



PASAI BULLETIN

Pacific Auditors working together

Inside this issue:

17th PASAI Congress | Environmental auditing in the Pacific | Territorial Chamber of Accounts appoints a new President | ONPA releases new audit on public debt management | Compliance with ADB's reporting requirements | Update from VAGO | Revised financial management framework for Australia

17th PASAI Congress discusses good governance

Good governance sets strategies monitors the performance of public entities. This sentiment was a constant theme woven through the meeting of the 17th Congress of the Pacific Association of Supreme Audit Institutions (PASAI) in Samoa on 19 to 22 September 2014.

The Congress was hosted by the Audit Office, Samoa, and was attended by the heads or representatives of 22 member SAIs, together with representatives from the international auditing community and a number of development partners.

The Congress was opened by the Prime Minister of Samoa, the Honourable Prime Minister of Samoa, Tuilaepa Sailele Malielegaoi. The Prime Minister set the scene for the Congress by outlining what is possible for supreme audit institutions (SAIs) in the Pacific, using the Samoa Audit office as an example. The office's Institutional Strengthening Project 2006–2011 has culminated in the new Audit Act 2013, which establishes the independence of the SAI, separate to the government.

There is more on the Congress on page 2.

17th PASAI Congress 2014



Apia, Samoa



Working together so the actions of today do not narrow the options for the future

The Congress was opened by the Prime Minister of Samoa, the Honourable Prime Minister of Samoa, Tuilaepa Fatalefa Aiono Sailele Malielegaoi. The Prime Minister set the scene for the Congress by outlining what is possible for supreme audit institutions (SAIs) in the Pacific, using the Samoa Audit Office as an example. The Office's Institutional Strengthening Project 2006–2011 has culminated in the new Audit Act 2013, which establishes the independence of the SAI, separate to the government.

Key speakers included: the INTOSAI Chairman represented by Mr Haiying Jiang; the INTOSAI Secretary General Dr Josef Moser; Chairman of the INTOSAI Capacity Building Committee Mr Kimi Makwetu; IDI Deputy Director General Mrs Archana Shirsat; Mr Andrew Anton from the Pacific Island Forum Secretariat; Mr Luciano dos Santos Danni from the Brazil Court of Audit; and Ms Flodeliza Asistin from the Asian Development Bank.

'Good governance is the responsibility of everyone, not just political leaders and auditors.'

Keynote speakers emphasised:

- Sustainable development is enhanced if the use of public resources is more transparent and accountable.
- Good transparency and accountability is essential to strengthen the trust of citizens.
- There are real benefits of good regional cooperation and collaboration.
- There is an ongoing need to pool knowledge and work collaboratively, including with INTOSAI's capacity development initiative.

SAI member presentations have always been an important part of the Congress, sharing individual successes, as well as the challenges. In summarising the country presentations, PASAI's Secretary-General Lyn Provost noted that every presentation highlighted positive gains over the past five years. The SAIs' presentations gave a sense that all members are auditing with a greater level of competence and confidence. Members are also aware of their challenges including:

- effective strategies
- citizens' engagement
- compliance with International Standards for Supreme Audit Institutions (ISSAIs)
- progressing independence
- greater use of auditing software.

During its business sessions, Congress appreciated the continuing support from the Asian Development Bank (ADB), under the Japan Fund for Poverty Reduction-supported technical assistance; the Australian Department of Foreign Affairs and Trade; the New Zealand Ministry of Foreign Affairs and Trade; and IDI.

The outstanding organisational work and generosity of the staff of the Samoa Audit Office and PASAI's Secretariat, and the leadership and gracious hospitality provided by Fuimaono Camillo Afele were key elements in making the Congress a success.

The Congress endorsed the proposal by the Vanuatu Audit Office to hold the 18th PASAI Congress in Port Vila in 2015.



Environmental auditing in the Pacific — building capacity and improving environmental outcomes


Environmental auditing has gone from strength to strength in the Pacific region under PASAI's cooperative performance audit program, with gains in performance audit capacity and improved environmental outcomes.

This finding came through strongly at the 8th Australian Council of Auditors-General/ PASAI Regional Working Group on Environmental Auditing (RWGEA) meeting, held in Canberra, Australia in May 2014. Representatives from the Pacific audit offices of the Cook Islands, Fiji, Samoa and the Federated States of Micronesia shared their experiences as cooperative performance audit participants with colleagues from Australia, New Zealand, and Indonesia.

