



*"Pacific Auditors Working
Together"*

Pacific Association of Supreme Audit Institutions

**PACIFIC REGIONAL AUDIT INITIATIVE
Summary Design**

Information Document
For the 2008 Forum Economic Ministers Meeting
Port Vila, Vanuatu, October 2008

ABBREVIATIONS

ADB	– Asian Development Bank
ANAO	– Australian National Audit Office
APIPA	– Association of Pacific Islands Public Auditors
AusAID	– Australian Agency for International Development
CNMI	– Commonwealth of the Northern Mariana Islands
FSM	– Federated States of Micronesia
GAGAS	– Generally Accepted Government Auditing Standards
GAO	– Government Accountability Office
GASB	– Government Accounting Standards Board
HRM	– human resource management
IDI	– INTOSAI Development Initiative
IFRS	– international financial reporting standards
INTOSAI	– International Organization of Supreme Audit Institutions
IPSAS	– international public sector accounting standards
ISA	– International Standard on Auditing
NZAID	– New Zealand Agency for International Development
OJT	– on-the-job training
PAC	– Public Accounts Committee
PASAI	– Pacific Association of Supreme Audit Institutions
PIF	– Pacific Islands Forum
PNG	– Papua New Guinea
PRAI	– Pacific Regional Audit Initiative
RISC	– Regional Institutional Strengthening Committee
RMI	– Republic of the Marshall Islands
SAI	– supreme audit institution
UNDP	– United Nations Development Programme

GLOSSARY

Financial Audit	– The audit of the financial statements, accounts, and other information that an entity is required to have audited.
Performance Audit	– An audit of the economy, efficiency and effectiveness with which an audited entity uses its resources in carrying out its responsibilities.
Supreme Audit Institution	– The public body of a country which—however designated, constituted or organized—exercises by virtue of law the highest public auditing function of that country.

NOTE

In this report, "\$" refers to United States dollars, unless otherwise stated.

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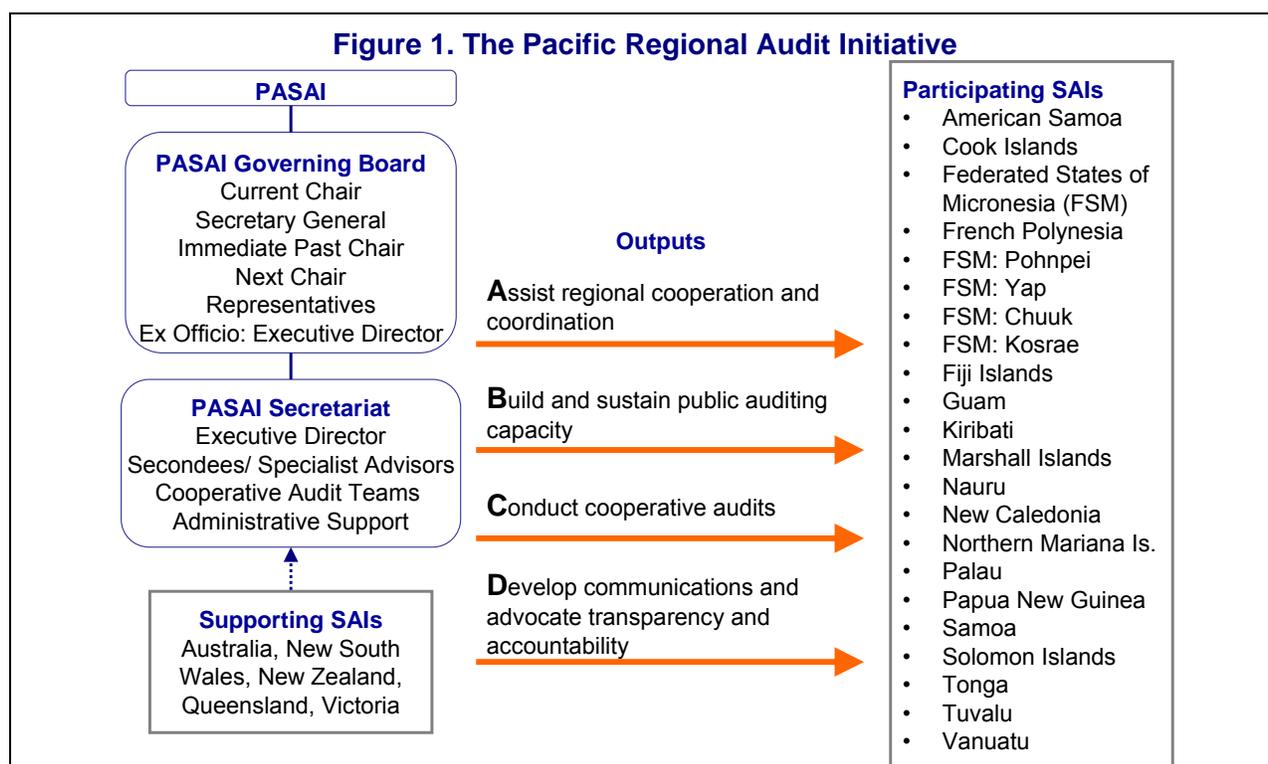
EXECUTIVE SUMMARY

Public auditing in the Pacific region overall has advanced substantially in the past decade—numerous audit backlogs have been cleared and audit quality has improved significantly. The performance of almost all Pacific Supreme Audit Institutions (SAIs) has improved, with particularly impressive progress made by United States-affiliated territories. These gains have been made in the face of intimidating challenges.

