work done first. Among Parkers ambitions for the office is to increase its performance review output.

That means instead of just auditing financial accounts, staff will work on identifying if government systems and practices are value for money or if things can be done more efficiently and economically.

This can be in respect of purchasing ministry vehicles or simply utilising existing government resources, he says. Maybe well have to get some direction from the public or government about which areas they think can benefit more from our performance audits.

Parker says at present Audit is undertaking a performance review on fishing licences to determine whether there is appropriate legal framework in place and if potential economic returns are worthwhile.

Performance reviews allow us to identify the benefits of doing things differently. Performance audit is also an area that makes public officials accountable because it identifies not only that \$100,000 for example was spent, but what it was

spent on and how, and whether it was worth it.

Parker also wants to establish well-documented criteria for when an audit investigation can and should be undertaken. He says in the past individual complaints have sparked audit investigations, regardless of whether they were a result of personal issues.

Parker wants to put in place a standard for audit investigating to ensure there are valid reasons to spend taxpayers money, and that outcomes will be in the interest of government and the public. This will add credibility to our investigations, because sometimes investigations have been done when somebody has a grudge against someone else.

Despite this Parker says the Cook Islands has a much better auditing industry than most other Pacific nations.

As reported by Rosie Manins at the Cook Islands News. Original source at: <http://www.cinews.co.ck/2012/January/Wed11/other.htm#1201061000>

*If you would like further information please contact: Donna Engu ([donna.engu@auditoffice.gov.ck](mailto:donna.engu@auditoffice.gov.ck)) by email.*

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

### 3.1 ONPA RELEASES AUDIT REPORT OF FSM DEPARTMENT OF FINANCE AND ADMINISTRATION, DIVISION OF CUSTOMS AND TAX ADMINISTRATION

The Office of the National Public Auditor (ONPA) announces the release of Audit Report No. 2012-01, Audit of the FSM Department Of Finance And Administration, Division Of Customs And Tax Administration. A digital copy of the report is available for public review online at [www.fsmopa.fm](http://www.fsmopa.fm) and printed copies are available at the ONPA's offices in Palikir, Pohnpei and Weno, Chuuk. The audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States.

The Division of Customs and Tax Administration (CTA), within the Department of Finance & Administration (DFA), was established pursuant to Title 54 of the FSM Code. CTA maintains its main office in Palikir, Pohnpei and has a field office in each of the four states of Pohnpei, Chuuk, Yap and Kosrae. Its primary responsibilities are to maximize collection of local revenues and maintain border control through its customs services.

The Assistant Secretary of DFA for CTA is responsible for directing the general operations of the CTA main office and its field offices in the four FSM States. A Deputy Assistant Secretary, under the supervision of the Assistant Secretary, manages each field office. In total, approximately 44 full-time positions are authorized for the CTA main office and the four field offices, one in each respective FSM State. CTA Division structure is comprised of two main functions: *Customs and Tax Administration*.

Customs Administration includes inspection at ports of entry for sea and air, assessment of tax filing, and collection of taxes on goods and merchandise imported into the FSM by sea and air and prevention of prohibited goods of merchandise imported into the FSM.

The audit scope covered fiscal years 2008, 2009 and 2010 and the report states that according to CTA records, during this period of time total local tax revenues were approximately \$74 million. Of this amount, approximately 90% came from collection of the Business Gross Revenue Tax (BGRT), Wage & Salary Tax (Income), Import Tax, with the remainder being collected for miscellaneous fees. Of the 90%, each of the 3 categories was approximately equal.

The objective of the audit was to determine:

- If management is adequately monitoring the controls to ensure payments collected by the Field Offices are properly receipted and remitted to the DNT.
- If management is adequately monitoring controls that require business owners accurately and timely report BGR Tax and Wage & Salary Tax.
- If management is adequately monitoring whether SADs on Import Taxes are properly assessed, verified and collected. And
- If programs exist to promote ethical behavior in support of the FSM tax system.