The ACAG/PASAI RWGEA was formed in 2001 and is one of six regional working groups of the INTOSAI WGEA. New Zealand is the regional coordinator of the RWGEA. The RWGEA has members from the Australian National Audit Office, Australian State Audit offices, Pacific Island Audit Offices, and the Office of the Auditor-General of New Zealand.

The INTOSAI WGEA aims to improve the use of audit mandates and audit tools in the fields of environmental management and protection by all audit institutions. In particular, the WGEA encourages cooperative audits of cross-border environmental issues and policies and the auditing of international environmental accords. The WGEA assists audit offices to better understand specific issues involved in environmental auditing by publishing research papers and guidance on environmental topics, and facilitating the exchange of information and experience among audit offices.

In line with the aims of the INTOSAI WGEA, the RWGEA seeks to develop the capability of participating offices to carry out audits on environmental topics in the Pacific region. Most recently, the RWGEA's focus has been on assisting with capacity building for environmental audits in Pacific Island audit offices by supporting PASAI's Cooperative Performance Audit program.



'Environmental auditing has gone from strength to strength in the Pacific region.'



Delegates of the 8th Australian Council of Auditors-General/PASAI Regional Working Group on Environmental Auditing touring the Arboretum, Canberra, Australia

PASAI RWGEA themes

Environmental topics are highly relevant for the Pacific region and are worthy of continued focus and attention. Participants endorsed the value of RWGEA meetings, for knowledge sharing and capacity building, and agreed that meeting every two years is worthwhile and should continue.

Representatives of Fiji, Samoa and the Federated States of Micronesia acting as rapporteurs for the theme-based sessions.

The themes for the meeting were: auditing water, waste, and climate change adaptation. Pacific audit offices face the same issues and challenges as their Australian and New Zealand counterparts when conducting environment audits, including:

- getting to grips with complex subjects
- understanding and obtaining relevant data
- multi-agency involvement in environmental matters
- making the best use of external experts.

A possible focus for the next RWGEA meeting is to consider the role of regulatory agencies in the environment sector, including compliance and enforcement. The meeting could also address how auditors can consider environmental matters in all their work, not just in environmental performance audits.

Continuing capacity building

As a topic for a future cooperative performance audit, the RWGEA recommends considering the capability of Pacific countries and territories to access international funding available for environmental issues such as climate change mitigation and adaptation, noting that To further assist capacity building, the RWGEA encourages:

- ACAG members to continue to support their Pacific colleagues through twinning arrangements, and the PASAI secretariat to work with ACAG to promote and support these arrangements.
- PASAI members to further support developing environmental auditing capacity of their staff by participating in RWGEA meetings and other training opportunities.
- PASAI members to consider nominating staff to attend the training program 'Introduction to environmental auditing', offered by the SAI of India and the WGEA in November 2014 at the international Centre for Environmental Audit and Sustainable Development (iCED) near Jaipur. It would be highly beneficial for a small group of PASAI representatives to attend the training session and that the PASAI secretariat could coordinate this.

PASAI Cooperative Performance Audit program

Since 2009, Pacific audit offices have carried out five cooperative audits under PASAI's Cooperative Audit program. The CPA program began as part of the Pacific Regional Audit Initiative, and has had ongoing support from the Asian Development Bank, the INTOSAI Development Initiative, the Australian and New Zealand governments, the RWGEA, and for the most recent CPA the Victorian Auditor-General's Office.



Aitutaki, Cook Islands

PASAI Auditors-General decided to initially focus on environmental topics under the Cooperative Performance Audit program, and the first four cooperative performance audits were in the environmental area. The fifth cooperative financial audit was on a public debt management.

Seventy six staff from 16 audit offices have taken part in cooperative performance audits on solid waste management, access to safe drinking water, sustainable fisheries, and climate change adaptation and disaster risk recovery. Regional overview reports have been prepared on solid waste management, access to safe drinking water, sustainable fisheries and are available at www.pasai.org. An overview of the regional report on climate change adaptation and disaster risk recovery was presented to the 17th PASAI Congress in Samoa.

The Cooperative Performance Audit program has led to improved capacity in participating audit offices.

Follow-up audits have shown tangible environmental improvements in several cases.