Sustaining and extending such gains is difficult in smaller country settings—auditing in tight-knit social and cultural environments involves significant political, professional and personal pressures. Moreover, Pacific SAIs are at differing development stages and, for some, much more remains to be done to reach uniformly-high standards. But Pacific SAIs face similar challenges in the areas of human resource capacity and the efficacy of their audit methodologies and systems. Common challenges include small numbers of trained and qualified personnel, the disproportionate effects of staff turnover or absences, and difficulties in attracting and retaining staff. These issues mean public accounts are often not audited to high standards in a timely manner and legislatures do not always act on audit findings and recommendations.

The Pacific Regional Audit Initiative (PRAI) is a *Pacific Plan* initiative. The initial PRAI design was developed through an extensive consultation process, over a two-year period under the guidance of the 25-member Pacific Association of Supreme Audit Institutions (PASAI), with support from the Asian Development Bank and the Australian Agency for International Development (AusAID) under the Pacific Island Forum (PIF) Secretariat's oversight. In April 2008, the PASAI Congress in Rarotonga unanimously confirmed the PRAI design and the August 2008 meeting of PIF Leaders endorsed the initiative.

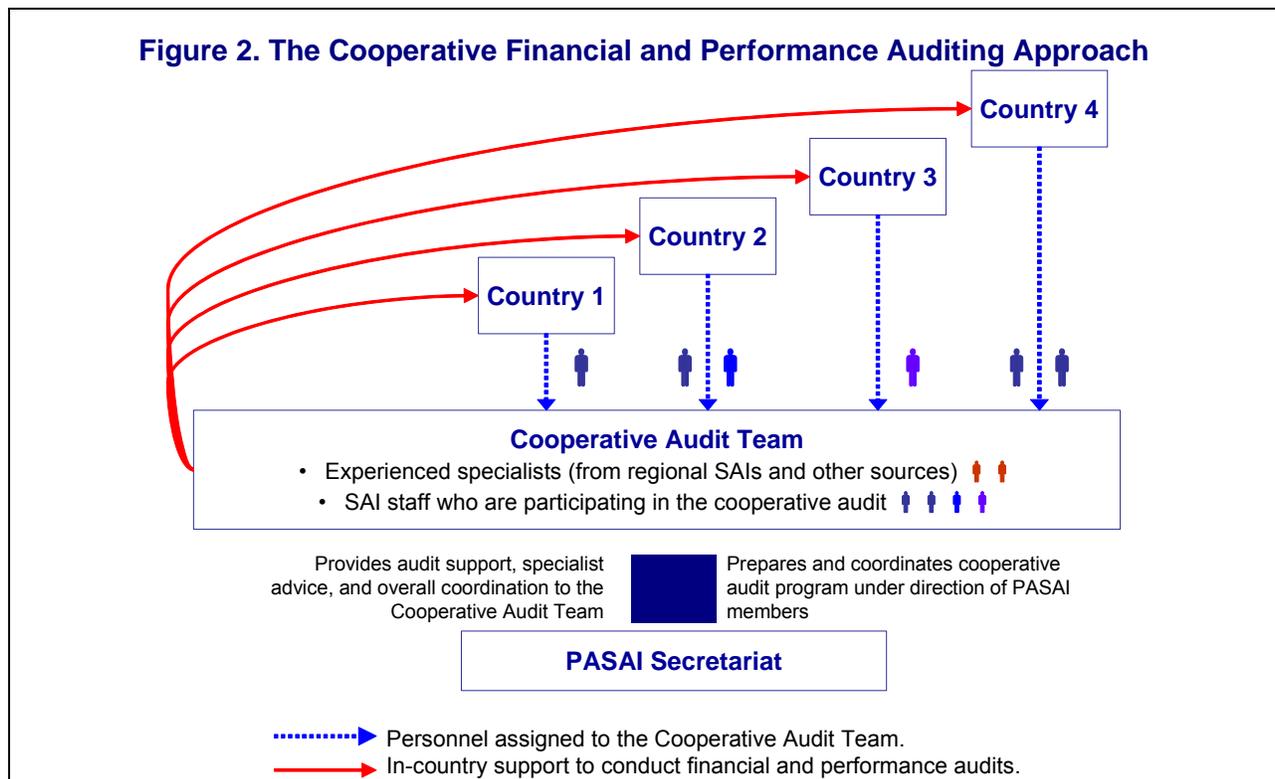
The PRAI's overarching objective is to raise Pacific public auditing to uniformly-high standards, which in turn is expected to improve transparency and accountability in managing and using public resources. **Figure 1** presents the PRAI structure, and identifies participants and outputs.