Based on the audit testing, the auditors concluded that the CTA main office does not monitor adequately the field offices in carrying out their key activities of enhancing and enforcing tax collection throughout the FSM. Consequently, the following control weaknesses were found:

- Poor internal control over the system of manual cash receipts continues to put cash at risk of loss or theft. Instances of alleged theft by CTA employees have occurred.
- The tax rolls (list of active businesses) are incomplete and as a result, compliance and tax revenue collection is diminished. Unpaid or unreported taxes by businesses in Pohnpei are not followed-up and the auditors estimate that 40%, or more, of businesses in Pohnpei are not reporting taxes due. In Chuuk, they were followed up only when visited by a special task force.
- The accuracy of payment of import taxes is not verified by CTA and the inspection of freight containers is hap-hazard, not formalized and seldom performed.
- CTA employees are not trained in the proper handling of potentially unethical situations including how to maintain independence with local businesses. In the absence of a CTA Code of Ethics, independence with local businesses is not specifically required.

Ultimately, the practices of CTA are lax especially in Pohnpei and Chuuk, and do not assure the citizens of the FSM that the tax and revenue laws are being uniformly enforced or complied with throughout the FSM.

The audit report discusses the findings in detail and numerous, detail recommendations were made. However, the CTA management response indicates a lack of ownership of the field office operations, which, until corrected, holds little hope of progress.

### **3.2 ONPA publishes its Annual Report**

The Office of the National Public Auditor (ONPA) has published its annual report. This is now available on the web at:

[http://www.fsmopa.fm/new/Annual%20Report%20FY%202011PA\\_signed.pdf](http://www.fsmopa.fm/new/Annual%20Report%20FY%202011PA_signed.pdf)

*If you would like further information please contact: The Office of the National Public Auditor by TEL.691-320-2862/2863 FAX/691-320-5482*

## 4.0 The Audit Office of New South Wales

### Program for Papua New Guinea Graduates

Moses Pague and Lewa Yangen from Papua New Guinea Audit General Office have been with The Audit Office of New South Wales since January. They are participating in the Audit Office of New South Wales Graduate financial audit program - part of an Australian National Audit Office – Papua New Guinean Audit General Office Twinning Scheme, funded by AusAID.

Moses and Lewa have impressed the audit office with their dedication and the contribution they are making to the audits they are working on. They are fitting in well with their audit teams, and importantly the audit office is learning from them.

The audit office is gaining a closer understanding of both cultures and organizations through the mutual interest in solid governance and the important role of audit. Most importantly, good friendships are being made.

The Audit Office of New South Wales is delighted to be part of this program and wish Moses and Lewa all the best for the rest of their stay with the audit office and their future careers.

## 5.0 Office Of The Auditor-General New Zealand

### PASAI Auditors-General support future cooperative audits on environmental topics

A survey of ACAG and PASAI Auditors-General in late 2011 showed strong support for further co-operative audits on environmental topics, as part of PASAI's co-operative performance audit (CPA) programme.

From the survey results, the top three environmental topics for future CPAs are:

- climate change adaptation;
- sanitation;
- waste management.

The PASAI governing board considered the survey results at its February 2012 meeting. The Board noted that:

- the survey indicated support for future co-operative work;
- the topics would be discussed during the Regional Working Group on Environmental Auditing (RWGEA) meeting in Sydney in April 2012;
- a proposal for funding of a fourth co-operative performance audit would be prepared for the 2012 PASAI Congress to endorse.

### Background

The SAI of New Zealand carried out the survey, as co-ordinator of the RWGEA.

The survey is the second such survey. The first (in 2008) identified the topics for the first three audits under the CPA programme (solid waste, access to safe drinking water, and sustainable fisheries).

The 2010 INCOSAI Johannesburg accords encourage SAIs to carry out co-ordinated audits on environmental and sustainable development topics. The INTOSAI WGEA has long encouraged its RWGEAs to support co-operative and regional performance audits on environmental topics, and has provided guidance on carrying out such audits.

The aim of the second survey was to see whether PASAI members wanted to take part in further CPAs on environmental topics, and their preferred topics. The survey suggested some topics and noted whether WGEA guidance is available or being prepared.

The survey was sent to all PASAI members and to ACAG members who attend RWGEA meetings. Twenty one responses were received (16 from Pacific Island states and territories and five from ACAG members).

PASAI members were asked to comment on the following topics:

- climate change adaptation;
- waste management;
- sanitation;
- tourism and recreation;
- urban growth and planning;
- procurement and infrastructure;
- effectiveness/co-ordination of donor aid funding for environmental projects.

PASAI members from Pacific Island states and territories were asked to rank their first three topic choices, and to comment on the topics or suggest other topics. ACAG members were invited to comment on the topics but not rank them.

