



## PACIFIC ISLANDS FORUM SECRETARIAT

PIFS(22)FEMM.Info.5

### FORUM ECONOMIC OFFICIALS MEETING

### FORUM ECONOMIC MINISTERS MEETING

10-12 August 2022

Port Vila, Vanuatu

#### INFORMATION PAPER 5:

### PACIFIC REGIONAL AUDIT INITIATIVES – AN UPDATE BY ASSOCIATION OF SUPREME AUDIT INSTITUTIONS

#### Purpose and Summary

##### Purpose

This paper informs the Forum Economic Ministers Meetings (FEMM) of the work that the Pacific Association of Supreme Audit Institutions (PASAI) is undertaking in the region to strengthen public sector auditing services with the objective of supporting public financial management (PFM) reform efforts in Forum Island Countries (FICs).

##### Summary of Issue

PASAI is on track to meet its strategic objectives and continues to make progress to strengthen capacity development of Offices of Auditor Generals and Public Auditors in the region providing independent scrutiny of public expenditure to ensure proper accountability and transparency in FICs and subsequently to improve PFM reform efforts.

Forum Economic Ministers are encouraged to support legislative reform initiatives to make the Offices of Auditor Generals and Public Auditors (Supreme Audit Institutions, SAI) truly independent. A strong and independent SAI is a key element of all country governance systems.

It is crucial that Economic Ministers value the completion of financial annual audits particularly of Financial Statements of Government and ensure that there are sufficient resources applied to the preparation of these critical accountability reports by Treasury and Ministry of Finance team in order that audits can be completed. It is also critical that once audit reports have been issued the recommendations and issues identified in these reports are considered by Public Account Committees (PACs).

#### A. Overview

PASAI is the official association of public sector audit offices (known internationally as Supreme Audit Institutions (SAIs)) in the Pacific region. A SAI is an independent institution established under a country's Constitution or other laws, and is normally headed by an Auditor-General, Public Auditor or Magistrate (depending on the system of country governance).

2. PASAI's 27 members include the SAIs of all FICs, Australia, New Zealand, and also a number of state or territorial audit offices. FIC members include: Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, Niue, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. State based audit offices include the Australian states of New South Wales, Queensland, and Victoria and also the four states of the Federated States of Micronesia - Chuuk, Kosrae, Pohnpei and Yap. The territorial offices of American Samoa, the Commonwealth of the Northern Mariana Islands and Guam are PASAI members, as are the two French territories of French Polynesia and New Caledonia.

3. PASAI is supported by a Secretariat based in Auckland, New Zealand. It is funded by the Australian government (DFAT) and the New Zealand government (MFAT).

4. Under its Charter, PASAI's overall goal is to promote transparent, accountable, effective, and efficient use of public sector resources in the Pacific. To achieve this goal, PASAI works across the Pacific region to deliver capacity development programmes and activities for its member SAIs, with the objective of improving the quality of public sector auditing in the Pacific to recognised high standards. On behalf of its members, PASAI also advocates the interests of good governance, effective PFM, and the need for strong and independent SAIs in accordance with international principles.

5. PASAI's ongoing work will continue to have a strong affinity with, and commitment to, the purposes and work of the FEMM and more broadly the concept of the 'Blue Pacific'. PASAI has engaged and will continue to engage with FICs in implementing the proposed actions and activities in their respective PFM Roadmaps and accounting and auditing reforms. This has involved collaborative engagement with Ministries of Finance and other related central government ministries across the region, Public Accounts Committees, and related regional institutions.

6. PASAI's Long Term Strategic Plan 2014-2024 is founded on the concept that the work of Pacific SAIs will contribute to improved management and use of public sector resources in the Pacific through timely audits of a recognised high standard, and will lead to increased transparency and accountability for citizens.

## **B. Discussion**

7. To realise this long-term objective, PASAI supports its members to advance capacity development of the SAIs to audit the use of public sector resources in a timely manner in line with international audit standards.