SAI = Supreme Audit Institution, PASAI = Pacific Association of Supreme Audit Institutions

The PRAI will enable the public accounts of participating countries to be audited, in a timely manner, to uniformly-high standards. It will also enhance the impact of audit findings and assist with performance audits, including environmental audits. Furthermore, it is intended that by end-2012, 80% of participating SAIs will be at level three or higher on the PASAI Capability Model. The PRAI will deliver the following **outputs** during the initial program period (2008–2012):

- (i) **assist regional cooperation and coordination** by (a) establishing the enhanced PASAI secretariat, (b) supporting regional coordination, (c) preparing strategies for common methodologies, (d) preparing programs for cooperative audits and peer reviews, and (e) establishing an enhanced PASAI website
- (ii) **build and sustain public auditing capacity** by (a) preparing guidance and training materials, (b) developing generic competencies and delivering structured training programs, (c) supporting the attainment of professional qualifications, (d) supporting peer reviews and institutional strengthening designs, (e) supporting improved contract management, (f) providing management and operational support, (g) providing technical support, and (h) facilitating secondments and attachments
- (iii) **conduct cooperative financial and performance audits** by (a) conducting cooperative financial audits, (b) conducting cooperative performance audits, including environmental audits, and (c) supporting a subregional auditing approach for Kiribati, Nauru and Tuvalu, with the possible later inclusion of other countries who wish to join (**Figure 2** illustrates the cooperative auditing approach, which involves establishing regional audit teams for each cooperative audit); and
- (iv) **develop communication and advocate transparency and accountability** by (a) educating stakeholders on the value of public auditing, (b) advocating enhanced transparency and accountability, and (c) providing editorial and communications advice.



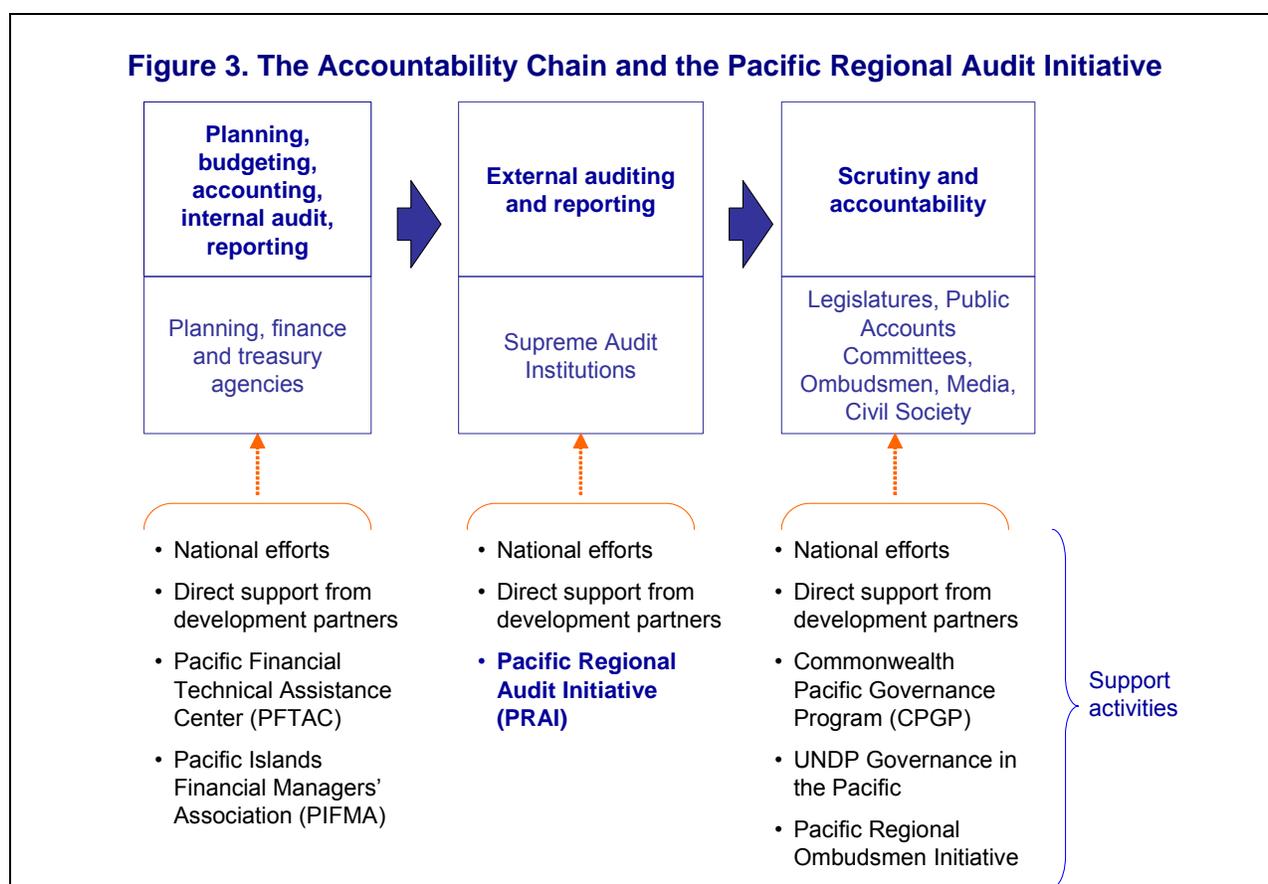
SAI = Supreme Audit Institution, PASAI = Pacific Association of Supreme Audit Institutions