#### Survey results

Topic	1st choice	2nd choice	3rd choice	Total
Climate change adaptation	5	2	1	8
Sanitation	2	7	1	10
Waste	3	3	3	9
Urban growth and planning	2	2	1	5
Procurement and Infrastructure	2	0	3	5
Tourism and recreation	2	0	4	6
Coordination of donor aid funding	0	1	2	3

Taking account of first, second, and third choices, the three preferred topics are:

- climate change adaptation;
- sanitation;
- waste management – potentially a follow-up to the first CPA on solid waste, but extending into other waste management practices such as reuse and recycling, regulation of littering, contaminated land, and hazardous waste.

Climate change adaptation received the highest number of first rankings, and sanitation the highest number of second rankings. There was also some interest in tourism and recreation, procurement and infrastructure, and urban growth and planning. A few non-environmental topics were also suggested.

#### **Support for further CPAs on environmental topics**

The RWGEA co-ordinator has applied to the IDI on behalf of PASAI for funding support for a further CPA on one of the three preferred environmental topics, to start in October/November 2012.

#### **Next steps**

The survey results will be further considered at the RWGEA meeting in April 2012 in Sydney, with the assistance of an expert. The RWGEA could determine whether climate change adaptation is a suitable topic for the next CPA, or whether one of the other topics is more appropriate. A proposal could then be prepared for consideration by the 2012 PASAI Congress if funding support from the IDI or another source is identified.

*For further information about the WGEA meeting see the WGEA website ([www.environmental-auditing.org](http://www.environmental-auditing.org)). If you want to know more about WGEA activities, the survey or the next RWGEA meeting, please contact Jonathan Keate by email [jonathan.keate@oag.govt.nz](mailto:jonathan.keate@oag.govt.nz) or phone +64 4 917 1544.*

## **6.0 Queensland Audit Office (QAO)**

### **6.1 Key Developments**

#### **6.1.1 Communications**

- An update was provided by the new Auditor-General, Andrew Greaves to all QAO Engagement Leaders and Audit Managers in February on QAO's strategic direction.
- The biennial Organisational Effectiveness (QAO) staff survey was conducted.
- Two Client Information Sessions were conducted in early March for public sector clients. The sessions covered the following:
  - \* Queensland Reconstruction Authority (QRA) Funding and Management
  - \* Fraud Prevention and Detection
  - \* Performance Audit Update
  - \* Financial Reporting Considerations for 2011-12 Improving Quality and Timeliness.

The presentation is available at: [http://www.qao.qld.gov.au/pages/publications/pub\\_pres.html](http://www.qao.qld.gov.au/pages/publications/pub_pres.html).



A contract auditor forum was held in March providing updates on contractor roles, contracts, the tender process, audits feedback and standards updates. It is a half day forum held annually and is attended by some 90 contractors.

#### **6.1.2 State Election and Machinery of Government changes**

The 2012 Queensland State Election will be held on 24 March 2012 with potential machinery of government changes likely to impact on the public sector.

#### **6.1.3 INFORM Journal**

The December 2011 edition of INFORM Journal features articles on A reflection on a term in Office by Mr Glenn Poole (the former Auditor-General), key audit legislation amendments, Reports to Parliament Nos. 10 and 11, and AASB and AUASB updates. It is available on QAO's website: [http://www.qao.qld.gov.au/pages/publications/pub\\_inform.html](http://www.qao.qld.gov.au/pages/publications/pub_inform.html).

#### **6.1.4 Internal Australia Day Awards**

Staff contributions were recognised through internal Australia Day Awards. These were presented to staff under the following categories - service & quality, leadership, innovation, and performance.

#### **6.1.5 Strategic Audit Plan**

A three year Strategic Audit Plan incorporating performance and financial assurance audits is being finalised. Consultation with the Finance and Administration Parliamentary Committee is required to be undertaken prior to its finalisation and publication on the QAO website by 30 June 2012.

#### **ACAG/Canadian Council of Legislative Auditors (CCOLA) Conference**

The Auditor-General attended the joint conference of ACAG/CCOLA in Sydney in March. The purpose of the conference was to exchange information and obtain knowledge of current audit practices from public sector entities at a State/Provincial level.