8. One of the key areas we would like to raise with the Forum Economic Ministers is auditor independence which we would like to discuss below:

### ***SAI independence is crucial to external scrutiny and audit function of any PFM***

9. International norms and standards recognise the importance of a country's SAI being independent. There is a growing consensus in the international community on the need to recognise the importance of, and strengthen, the independence of a country's SAI. It is increasingly accepted that an independent, effective and credible SAI is an essential component of a democratic system where accountability, transparency and integrity are indispensable.

10. The first criterion of SAI independence is for SAIs to have an ‘appropriate and effective constitutional framework’ which requires the independence of the SAI to be established in the legal framework of a country with sufficient protection. The legal framework for the SAI in many FICs is out of step with international standards.<sup>1</sup> For example, while many FICs’ Constitutions establish and recognise the status and independence of the country’s Auditor-General as a constitutional office holder, there is often no similar provision for a separate Auditor-General’s office, to ensure its independence from the country’s civil service, or to provide a satisfactory basis for its funding and accountability. PASAI recognises the importance of all FICs’ public audit laws reflecting both the modern reality of public sector auditing and being consistent with the international standards and the UN General Assembly resolutions. The legal framework should provide for the independence necessary for the SAI to act independently, without the risk of being perceived as influenced, or actually influenced, by the Executive or the audited entities.

11. The second criterion for SAI independence is for SAIs to have financial independence. The SAIs budget proposal to Parliament should not be unduly interfered with, or influenced by the executive government. The SAI needs the authority and resources to fulfil its role and mandate. By managing its own budget from proposal to allocation, without interference from the Ministry of Finance or a President’s office, the SAI is in a better position to use its funds in the most efficient manner, even in countries where resources are scarce, and budgets may be limited.

12. The third criterion for SAI independence is for SAIs to have organisational independence. SAI need to enjoy autonomy in the organisation and management of their offices. The SAI should have its functional and organisational autonomy, so it can recruit the best possible staff, and develop and apply procedures that are relevant and contributes to effective execution of the SAI’s mandate.

13. Finally, the perceived accountability of the organisation can only be upheld in a SAI where leadership is appointed independently from the executive power and is able to lead the organisation and its results without the risk of persecution. The last criterion is the independence of the SAI heads and its members. The appointment and removal of SAI heads should be through a process to ensure their independence which preferably is a process led by Parliament. Their appointments should be with long and fixed terms allowing them to carry out their mandate without fear of retaliation.

14. As of 2022, in the Pacific region (excluding the SAIs from the developed countries of New Zealand, Australia, New Caledonia and French Polynesia) only 45% of SAIs have the appropriate and effective constitutional framework, only 20% have financial independence from the executive government, only 45% have the power to recruit staff and operate independently of government and only 35% of SAIs are independent relative to the appointment and removal of the SAI head.

### ***Strengthen PFM, high quality audits and effective legislative scrutiny***

15. The timeliness of FSG audits in FICs have been impacted by the effects of Covid-19 on SAIs and related institutions within the Public Financial Management (PFM) sector. As at 30 April 2022

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<sup>1</sup> INTOSAI’s Lima and Mexico Declarations define the prerequisites for the independent and effective functioning of a SAI. In the Lima Declaration of Fundamental Auditing Precepts in 1977, INTOSAI set the goal to determine the principle of independence and the precepts of external government audit in methodological and professional terms. The Mexico Declaration on SAI Independence in 2007 defined these precepts in more concrete terms and identified eight pillars for the independence of SAIs. See link [http://www.intosai.org/fileadmin/downloads/downloads/4\\_documents/publications/eng\\_publications/E\\_Lima\\_Mexico\\_2013.pdf](http://www.intosai.org/fileadmin/downloads/downloads/4_documents/publications/eng_publications/E_Lima_Mexico_2013.pdf)

about 50% of SAIs were achieving the timely audit of their country's Financial Statements of Government (FSG) compared to an average of 70% in previous years.

16. The increase in the number of countries experiencing a FSG audit backlog is due to delays in the receipt of FSG accounts from the Ministries of Finance, due to the impact of Covid-19 on work priorities and staff availability. These circumstances are outside the control of SAIs. This is a temporary issue and should be phased out within one or two years as government financial activities return to normal.