The April 2008 PASAI Congress reviewed, revised and confirmed the **PRAI guiding principles**: (i) SAI autonomy and independence must be preserved; (ii) a regional approach is appropriate for addressing common issues, but PASAI members will continue to have individual needs; (iii) the PRAI should apply to all PASAI members, not just to Pacific Island Forum members; and (iv) PASAI supports the continued involvement of private sector auditors, where appropriate (private sector resources should be used appropriately, but under the auspices of SAI Heads).

Figure 3 illustrates the PRAI's focus in the accountability chain. The PRAI is linked inextricably with other complementary activities, including national efforts to strengthen financial accounting and reporting, and efforts to improve scrutiny and accountability, such as the AusAID-supported Pacific Regional Ombudsmen Initiative or the UNDP Governance in the Pacific project.

The **initial PRAI emphasis**, for 2008–2009, will be on (i) establishing the strengthened PASAI Secretariat, which will be based in Suva, Fiji Islands; (ii) establishing the subregional audit support program for Kiribati, Nauru and Tuvalu; (iii) designing the long-term structured capacity-development program; and (iv) initiating the first cooperative performance audit, which will have an environmental focus. PASAI has established a Transitional Working Group to guide the initial PRAI implementation.

The **PRAI cost** is estimated at around \$11.3 million over the initial 2008-2012 period, after which a comprehensive evaluation will be conducted before moving forward.



UNDP = United Nations Development Programme

I. INTRODUCTION

1. Poor governance deters investment, wastes resources and distorts their allocation, weakens the credibility of authorities, and increases insecurity. In the Pacific region the public sector represents over 32% of total gross domestic product—annual public sector expenditures exceed \$8.8 billion. Inadequate oversight of these resources, and the systems that are used to account for them, undermines the stability of governments and the well-being of Pacific peoples.

2. Building the capacity of Pacific Supreme Audit Institutions (SAIs) is fundamental to improving regional governance. However to be effective, an SAI Head must be independent of the legislature and the executive, must audit all entities within the audit portfolio, must issue timely audit opinions and reports, must manage the SAI effectively with qualified staff, and must minimize the cost and maximize the benefits of the SAI's operations.

3. In October 2005, Pacific Island Forum (PIF) leaders, recognizing the substantial benefits accruing from regional cooperation,¹ endorsed for further study and analysis Pacific Plan initiative 12.1, which includes the Pacific Regional Audit Initiative (PRAI).

4. The 25-member Pacific Association of Supreme Audit Institutions (PASAI) has guided the PRAI design process with support from the Asian Development Bank (ADB) and the Australian Agency for International Development (AusAID) under PIF Secretariat oversight.^{2, 3}

5. The PRAI's overarching objective is to **raise Pacific public auditing to uniformly high standards**. This in turn will contribute to good governance through improved transparency, accountability, and efficiency in managing and using public resources in the Pacific.

6. Key PRAI consideration points:

- IXth PASAI Congress, Saipan, Northern Mariana Islands 22–26 May 2006
- PASAI Regional Institutional Strengthening Committee (RISC) Meeting, Suva, Fiji Islands 30 April – 2 May 2007
- Xth PASAI Congress, Port Moresby, Papua New Guinea 10–14 September 2007
- PASAI RISC meeting, Auckland, New Zealand 18-20 February 2008
- XIth PASAI Congress, Rarotonga, Cook Islands 14-18 April 2008
- Pacific Island Forum Leaders Meeting, Niue August 2008
- PASAI Transitional Working Group (TWG) Meeting, Auckland 8–10 September 2008
- Forum Economic Ministers Meeting (FEMM), Port Vila, Vanuatu 29 October 2008
- Subregional Audit Support (SAS) Meeting, Suva, Fiji Islands November 2008
- TWG/SAS Meeting, Wellington, New Zealand March 2009
- XIIth PASAI Congress, Koror, Palau June/July 2009

7. The PRAI design and monitoring framework is in **Appendix 1**. The design process involved extensive stakeholder briefings and consultations (see **Appendix 2**).

¹ ADB and Commonwealth Secretariat. 2005. *Toward a New Pacific Regionalism*. Manila: ADB. This report is underpinned by: White, Michael. 2005. A Pacific Regional Panel of Auditors: Cost-Benefit Analysis. *Working paper for Toward a New Pacific Regionalism*. Manila: ADB.