### **6.2 AUDITOR- GENERAL REPORTS TO PARLIAMENT**

The following reports are proposed to be tabled in Parliament during the first half of 2012:

- No. 1 for 2012 – Results of Local Government audits (early May 2012)
- No. 2 for 2012 – Student Attendance in Queensland State Schools (early May 2012)
- No. 3 for 2012 – Education Sector Report (Universities & Grammar Schools) (mid May 2012)
- No. 4 for 2012 – Management of Unplanned Absences of Employees (early June 2012)
- No. 5 for 2012 – Information Systems Governance (late June 2012).

### **6.3 Parliamentary Committees**

The new Auditor-General, Mr Andrew Greaves, attended the Finance and Administration Parliamentary Committee meeting in February 2012. The Committee was given an update on the progress of the implementation of the recommendations from the Strategic Review of QAO (2010).

*If you would like further information please contact Queensland Audit Office: by email; [enquiries@qao.qld.gov.au](mailto:enquiries@qao.qld.gov.au) or phone +617 3149-6011; or fax +617 3149-6000.*

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

### 7.1 VAGO Annual Plan

The Victorian Auditor-General's Office (VAGO) 2012-13 Annual Plan is due to be tabled in May 2012 following consultation with the Public Accounts and Estimates Committee (PAEC), public sector and selected community groups. The plan will outline the audit program and resource requirements of the Office for the coming year and will include a prospective program of areas of financial and performance audit interest for the period 2013-14 to 2015-16. This initiative allows agencies to better coordinate activities and prepare for the audit program.

### 7.2 Recent reports to Parliament

Three audit reports were tabled in Parliament in February 2012 - all on the results of performance audits. Two audit reports on the results of performance audits have so far been tabled in March 2011. 24 financial and performance audit reports have been tabled so far since 1 July 2011, with a further 14 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)

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

- *Hong Kong Audit Commission* – A three month reciprocal secondment between the audit offices runs from February to April 2012.
- *Commonwealth Parliamentary Association 2012 Summer Residency Program for Public Accounts Committees* – Auditor-General addressed the Program in Melbourne (9 February 2012). The program is supported by the World Bank Institute, AusAID and the Centre for Democratic Institutions and is attended by Auditors-General, Clerks of Parliament and members of Public Accounts Committees from several PASAI member countries.
- *Shanghai Municipal Audit Bureau* – A delegation from the Audit Bureau are due to visit in April/May 2012 in order to identify ways to improve performance audit.

### 7.4 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.

### 7.5 Parliamentary and community engagement

VAGO has continued to engage with parliamentarians and has also developed its stakeholder engagement program to target the university sector for high level, non-audit engagement. These include:

- The Auditor-General has met individually with all members of PAEC in order to clarify the role of VAGO and to discuss the current relationship. This has identified that there is strong support for the work carried out by VAGO.
- The Auditor-General has been involved in inquiry submissions and will be attending a public hearing to provide evidence to support an inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects conducted by PAEC.

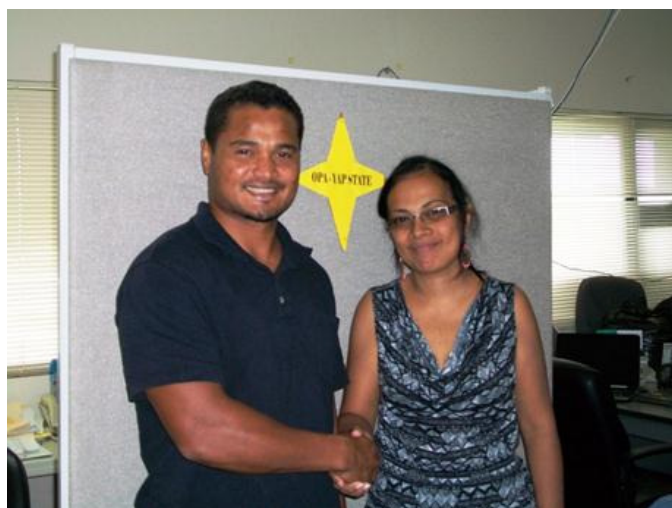
- The Auditor-General presented on the key audit themes arising from the 2010-11 audits to the LaTrobe University Council in February 2012 and was recently the key speaker on the same topic at the Centre for Public Policy at the University of Melbourne (March 2012).
- Guest lectures by directors have also been organised with the University of Melbourne as part of their Masters in Public Policy and Management and will be undertaken later in the year.