Although PASAI's immediate focus is on financial audit capability, Auditors-General are encouraged to build on the gains made by the Cooperative Performance Audit program by continuing to support cooperative performance audits of environmental issues. Solid waste management, water management, sustainable fisheries and climate change adaptation continue to be important environmental issues in the Pacific and deserve ongoing and regular audit attention. Not all participants in the program have the confidence yet to self-initiate environmental audits, but carrying out follow-up audits in the same topic areas is important for both continued capacity building and for improved environmental outcomes by checking on the progress of responses recommendations.

For further information, please contact the ACAG/PASAI RWGEA coordinator Jonathan Keate, Office of the Auditor-General of New Zealand at jonathan.keate@oag.govt.nz.



From left to right, the members of the Territorial Chamber of Accounts of New Caledonia: Mr Michel Cormier, Financial Prosecutor; Mr Thomas Govedarica, Magistrate; Mr Jean-Yves Marquet, President; Mr Philippe Pont, Magistrate; Mrs Marie-Ange Gerbal, Magistrate.

Territorial Chamber of Accounts appoints a new President

On 3 July 2014, the Territorial Chamber of Accounts of New Caledonia appointed its new president, Mr. Jean Yves Marquet, appointed by decree of the President of the French Republic on 4 May 2014.

After graduating from the French National School of Administration, Mr Marquet started working for the Ministry of Economy in 1989. He became the Financial Officer at the French Embassy in Mexico, then also in Japan and Russia for the Commonwealth of Independent States, before heading an economic mission in Singapore for ASEAN countries. In 2004, Mr Marquet entered the French Court of Accounts and was appointed Deputy Secretary-General in 2009.

During the ceremony, Mr Marquet paid tribute to his predecessor, Mr François Monti, who contributed to making the chamber well-respected by the local authorities.

Mr Marquet stated that he would continue with Mr Monti's approach, 'The reports of the chamber will not just identify issues, but will try to give solutions that naturally align with the responsibilities and skills of local and territorial institutions'

Mr Marquet also noted the decision taken by the First President of the French Court of Accounts to strengthen the Chamber by appointing a new team for auditing (one magistrate and one auditor's assistant) to boost the Chamber's capacity for auditing the use of the public money in New Caledonia.

If you would like further information please contact: Carole Saj at csaj@nc.ccomptes.fr.



ONPA releases new audit on public debt management

The Office of the National Public Auditor (ONPA) of the Federated States of Micronesia released Audit Report No. 2014-07, Audit of the Public Debt Management for the National Government of the Federated States of Micronesia as of the fiscal year 2012.

The audit was conducted by ONPA as part of a cooperative audit initiative undertaken by PASAI with the support of Asian Development Bank (ADB) and INTOSAI Development Initiative (IDI).

The audit was undertaken in accordance with the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States.

The audit assessed the adequacy of the FSM National public debt management relating to:

- the legal and institutional framework and the related processes and controls on compliance monitoring and reporting
- government loan relending and guaranteeing activities.

The ONPA concluded that the National Government's legal and institutional framework lacked the permanent provisions need to adequately implement a system of debt management. The FSM Congress only defines the requirements and some functions of debt management during the approval of each debt. The basic requirements include borrowing purposes, debt management goals and objectives, and reporting debt obligations. The ONPA also found that the institutional framework also needs to be strengthened before the debt management system is deployed.

Similarly, the institutional functions related to debt management were scattered and were undertaken by different departments and offices without coordination to ensure adequate debt management.

The ONPA found that the State Governments and their public enterprises may generate risks to the National Government as a consequence of guaranteed loans, and due to the risks of undisciplined and unsustainable borrowings. However, no limit has been set on these borrowings and no analysis of the related risks has been undertaken.

The audit found:

1. \$21 million of FSM's external debt was spent on failed or partly successful projects.
2. \$13 million in the Trust Account/Sinking Fund not regularly assessed whether sufficient for the repayment of the associated loans with outstanding balance of \$31 million
3. The legal framework was limited and lacked provisions to implement a sound debt management system.
4. Limited organisational functions resulted in inadequate implementation of an effective debt management system.
5. The absence of loan limits and regular risk analysis on State and public enterprise loans and on guaranteed and/ or relent loans; and,
6. Lack of available information on public debt and borrowing activities.

The details of the audit report were discussed with officials from the affected departments and offices, mainly the Department of Finance & Administration. Departmental officials agreed with the findings and recommendations at the audit exit meeting. However, no written Management Responses were received, so the final audit report was issued without the usual Management Response.

A digital copy of the report is available for public viewing online at <http://www.fsmopa.fm> and printed copies are available at the ONPA's offices in Palikir, Pohnpei and on Weno, Chuuk.