² ADB TA 6360-REG *Strengthening Governance and Accountability in Pacific Island Countries* for \$1,579,000 approved on 7 December 2006, cofinanced by the Government of Australia and the Japan Special Fund.

³ The initial report was endorsed by the XIth PASAI Congress on 14–18 April 2008, Rarotonga, Cook Islands. The report was prepared by Stantons International under ADB TA 6360-REG. The design is updated on an ongoing basis to reflect development and decisions.

II. REGIONALISM AND THE PACIFIC REGIONAL AUDIT INITIATIVE

A. Introduction

8. Pacific Island Forum Leaders recognize that the serious challenges facing their countries can be met through sharing scarce resources and aligning policies to strengthen national capacities to support their people. After a broad-based national and regional consultation process, in October 2005 Forum Leaders approved *The Pacific Plan for Strengthening Regional Cooperation and Integration*.⁴

9. At the same time Forum Leaders endorsed for further study and analysis, Pacific Plan initiative 12.1, which includes the PRAI. This endorsement was based on a report commissioned by the PIF Secretariat, *Toward a New Pacific Regionalism*. The report reviewed public auditing arrangements and found that substantial benefits could accrue from regional cooperation.⁵ This section reviews the Pacific Plan's development and its underpinnings, the relevance of regionalism to Pacific public auditing, and the PRAI development process.

B. Conceptual Basis of Pacific Regionalism

10. *Toward a New Pacific Regionalism* presented a conceptual framework for considering Pacific regionalism. It identified three fundamental principles.

11. First, as business and government requirements become more complex, the human capacity challenge which most PIF member states face—such as attracting, developing and retaining skilled personnel—becomes increasingly important. Consequently, PIF member governments are experiencing difficulties in meeting their two core sovereign functions: (i) formulating and implementing effective and appropriate national policies; and (ii) providing essential services including health, education and policing.

12. Second, the establishment of Pacific regional institutions must be undertaken carefully. Pooling resources makes intuitive sense—especially for small states—because collective institutions can reap economies of scale.⁶ But the Pacific also faces diseconomies of isolation in bringing together geographically-dispersed countries. Because travel links are often infrequent and costly, Pacific regional undertakings are expensive and regional institutions must be established only if benefits clearly exceed costs. Moreover, if the private sector or national governments can provide services effectively, there is little basis for establishing regional institutions. Furthermore, given high isolation costs, a subregional arrangement may be better than a whole-of-region approach (especially at the outset when fixed costs are high).

13. Third, there are three types of regionalism each with its own cost-benefit balance:

- (i) **Regional cooperation** is currently the most common type of Pacific regionalism. It involves mechanisms for country discussion, harmonization and agreements. Implementation is left to the national level. Examples include regional meetings

⁴ PIF. 2005 October. *The Pacific Plan for Strengthening Regional Cooperation and Integration*. www.pacificplan.org [accessed on 28 January 2008].

⁵ Preliminary proposals regarding regionalism and audit services focused on a Regional Panel of Auditors (ADB and Commonwealth Secretariat. 2005). However, the July 2006 Forum Economic Ministers Meeting (FEMM) broadened this view when Ministers “agreed to consider the development of regional support to audit services to improve integrity and financial scrutiny”.

⁶ Economies of scale are benefits associated with aggregating resources and eliminating duplication.

and strategic plan preparation. Regional cooperation benefits include consensus building, information sharing and harmonizing national standards and processes. Costs include travel expenses and the uncertainty that initiatives may not be implemented at the national level.

- (ii) **Regional service provision** is where service provision is merged at the regional level; for example, the University of the South Pacific. This involves establishing regional-level infrastructure and staff. Benefits include higher quality services at less total cost (due to fewer facilities, greater efficiency, and a higher degree of shared knowledge). The primary cost is travel and freight related.
- (iii) **Regional market integration** involves lowering the barriers for moving goods, services and people between countries. This type of regionalism is more associated with Pacific Plan economic growth initiatives rather than governance-related initiatives.

C. The Pacific Plan

14. Forum Leaders have increasingly voiced concerns that institutional weaknesses were undermining transparency, accountability, equity and efficiency in the management and use of resources. The Pacific Plan was developed in response to these and other concerns. Its goal is to enhance and stimulate economic growth, sustainable development, good governance and security for Pacific countries through regionalism.

15. **Table 2.1** identifies the Pacific Plan's four strategic objectives (pillars) and progress under each pillar. As a living document, the Pacific Plan points to a number of promising initiatives to strengthen Pacific regionalism. Given the Plan's wide breadth and scope of initiatives, it is unsurprising that more progress has been achieved in some of the four pillars than in others:

16. The pillars are based on the premise of countries working together to address common challenges and constraints, which include smallness, distance from major markets, geographical dispersion and limited human and technical capacities. As *Toward a New Pacific Regionalism* states:

“The effective sovereignty of [Forum Island Countries]—their ability to effectively carry out chosen policies, is being eroded. The Pacific Plan can reverse this trend and reinforce the effective sovereignty of [Forum Island Country] governments by increasing [Forum Island Countries] access to high quality services, including policy and technical services, through delegating specialized functions and by broadening economic opportunities” (p. xiv).