*If you would like further information please contact Victorian Auditor-General's Office : phone +613 8601 7000; or fax +613 8601 7010.*

## 8.0 Office of the Yap State Public Auditor

### Yap State Public Auditor hires Chief Investigator

Ron Yow, Acting Public Auditor, is pleased to welcome Sophia Pretrick as Chief Investigator to lead a start-up Compliance and Investigation Division (CID) for this office. A Certified Fraud Examiner (CFE) with more than 18 years of experience, she earned a Bachelor of Arts degree in Criminal Justice from Park University in Missouri, USA, and has a graduate diploma in Fraud Investigation from Charles Sturtz University, Bathurst, Australia.



Sophia was recruited from the Office of the National Public Auditor, where she served as the Chief Investigator for the past 3 ½ years, and has worked for more than 10 years. Her previous experience includes conducting criminal investigations and assisting in prosecutions as a special investigator for the Federated States of Micronesia (FSM) national police. She also served as a member of the White Collar Crime Task Force. Ms. Pretrick has gained national recognition for her achievements in the field of compliance investigation through such initiatives as developing and implementing the first Fraud Awareness Prevention Program (FAP) in FSM and helping to establish a CID function in Kosrae. In 2006 she was named Employee of the Year in recognition of her outstanding contributions to the government of FSM.

Asked what she is most proud of, Sophia remarked "I'm proud that the Yap Public Auditor is taking this initiative to consider building this very important function." She added that her greatest challenge will be "to implement this program successfully by securing the collaboration of all agencies within the government," and "I will do my best to assist Yap in making this work."

The primary mission of CID is to carry out investigations of administrative and compliance reviews of allegations of financial mismanagement and misuse of government resources. The focus will also be to promote and educate ethical and lawful conduct within the Yap State Government. With her strong background in financial fraud investigation and enforcement of laws in government operations, we have the utmost trust and confidence in her ability to make a positive contribution and consider ourselves fortunate to have her join our organization.

*If you would like further information please contact Office of the Yap State Public Auditor : phone +691 350 3416; or fax +691 350 4987.*

## 9.0 Pacific Island Forum Secretariat

PRAI and PASAI were featured in the e-newsletter for the Pacific Island Forum Secretariat, Forum Economic Ministers' Meeting Work Programme. You can read the newsletter at:

<http://www.forumsec.org/resources/uploads/attachments/documents/Trends%20and%20Developments%20Dec%202011.pdf>

## 10.0 Asian Development Bank

### **RAISING THE QUALITY OF AUDIT REPORTS FOR ASIAN DEVELOPMENT BANK PROJECTS IN THE PACIFIC**

***In addition to supporting the implementation of the Pacific Regional Audit Initiative, the Asian Development Bank (ADB) works with Pacific audit institutions on the audit of its projects.***

The external audit of ADB projects is essential in order to fulfil the Bank's fiduciary responsibilities under Article 14 of the ADB Charter which states that "The Bank shall take the necessary measures to ensure that the proceeds of any loan made, guaranteed or participated in by the Bank are used only for the purposes for which the loan was granted and with due attention to considerations of economy and efficiency."

ADB uses the government audit institution to audit the majority of its projects in the Pacific, taking a lot of comfort from the independence of government auditors, normally assured under a constitutional or legal provision. Government auditors play an important role in ensuring that the obligations of ADB, expressed in its Charter, are met.

This article outlines the basic ADB financial reporting and audit requirements for the information of government auditors in the Pacific.

#### **What are the key audit requirements for ADB projects?**

ADB guidelines require that the borrower and the project executing agency have the required financial statements for each year audited by an independent external auditor acceptable to ADB and that the audit be conducted in accordance with standards on auditing that are also acceptable to ADB.

To ensure that ADB is provided with reliable, comprehensive and timely information to fulfill its obligations under Article 14 of the Charter, the standard loan and grant agreements, and ADB guidelines, require the submission of the following on an annual basis:

- i. The Auditor's Report,
- ii. The audited Project Financial Statements,
- iii. The Management Letter,
- iv. The audited Entity Financial Statements, in cases where the executing or implementing agency is a revenue-earning entity.