17. PASAI has formed a partnership with PFTAC to help address the above issue by data sharing arrangements and conducting PASAI joint programmes and workshops with Ministry of Finance and SAI personnel.

18. Technical support has been prioritised for SAI Papua New Guinea (PNG), and Solomon Islands. Delays in both audits have been caused by the late and/or incomplete preparation of the FSGs by the Ministry/Department of Finance. We are supporting both SAIs to work through these issues. SAI PNG has completed the 2017 FSG audit and the related audit opinion was signed on 18 March 2022, and is due to be submitted to Parliament. Work on the 2018 FSG audits is progressing and fieldwork is underway, with the support of the PASAI consultant. The SAI is yet to receive the 2019 and 2020 FSG audit drafts from the Ministry of Finance. For SAI Solomon Islands, the PASAI consultant is providing support to review and finalise the draft Management Letter and draft Audit Opinion for the 2018 FSG audit, prior to submitting to the Auditor-General. Lockdowns in Honiara and remote working barriers have caused delays in this work.

19. Due to COVID-19 travel restrictions, the deadline for the 2020 FSG audits was extended to 30 April 2022 for SAIs Northern Mariana Islands and Palau. SAI Marshall Islands' FSG 2020 audit deadline was deferred to 30 December 2021, however this work is currently in progress. SAIs FSM National, FSM Chuuk State, FSM Kosrae State, FSM Pohnpei State and FSM Yap State met the extended deadline for their 2020 FSG audits. SAIs American Samoa, Guam, Kiribati and Tuvalu are up to date with their 2020 FSG audits. SAI Fiji issued an audit opinion for the 2018–19 FSG audit on 10 January 2022, and work on the 2019–20 FSG audit is underway. SAI Tonga issued an audit opinion for the 2020–21 FSG on 11 March 2022.

### **C. Next Steps**

20. PASAI has made significant progress in improving PFM in the region. Going forward, PASAI will continue to encourage and support its member SAIs to carry out their respective mandates to hold executive government accountable for public funds they manage and to provide assurance to Parliament and citizens that the Government has spent public money in line with the authority provided by Parliament. With its various programmes and knowledge bases, PASAI has expertise in advocating good governance, capacity building in auditing public finances subsequently improving PFM.

21. Under its Strategic Plan 2014-2024, PASAI will continue to:

- enhance good governance, accountability and transparency in the Pacific region through high quality public audit contributions to PFM systems;
- support and empower SAIs to increase their relevance and credibility in-country through

engaging with all relevant stakeholders and leading by example in promoting strong, effective and accountable public institutions;

- support SAIs to self-assess their progress using the SAI PMF diagnostic tool, and develop strategic and operational plans to address short-falls and gaps identified;
- foster the support of development partners to fund its programmes and operations;
- harness the good relationships with other partners in the region by conducting more regional programmes to build capacity and increase the capabilities of SAIs and other PFM institutions in the region; and
- promote and support SAIs' role in the implementation of programmes to achieve the SDGs in the Pacific region, including through the co-operative audit approach.

22. PASAI trusts that its attendance in future annual FEMM as a 'special technical observer' will be of value in better understanding and increasing awareness of the critical economic, social and developmental issues pertinent to FICs. Such understanding and awareness will assist in determining the scope of audits and provide added value in strengthening controls, improving safeguards and contributing to robust PFM systems, while promoting effective governance, accountability and transparency.

*PASAI Secretariat*

*27 May 2022*

### **Acknowledgement**

*PASAI acknowledges the support of its development partners, the New Zealand Ministry of Foreign Affairs and Trade (MFAT), the Australia Department of Foreign Affairs and Trade (DFAT), the European Union (EU) and the United Nations Development Programme (UNDP). PASAI also appreciates the partnership with its international and regional partners, the INTOSAI Development Initiative (IDI), Pacific Islands Forum Secretariat (PIFS) and Pacific Financial Technical Assistance Centre (PFTAC).*

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### **Progress achieved on Strategic Priority Areas**

#### ***Enhanced SAI independence (SP1)***

PASAI has now assisted 100% of its members to review their current state of independence against international best practice. Many are now working to advocate with their governments and legislatures for modernised audit legislation, to strengthen their ability to contribute to improved governance outcomes in their jurisdictions.