17. *Toward a New Pacific Regionalism* identified and analyzed possible initiatives under the four Pacific Plan pillars. It concluded that—given the capacity constraint faced by many PIF member countries in discharging their sovereign functions—improving governance through deeper regional service provision would yield economic, social and political benefits exceeding all others to be found within the Plan.

18. The PIF Secretariat is, in the first instance, responsible for Pacific Plan implementation. Political oversight and guidance to the Secretariat are provided during the year by the Pacific Plan Action Committee (PPAC), chaired by the Forum Chair and comprising PIF country representatives. The Forum Chair (as PPAC Chair), reports quarterly to Forum Leaders on the

Plan's implementation. Overall implementation of Pacific Plan initiatives is reviewed annually by Forum Leaders.

Table 2.1: Pacific Plan Progress

Strategic Objective (Pillar)	Progress
Economic Growth: Increased sustainable trade (including services) and investment; improved efficiency and effectiveness of infrastructure development and associated service delivery; and increased private sector participation in, and contribution to, development.	Initiatives to strengthen transport within the region as well as the information and communications infrastructure are in the early stages of discussion and implementation. The initiatives related to market opening, particularly in the area of labor mobility, remain under consideration for further analysis.
Sustainable Development: reduced poverty; improved natural resource and environmental management; improved health; improved education and training; improved gender equality; enhanced involvement of youth; increased levels of participation and achievement in sports; and recognized and protected cultural values, identities and traditional knowledge.	Progress continues to be made in both the health and education sectors with an intensifying recognition of the need to address, in particular, non-communicable diseases and the importance of progressing the regional qualifications register. Important progress has also been made in other initiatives in the areas of energy security, disaster risk management and environmental management and conservation.
Good Governance: Improved transparency, accountability, equity and efficiency in the management and use of resources in the Pacific.	Initiatives focused on auditing, Ombudsman offices and strengthening leadership continue to demonstrate solid progress considering the sensitivities around which they deal.
Security: Improved political and social conditions for stability and safety.	Key achievements under this pillar have included strengthening of maritime safety and security, significant progress in developing a natural disaster Regional Early Warning Strategy through a process of comprehensive multi-party consultation and progress in addressing the intensifying problems of unchecked urbanization across the Pacific.

Source: PIFS. 2007 December. Pacific Plan Annual Progress Report. Suva: PIFS. Available at www.forumsec.org

D. The Pacific Regional Audit Initiative Design Process

19. Regionalism is not new to Pacific public auditors—they are represented by PASAI⁷, which is a regional working group of the International Organization of Supreme Audit Institutions (INTOSAI).⁸ **Appendix 3** provides details on PASAI membership. In December 2005, the PIF Secretariat agreed that ADB would work under PIF coordination to develop the PRAI. AusAID

⁷ Founded in 1987, PASAI's primary objectives include promoting understanding and cooperation among member institutions, providing facilities for training and continuing education for government auditors—with a view to improving the quality of their performance, serving as a center of information and as a regional link with organizations and institutions in other parts of the world, promoting closer collaboration and brotherhood among auditors in the government service among regional groups, assisting each other by providing technical assistance, and exchanging of expertise that will benefit members.

⁸ INTOSAI, established in 1953, is the professional organization of SAIs in countries that belong to the United Nations or its specialized agencies.

had also indicated willingness to support the PRAI. ADB consulted with PASAI and its member SAIs to develop awareness of and seek support for the PRAI.⁹

20. The 2006 PASAI Congress considered and, after much discussion, agreed unanimously to support the PRAI design. SAI Heads¹⁰ were enthusiastic about the possibilities for PRAI, but wanted to ensure the initiative's success and sustainability. To that end, PASAI intended starting with a transitional phase during which in-depth institutional and issue diagnoses would be conducted. In particular, rather than make an immediate decision about the (possibly new) location and structure of a strengthened PASAI Secretariat, they wanted to develop a comprehensive proposal based on extensive analysis, which they would decide upon at a future PASAI Congress.