If you would like further information please contact: sneth@fsmopa.fm.

Compliance with ADB's reporting requirements

What has happened

The Asian Development Bank (ADB) has a fiduciary responsibility to ensure that the projects it finances are financially viable and sustainable, and that funds are used for their intended purpose and with due attention to considerations of economy and efficiency. ADB requires high-quality financial statements to be prepared for its projects to enhance the transparency, accountability, and financial reporting discipline of its borrowers.

A glance back on issues identified

In March 2012, ADB discussed its basic requirements for financial reporting and auditing of projects and subsequently in June 2012, an article on issues identified from a review of project financial statements and audit reports was also published.

The issues identified were:

- late submissions
- incomplete note disclosures
- inconsistent formats and presentation
- audited entity financial statements not submitted, where required.

Issues with audit reports included:

- incomplete audit opinions for additional assurances required in loan and grant agreements
- absence of management letters, where needed
- lack of standardised audit report formats.

Improving compliance

ADB's Pacific Department has increased its efforts to improve compliance with financial reporting and audit requirements. Training has been provided to agencies and auditors. Early reminders and follow-ups are sent. A feedback mechanism was designed where results of reviews of audited project financial statements (APFS) and follow-up actions are taken up with agencies. Compliance issues are also discussed with key government officials during the annual review of ADB's portfolio.

ADB has sanctions in place for late submission of APFS. Withholding processing of contract awards, disbursements, replenishments, or even project suspension can be imposed depending on the duration of the delay. These sanctions can significantly affect project performance and capacity to implement future projects. In response to capacity constraints, ADB's Pacific Department is providing further assistance to improve on the timely submission of reports.

After 18 months

For fiscal years 2012 and 2013, the compliance rates are still at 79% and 27% respectively but are expected to increase soon. In some instances, there were delays of more than a year.

Out of total number of APFS received for fiscal years 2011 to 2013, there was an increasing percentage of timely submissions from 24% to 42%.

ADB supports the use of government audit institutions to audit the majority of its projects in the Pacific, while the project executing agencies are primarily responsible for preparing annual project financial statements. This means that both the executing agencies and the auditors share the responsibility of ensuring that the audit reports and financial statements submitted are on time and of the quality required by ADB.

Compliance with ADB's reporting requirements (cont)

Quality, form, and completeness of audited project financial statements

Improving the quality, form, and completeness of submitted APFS remains a challenge. Executing agencies are bound by loan and grant agreements to prepare and submit project financial statements for audit, and are required to send ADB (i) the audited project financial statements with notes (ii) the auditor's report with an audit opinion and additional assurances on use of funds, compliance with financial covenants, use of statements of expenditures and imprest account procedures, where applicable, and a (iii) comprehensive management letter.

APFS of new projects have adopted project-reporting formats that already show useful information of receipts of funds (by sources, and methods of withdrawal applied) and payments (by expenditure categories). Notes to the financial statements now include information on significant accounting policies and an explanation or disaggregation of accounts.

Auditors are encouraged to provide the additional assurances required by ADB to ensure that the audit scope covers specific audit requirements. Auditor reports are becoming more standardised and the minimum elements of International Standards on Auditing are being complied with.

Management letters have better and comprehensive formats for issues, implications, and comments from management, although they are not always prepared. ADB encourages auditors to prepare a management letter if there are observed weaknesses in a financial reporting system or in the overall system of internal controls.

Overcoming the issues and challenges — how can auditors help?

Challenges remain for meeting annual submission deadlines and improving the quality of project financial statements as ADB's revised public communications policy requires the disclosure of the APFS on the ADB's website.

Meeting submission deadlines will require the joint efforts of the agencies and the auditor. A detailed activity timetable by which project financial statements will be prepared, audited, the report issued, and submitted back to the executing agency for transmittal to ADB should be discussed when the auditor is engaged. The timeframe should be less than six months after fiscal year end.

Improving the quality of audited project financial statements means moving towards the use and adoption of internationally recognised standards both in the preparation and audit of project financial statements. As most Pacific countries use a cash basis of accounting in the public sector, the IPSAS cash basis standards are the most likely standard applicable for project reporting. Most auditors comply with International Standards on Auditing.

Auditors' understanding of ADB's project reporting requirements is important for standards of quality and compliance to be completely achieved.

For comments and questions on ADB's financial reporting and auditing requirements, please contact Flor Asistin (fasistin@adb.org) or Genevieve Buenaventura (gbuenaventura.consultant@adb.org).