Recent progress includes:

- Expert legal advice and legal reform support has been provided by the Secretariat to SAIs<sup>2</sup> on areas of SAI independence that require strengthening;
- SAI Independence workshops have been conducted by the Secretariat for all member SAIs to understand the pillars of independence, local context including issues and environmental factors that prove challenging to the achievement of SAI independence, and possible next steps;
- Expert legal advice and legal reform support provided to 14 SAIs to identify areas for legislative reform to strengthen SAI independence, including the Cook Islands, FSM Chuuk, FSM Kosrae, FSM National, FSM Pohnpei, FSM Yap, Guam, Kiribati, the Marshall Islands, Nauru, the Northern Mariana Islands;
- We reviewed changes to SAI Solomon Islands audit legislation to ensure it covers the independence issues identified in the SAI-PMF assessment; and
- We are providing support to SAI Kiribati to review the Kiribati Audit Act to strengthen the SAI's financial and organisational independence, and support transparency related to the process of appointing and removing the Auditor-General.

#### ***Advocacy to strengthen governance (SP2)***

- We have recruited a consultant to progress the Accountability and Transparency study. The study will contribute to PASAI's advocacy work by highlighting accountability and transparency issues and risks in the Pacific region. The results of the study will be used as a resource to raise awareness of the chosen theme in the region: '*How effective are Pacific SAIs in supporting good governance, transparency, accountability and integrity in a fast changing and unpredictable world?*' The study is due for publication in December 2022.
- PASAI supports SAIs to strengthen their communications and stakeholder function by delivering a suite of programmes and support in this area. Seven SAIs<sup>3</sup> are receiving support to develop and implement their communications strategies - of these SAIs Cook Islands and Samoa are supported by SAI New Zealand under their current twinning arrangements. In

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<sup>3</sup> Seven SAIs are receiving support to develop and implement their communications strategies, including Cook Islands, Fiji, FSM National, FSM Pohnpei, FSM Yap, Samoa, Tuvalu.

collaboration with SAI New Zealand, six SAIs<sup>4</sup> received online or virtual training on effective report writing.

- We advocate to strengthen governance in the region through our communications function, including our quarterly newsletter and monthly blogs. We use our communications channels, including social media to share information, research, resources and latest developments related to governance, accountability, transparency and public integrity.
- Our blog posts cover topical and technical areas of interest that are relevant to our member SAIs. Our blogs explored a range of topics, including leadership, environmental auditing, responding to an emergency situation, gender equality, and human capability management. The blog posts have been well received by SAIs and shared by other international organisations on their communications channels increasing global digital coverage, visibility and uptake. We acknowledge SAI New Zealand's contribution to the August and September 2021 blog posts.

### ***Strengthen PFM, high quality audits and effective legislative scrutiny (SP3)***

- The PASAI Secretariat is monitoring the development of potential backlogs through its ongoing liaison with SAIs in order to provide support as per the needs of the SAIs. A delay in the preparation of the FSG by the Ministries of Finance has been the main cause of some audit backlogs. However, some of the recent FSG audit backlogs can be attributed to the effect of Covid-19 due to which Ministries of Finance prioritised addressing urgent issues on the pandemic, causing a delay in the preparation of the FSG. This resulted in some of the due dates for the audit being deferred for up to six months.
- The PASAI Secretariat is collaborating with the INTOSAI Development Initiative (IDI) to deliver a programme providing SAI-level support to improve financial audit quality in compliance with international standards. The program involves eight (8) SAIs namely: Fiji, Kiribati, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu, and is delivering online using the PASAI e-learning platform. Participating SAIs are conducting an FSG audit for one financial year through this programme. This involves refining a SAI's methodology in the FSG audit for the financial year selected as well as developing a Quality Assurance peer review process for the audit.
- We are participating in the IDIPESA-P programme which started in August 2021 and focuses on building SAI capability to carry out high quality audits related to one of the three audit streams and demonstrating professional behaviour in the SAI context. We provide coordination and coaching support to participants in the Pacific region for SAIs who do not have senior officers to act as coaches and mentors in the programme. A total of 84 participants from 12 SAIs<sup>5</sup> are participating in this programme.