21. The PRAI's overarching objective is to raise Pacific public auditing to uniformly high standards. The PASAI Regional Institutional Strengthening Committee (RISC) oversaw the PRAI design process, which was undertaken in three phases:

- Phase 1 (Benchmarks) involved identifying those features associated with a highly-performing SAI (e.g., an environment that supports auditor independence). This work was undertaken by Ms. Aolele Su'a Aloese (an individual consultant)
- Phase 2 (Diagnosis) was undertaken by Stantons International Pty Ltd and involved preparing diagnostic studies for 19 SAIs.¹¹ The methodology included the Good Practice Questionnaire developed in Phase 1, worksheets developed from the Lima Declaration within INTOSAI standards and other worksheets developed to obtain comparable information from regional stakeholders. The methodology was further developed to include benchmarks based on INTOSAI guidelines, a capability model reflecting the operating environment of Pacific SAIs and further assessment tools. This methodology was designed to identify the current capability of SAIs against a measurable INTOSAI standard of capability. A region-wide diagnosis of issues was also undertaken and included identifying factors that facilitate successful SAI transformations. The diagnostic work also examined design options for establishing a subregional approach to public auditing for Kiribati, Nauru and Tuvalu; and
- Phase 3 (Design/Road Map) involved developing the initial PRAI design and roadmap, including consideration of PASAI institutional arrangements. The design and roadmap were developed during an extensive consultation process and were presented in April 2008 to the PASAI Congress in Rarotonga, which unanimously confirmed the PRAI design. The August 2008 meeting of PIF Leaders subsequently endorsed the initiative.

22. PASAI has established a Transitional Working Group to guide the initial PRAI implementation, which is being supported by ADB, AusAID and IDI.

⁹ Initial consultations included discussions with PASAI members, the PIF Secretariat and development partners at conferences and workshops in Suva, Fiji (26 February to 3 March 2006), Port Moresby (January-April, 2006), Nadi, Fiji (6-7 April 2006), and Saipan, Commonwealth of the Northern Mariana Islands (18-26 May 2006).

¹⁰ SAI Heads refers to Public Auditors, Auditors-General and Directors of Audit.

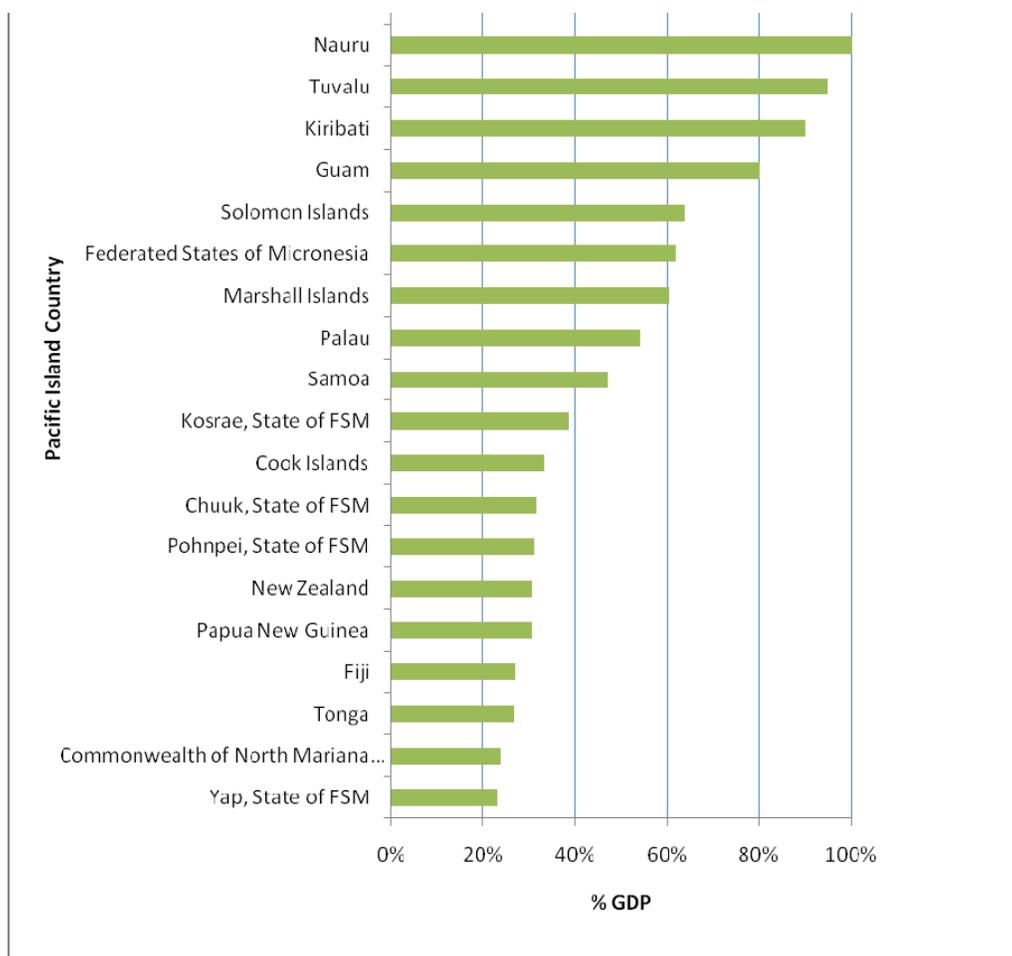
¹¹ The following PASAI members were consulted: American Samoa, Cook Islands, Federated States of Micronesia (FSM), FSM – State of Pohnpei, FSM – State of Yap, Fiji Islands, Guam, Kiribati, Marshall Islands, Nauru, Commonwealth of the Northern Mariana Islands (CNMI), Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga and Tuvalu. The FSM States of Kosrae and Chuuk were consulted, even though they are yet to be members of PASAI. Diagnostic studies were not conducted for the following PASAI members: Australia, French Polynesia, New Caledonia, New South Wales, New Zealand, Queensland, Vanuatu, and Victoria.