Update from the Victorian Auditor-General's office

New performance audit follow-up program

The Victorian Auditor-General's Office (VAGO) has established a new follow-up regime for performance audit recommendations to encourage greater agency accountability and inform future audit work. Agencies are asked to complete action plans in response to audit recommendations at the completion of each performance audit and are requested to report to VAGO on their progress against actions 12 months later. VAGO report on these responses to Parliament. VAGO may then choose to take a 'deeper dive' on selected areas and conduct either limited or broad scope performance audits of agency performance against previous recommendations.

Reforms to the *Audit Act 1994*

The Victorian Government has advised they plan to introduce amending legislation to Parliament in 2014, before the State election in November. VAGO has asked to be consulted during drafting. VAGO's priority areas for reform include

- capacity to audit all activity funded by Parliament, including 'follow-the-dollar' audits of outsourced activity
- annual audits of performance statements and controls to strengthen the financial audit function
- streamlined the performance audit process, removing requirements to consult Parliament on individual audit specifications
- flexible tabling of audit reports, including electronic and out-of-session tabling
- expand information sharing to include integrity bodies and other audit offices to enable joint audits.



2014–15 Annual Plan

VAGO's Annual Plan 2014–15 was tabled in Parliament on 26 June 2014. The Auditor-General has introduced a number of new approaches:

- single view of all planned reports for two years, integrating performance and financial audit programs
- increased transparency around financial and performance audit topics
- a greater focus on community input and improved transparency on the results of our consultation
- includes all significant deliverables, including financial audit opinions and VAGO engagement and education activities
- increased focus on information systems across both financial and performance audit programs
- new follow-up process to close accountability loop on past audit recommendations.

A copy of the Annual Plan 2014–2015 is available at: http://www.audit.vic.gov.au/reports_publications/corporate_publications/annual_plan.aspx.

Better practice guidelines

VAGO is reintroducing better practice guidelines, starting with a guide to Public Participation in Government Decision Making.

If you would like further information please contact: Marco Bini at marco.bini@audit.vic.gov.au.

Revised financial management framework for Australia

From 1 July 2014, a small number of substantive amendments have been made to the *Australian (Commonwealth) Auditor-General Act 1997*.

The Act now includes authority to conduct audits of performance statements by Commonwealth entities. The Act also allows government Ministers to request the Auditor-General to examine and report on an entity's annual performance statements (section 40).

The wording of existing section 18A has been slightly amended to provide the authority to conduct audits of performance measures. Previously, only performance indicators could be measured.

The changes are a result of the new *Public Governance, Performance and Accountability Act 2013* (PGPA Act) that replaces the majority of the provisions of the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997* due to the introduction of a revised financial management framework.

If you would like further information please contact: Tania Plant at ag1@anao.gov.au.

The PASAI *Quarterly Bulletin* provides audit offices in the PASAI region with:

- updates on issues of interest
- recent developments affecting SAs
- emerging matters
- general newsworthy items.

SAs and development partners are encouraged to contribute to this publication as a forum of information exchange and to share the issues faced by SAs in the region. Auditors-General who are members of INTOSAI committees and working groups are also encouraged to use the *Quarterly Bulletin* to highlight the work you are involved in.

FURTHER INFORMATION

Contact the PASAI Secretariat:
Email: enquiry@pasai.org
Telephone: +64 9 304 1275
Fax: +64 9 307 9324
Website: www.pasai.org

PASAI CALENDAR

THE NEXT SIX MONTHS

8–12 September: Risk-based audit training, Nukualofa, Tonga

1 September – 10 October: SAS Round 4, Kiribati phase

13–17 October: CFA — Foreign Aid, reporting meeting, Nadi, Fiji

3–7 November: Tier 1 Training, Port Moresby, Papua New Guinea (tbc)

10 November – 19 December: SAS Round 4, Tuvalu phase

10–11 February 2015: 12th Governing Board meeting, Auckland, New Zealand.

OTHER IMPORTANT DATES

8–12 September: INTOSAI Capacity Building Committee meeting, Lima, Peru

16–17 September: INTOSAI–Donor Cooperation Steering Committee meeting, Paris, France

18–21 September: Fiji Institute of Accountants (FIA) Technical Workshop, Warwick Hotel, Fiji

12–14 November: AFROSAI-E — 9th Annual Technical Update, Pretoria, South Africa

November: IDI Staff Meeting — Oslo, Norway (tbc).