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<sup>4</sup> Six SAIs participated in PASAI's virtual/online training on Report Writing including Fiji, FSM National, Kiribati, Marshall Islands and Solomon Islands.

<sup>5</sup> Cook Islands, Fiji, FSM Pohnpei, FSM Yap, Kiribati, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu.

- Work on our programme to strengthen SAI Quality Control (QC) and Quality Assurance (QA) systems continues from FY 2020–21. Nine SAIs<sup>6</sup> are part of this programme. These SAIs continue to work on establishing and operating QC/QA mechanisms.

#### *SAI capability and capacity enhanced (SP4)*

- The INTOSAI SAI Performance Management Framework (PMF) program is designed to provide end-to-end training and ongoing wrap-around support to SAIs on using the PMF assessment tool. Since the commencement of the SAI PMF pilot program in 2016, 19 SAIs<sup>7</sup> have completed their reports, with the most recent report completed by SAI American Samoa in February 2022. The PASAI Secretariat is working to finalise the report for SAI Palau.

To improve SAIs’ understanding of the SAI PMF tool and inform decisions on how to improve their performance, we held a virtual workshop for North Pacific SAIs. Attended by participants from seven SAIs<sup>8</sup>, the workshop included a discussion of SAI PMF dimensions, criteria and results, we held a ‘live’ panel discussion followed by a Q&A session between the panel members and participants.

In addition to the above activities, we have recruited a consultant to compile and analyse the findings of the SAI PMF assessments of the twenty participating SAIs in the Pacific Island region. The consultant will create summary profiles for each SAI and develop recommendations on key focus areas for future support and capability development to inform our programme and strategy development.

- The PASAI Secretariat’s flagship leadership programme is being attended by 32 SAI Heads and established second-tier leaders identified as likely future SAI Heads. The goal of this programme is to increase executive leadership skills in the Pacific region and to enable effective leadership of SAIs to have greater impact and deliver higher quality outcomes. Online workshops and group coaching sessions are used to build SAI Leadership capability. Workshops are used to discuss emerging areas of strategic importance, and develop the skills required to effectively respond to the challenges and complexity of a changing environment.
- PASAI is providing TA support to SAIs Kiribati, Northern Mariana Islands and PNG to develop their Strategic Plans. SAI PNG has completed their Strategic Plan and work for the remaining two SAIs is in progress.
- The PASAI Secretariat’s online programmes covered a range of topical areas to build the audit capability of SAI staff. In collaboration with the Swedish National Audit Office (SNAO), PASAI is delivering a virtual training programme on Human Resource (HR) Management for SAIs in the Pacific region. The programme consists of online workshops and coaching targeted to meet the specific requirements of Pacific SAIs to strengthen their HR practices to

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<sup>6</sup> Guam, FSM National, FSM Pohnpei, FSM Yap, Palau, Papua New Guinea, Solomon Islands, Tonga and Vanuatu.

<sup>7</sup> American Samoa, Cook Islands, Fiji, FSM Chuuk, FSM Kosrae, FSM National, FSM Yap, Guam, Kiribati, Marshall Islands, Nauru, Northern Mariana Islands, PNG, Pohnpei, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu.

<sup>8</sup> FSM Chuuk, FSM National, FSM Kosrae, FSM Pohnpei, FSM Yap, Guam and Palau.

enable the effective operations of a public audit office. Expected outputs for participating SAIs included the development of an HR Strategy and Operational Plan. Staff from SAIs Fiji, Kiribati, FSM National, FSM Pohnpei, FSM Yap and PNG participated in the first iteration of this programme. SAIs Marshall Islands, Tuvalu and Yap are participating in the second round of the programme.