*The Auditor's Report requirements:*

The basic requirement for all ADB projects, whether executed or implemented by a revenue-earning or a non revenue-earning entity is the submission of a special purpose auditor's report on the annual project financial statements. This is to establish the credibility of the project financial information and ensure that funds are used appropriately for the intended purposes. The minimum ADB requirements for the Auditor's Report are as follows:

- It must state the **auditing standards** or practices followed under which the audit was conducted.
- ADB supports the use of International Standards on Auditing (ISA) issued by the International Federation of Accountants (IFAC) and the International Standards of Supreme Audit Institutions (ISSAI) issued by the International Organization of Supreme Audit Institutions (INTOSAI). However, ADB also recognizes that in some developing member countries, auditors are compelled to apply generally accepted auditing standards that may not conform to the standards preferred by ADB but have been prescribed by the laws of the country or adopted by professional associations. In such cases, supplementary auditing and reporting procedures may be requested by ADB, if deemed necessary.
- It should contain a clear expression of the auditor's opinion as to whether the financial statements present **fairly or give a true and fair view** of the project(s) financial performance.
- When forming an opinion and reporting on special purpose financial statements, the auditor shall apply the requirements in ISA 700. On the otherhand, when the form and contents of the auditors report changes when the auditor expresses a modified opinion (e.g. Qualified, Adverse, or Disclaimer), ISA 705 will be applied.
- It should include a separate auditor's opinion on specific areas, where required in the financing agreement.
  - i. **Use of loan or grant proceeds** – to confirm whether the borrower or executing agency has utilized all proceeds of the loan or grant withdrawn from ADB only for purposes of the project. This is consistent with fulfilling ADB's obligations under Article 14 of the Charter.
  - ii. **Compliance with financial loan covenants** – to confirm or otherwise, that the borrower or executing agency was in compliance with the financial covenants of the loan or grant agreement.
  - iii. **Use of the imprest account, where applicable** – to confirm or otherwise, whether the imprest account gives a true and fair view of the receipts collected and payments made and supports imprest account liquidations and replenishments during the year.
  - iv. **Use of the statement of expenditures, where applicable** – to confirm or otherwise, whether adequate supporting documentation has been maintained to support claims to ADB for reimbursement of expenditures incurred and that the expenditures are eligible for financing under the loan or grant agreement.

The loan or grant agreement will usually specify if a separate auditor's opinion is required for the imprest account and statement of expenditures and the extent of the review to be conducted.

- It should be issued by an independent auditor whose qualifications, experience and terms of reference are acceptable to ADB.

Auditors must be able to satisfy the following criteria: (i) must be impartial and independent of the control of the entity to be audited and of the person or entity appointing them, (ii) must be well-established and reputable, (iii) must be able to demonstrate experience in auditing accounts and financial statements for projects and entities comparable in type, nature and complexity, and (iv) must propose the audit work to personnel who have the necessary capabilities to complete it competently and on time.

Usually, statutory requirements in developing member countries specify the use of the government auditors and their independence is normally assured for positions established under a constitutional or legal provisions designed to ensure independence. But if this is not the case, then additional auditing arrangements is to be made to remedy the deficiency.

- It must include at the minimum the following elements: (i) title, (ii) addressee (executing agency and/or borrower), (iii) identification of the financial information audited, (iv) description of management's responsibility, (v) description of the auditor's responsibility, (vi) expression of an opinion, (vii) auditor's signature, (viii) date of the auditor's report, and (ix) the auditor's address.
- It must be stated in the English language (including the audited financial statements and the management letter).
- It must be submitted to ADB together with the audited project financial statements and management letter **within 6 months** following the end of the fiscal year or project closing date (whichever comes first), unless otherwise provided.

In cases of weak institutional capacity and decentralization, ADB allows for the extension of the reporting period up to 9 months which will be specified in the provisions of the loan or grant agreement. For state-owned enterprises, no exceptions beyond 6 months will be considered.

#### *The Project Financial Statements requirements:*

ADB requires, preferably at the project identification stage, that agreement is to be made between the borrower and the project team processing the project on the form and content of the annual financial statement that are to be submitted for audit. This agreement will be reflected in the loan or grant agreement or in the project administration manual.

The minimum project financial statements to be submitted for audit are as follows:

- Project Financial Statements (e.g. Statement of Receipts and Payments);
- Notes to the Financial Statements; and
- Additional supplementary financial information that may be agreed upon depending on the needs of the specific projects/sectors.

For project transactions prepared under the cash basis of accounting, the minimum financial statements required are the **Statement of Receipts and Payments** and the related **Notes to the Financial Statements**.