- In collaboration with the INTOSAI Working Group on Environmental Auditing (WGEA), PASAI delivered a two-day virtual workshop on Environmental Auditing. The workshop provided participants with a high-level introduction to key concepts of environmental auditing and the Sustainable Development Goals (SDGs). Aimed at equipping auditors with the information to integrate the SDGs into their organisational planning and auditing, the sessions included information on how SAIs can approach and contribute to the follow-up and review process of SDGs by examining relevant audit cases and examples of cooperative audits from around the world.

We contacted SAIs FSM Kosrae, FSM National, FSM Pohnpei, FSM Yap, Samoa and Vanuatu to confirm their plans and support required to conduct audits on environmental issues. We are supporting SAI Samoa to conduct an audit on conservation and use of marine resources by researching potential audit topics and developing potential audit objectives.

- PASAI is participating in IDI's Transparency, Accountability and Inclusiveness (TAI) Audit Programme. This is an IDI-facilitated global cooperative compliance audit on the use of emergency funding in response to health and socio-economic crises caused by COVID-19. As participants, SAIs Solomon Islands and Tuvalu are auditing a selected topic based on their country context and priorities. SAI Solomon Islands is auditing 'emergency public procurement' and SAI Tuvalu is auditing 'socio-economic packages'. We are providing mentoring support to the audit teams with a staff member from SAI Tonga to ensure that they conduct the audits in accordance with ISSAIs.

### ***Strong PASAI governance structure (SP5)***

- PASAI's Governing Board meets quarterly. Under the guidance of the Congress, the Governing Board sets PASAI's direction and oversees the activities of its Secretariat. It is responsible for formulating strategies and policies for the organisation. The Board also approves the PASAI Operational plan and budget and the rules for the conduct of PASAI activities.
- PASAI Congresses are held annually and are attended by all PASAI members. Congress is the supreme authority and provides guidance to the Governing Board on achieving PASAI's objective. Congress 2020 was deferred to 2021 due to the Covid-19 pandemic. SAI New Zealand hosted a virtual Congress in June 2021. Preparations are underway for the next in-person Congress to be hosted in Palau in 2023.

- We have developed a performance reporting framework including performance indicators to measure our progress against our Strategic Plan 2014-24, to monitor the outcomes and effectiveness of our programme of work, and to meet the requirements of the Statement of Service Performance to comply with the PBE FRS 48 accounting standard. Monitoring, Evaluation and Reporting (MER) has been embedded into the different stages of the programme life cycle. We have strengthened our business intelligence and data management capability by developing a database that is linked to an interactive reporting dashboard, and by designing effective data flow and data capture mechanisms.
- In response to the COVID-19 pandemic and related travel restrictions, the PASAI Secretariat successfully transitioned the delivery of its workshops, technical support and coaching sessions from a face-to-face to a virtual or online format. With the opening of international borders, we are transitioning towards a hybrid or blended learning approach as a more effective and sustainable delivery model.

The hybrid approach involves a combination of virtual ‘live’ webinar style workshops, face-to-face training and online support or coaching. We are converting existing audio and video recordings of past webinars and additional supplementary material to asynchronous or self-paced e-learning courses, which will be available on our learning platform – enabling SAI staff with the flexibility to learn at their preferred pace and time, and ensuring effective use of development partner funding. Our e-learning courses contain practical exercises and self-assessments to facilitate applied learning. Course material will be updated and new modules added as required.

We continue to make improvements to our learning platform to ensure a positive user experience. High levels of satisfaction with the platform have been reported, with over 80% of users finding our learning platform easy to use and navigate.

- We evaluate the effectiveness of our training workshops. Our evaluations indicate high levels of satisfaction with training delivered across all programmes. An average of over 80% of participants across all training courses delivered reported that the course was relevant to their needs and would help them improve their current or future job performance. High levels of satisfaction were reported for subject matter expertise. Participants also reported that they felt included and engaged in the online workshops.
- A Procurement Consultant has been recruited to support the PASAI Secretariat to enhance its procurement processes by reviewing and improving procurement systems, procedures, and templates. The new manual and processes are being integrated into business-as-usual operations. This contract was funded by EU/UNDP.