Other project financial statements that may be prepared separately and included in the submitted reports, where applicable, are the Statement of Imprest Account and the Statement of Expenditures. The preparation of these statements, if applicable, are particularly necessary for the auditor to render a separate auditor's opinion on these statements.

Other schedules to supplement the project financial statements, if applicable, may include imprest account or special account reconciliation, detailed summary of fixed assets or asset register, inventories, summary of long term debts, summary of accounts receivable and accounts payable. These schedules and other additional disclosures may be annexed to the main report or incorporated in the Notes to the Financial Statements.

As the project is defined as covering all sources of funds (both Bank-provided and otherwise), the annual financial statements of the project should also include all sources of funds. Similarly, the audit should relate to the whole project, not just to the Bank-financed portion.

To further guide borrowers, special purpose financial statements may show the following:

- i. summary of funds received (receipts) according to sources (e.g. ADB funds, project funds from other donors funds, counterpart funds);
- ii. ADB sources of funds can be sub-classified by methods of withdrawal of funds (e.g. direct payments, imprest account, statement of expenditures);
- iii. summary of expenditures (payments) according to main categories of expenditures as contained in the loan or grant agreement (e.g. civil works, goods); and
- iv. current fiscal year, previous year and accumulated to date.

While these financial statements are clearly the responsibility of the executing agency, not the auditor, the auditor's review prior to the issuance of an opinion can bring about an improvement in the form and contents of project financial statements.

#### *The Management Letter requirements:*

A management letter is required by ADB to accompany the submission of the audited financial statements and the audit report. At the minimum, this should include the following:

- i. a general overview of the internal control systems of the project and the executing agency or an, opinion on the management systems;
- ii. identification of the weaknesses in internal controls;
- iii. auditor's recommendations for improvements;
- iv. clients comments to the findings and recommendations; and
- v. follow-up action or status to previously identified issues and findings, if any.

#### *The Entity Financial Statements requirements:*

In cases where the executing or implementing agency is a revenue-earning entity, in addition to the above requirement for the audit of project financial statements, ADB will also require the submission of a general purpose audit report on the annual agency financial statements for each executing agency and/or project implementing agency associated with the project.

The purpose of this requirement is to allow ADB to monitor the use of loan or grant proceeds and to satisfy itself of the financial viability of the project and the executing or implementing agency.

#### **Why is timeliness important?**

The submission of the auditor's report and the related audited financial statements and management letter on time is important as non-compliance with this provision in the loan or grant agreement can result in the non-processing of new payments or worse the suspension or cancellation of a loan or grant.

Timeliness is particularly important for the effective monitoring of the use of loan proceeds and the early assessment of the financial performance of the borrowers. Significant audit findings and issues will alert ADB of projects that need to be closely monitored and followed up for appropriate action to mitigate the risk of project funds wastage from ineligible use and the likely inability to achieve expected project outcomes.

The requirement for the timely submission of annual audited project financial statements has also been given greater importance due to the increased focus on good governance, transparency and anti-corruption efforts especially in development partner-funded projects.

The auditor can help facilitate the process of early submission by agreeing with the executing agency on the period of time within which an auditor's report/opinion is to be provided from the receipt of the financial statements in order to meet the deadline. Usually, the terms of reference for the auditor prepared by the executing agency will specify the period of time for an opinion to be rendered from the time of receipt of the financial statements.

#### **What does an audit of ADB projects entail?**

The audit of an ADB project entails not only an understanding of the project and the entity being audited but also ADB policies and procedures. More importantly, the auditor must understand the purpose for which the funds are intended and the relevant accounting and financial management practices.

Understanding the project and ADB policies and procedures entails reviewing the legal agreements (loan and grant), Report and Recommendation of the President to the Board of Directors (RRP), Project Administration Manual (PAM) as well as ADB financial and disbursement guidelines such as the ADB Handbook for Borrowers on the Financial Management and Analysis of Projects and the ADB Loan Disbursement Handbook.

#### **The way forward**

ADB's revised Public Communication Policy will require the posting on its website of annual audited project financial statements for sovereign projects for which the invitation to negotiate is issued on or after the policy effective date of 2 April 2012. The procedures for the disclosure of these audited statements will be discussed and agreed with each borrower and made part of the loan agreement for each project.

ADB looks forward to continuing to work with government auditors to raise the quality of submitted audit reports and assist executing or implementing agencies to improve the presentation of future financial statements.

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