III. PACIFIC PUBLIC AUDITING: STATUS AND ISSUES

A. Introduction

23. This section presents the current status of Pacific public auditing and identifies cross-cutting regional issues, which are relevant to the PRAI design. **Figure 3.1** illustrates the generally-large size of the public sector in each of the Pacific Island jurisdictions in which diagnostic work was undertaken during the PRAI design stage.¹²

Figure 3.1: Public Sector Size in Selected Pacific Island Jurisdictions



GDP = gross domestic product, FSM = Federated States of Micronesia.

Sources: IMF Article IV, Table 1 information for IMF Member countries plus national statistics from non-IMF member countries.

B. Environment

1. SAI Models

24. **Table 3.1** identifies the features of the three models under which Pacific SAIs operate – the judicial model, the legislative-parliamentary model and the legislative-congressional model.

¹² Vanuatu was excluded from the consultation process on the Auditor-General's advice, due to an ongoing review of the Vanuatu SAI's status.

Table 3.1: Regional SAI Models

Model	Key Features
Judicial (French system) <ul style="list-style-type: none"> French Polynesia and New Caledonia. 	<p>The SAI is an integral part of the judicial system, operating independently of the executive and legislative branches. The SAI is known usually as the Court of Accounts (or Audit). Its Members are judges and are typically appointed for an unlimited term, until retirement age, with one Member selected to act as its President. The work focus is on financial and performance audit, with specific attention paid to the regularity of transactions. Staff have legal or generalist backgrounds. There is often no parliamentary committee to which the Court reports. The Court itself holds officials to account, and is able to impose penalties on audited officials.</p>
Legislative-Congressional (United States system) <ul style="list-style-type: none"> American Samoa, Commonwealth of the Northern Mariana Islands, Federated States of Micronesia and each of its states (Chuuk, Kosrae, Pohnpei and Yap), Guam, Marshall Islands, and Palau. 	<p>The SAI's work is linked closely to the legislative obligations of government, with reports presented by the SAI to the Speaker, Governor and United States of America relevant agency. Typically, the SAI is the designated "office of the public auditor" and has a single head (Public Auditor) who is appointed by the governor with the legislature's support. The focus of the Public Auditor is on performance audits and forensic work with most financial audits being contracted to the private sector. SAI staff have generalist and performance audit backgrounds – auditors and investigators, with a few being professional accountants. There is often no committee to the legislature to which the SAI reports.</p>
Legislative-Parliamentary (Commonwealth system) <ul style="list-style-type: none"> Australia, Cook Islands, Fiji, Kiribati, Nauru, New Zealand, Papua New Guinea, Samoa, Solomon Islands, Tonga and Tuvalu. 	<p>The SAI's work is linked closely to the system of parliamentary accountability, with reports presented to the Speaker. A parliamentary committee may review the SAI's reports. Typically, the SAI is designated the 'national audit office' and has a single head (Auditor-General) who may be an officer of the legislature. The work focus is on financial audit and performance audit. Staff have professional financial backgrounds with most being accountants and auditors.</p>

SAI = supreme audit institution, PASAI = Pacific Association of Supreme Audit Institutions.

Source: Adapted from INTOSAI. 2007. *Building Capacity in Supreme Audit Institutions: A Guide*.

2. Financial Reporting Standards

25. The region uses both accounting bases—cash and accrual, with modifications thereof—to prepare financial statements. Public sector financial management legislation and, in some cases, corporation law or the individual enabling legislation of government corporations, dictates the financial reporting standards to be applied by each public sector entity. Currently in use in the region are the following:

- International Public Sector Accounting Standards (IPSAS) (both cash and accrual)
- Standards issued or adopted by national professional accounting bodies (e.g., Fiji Institute of Accountants)
- U.S. Governmental Accounting Standards, which are applicable to state and local government accounting and financial reporting, including insular area governments; and
- International Financial Reporting Standards (IFRS).

26. There is a strong trend internationally for governments to adopt accrual-based financial reporting. **Table 3.2** indicates that this trend is evident in the Pacific. Some Pacific island

countries are sensibly focusing on implementing sound cash accounting and reporting arrangements, before tackling the more challenging accrual environment.

Table 3.2: Public Sector Accounting Bases

Jurisdiction	Controlling Entity	Controlled Entities	Government Business Enterprises
United States Affiliates (GASB 34)			
1. American Samoa	Cash	Cash	Accrual
2. Northern Mariana Islands	Accrual	Cash	Accrual
3. Federated States of Micronesia (FSM)	Accrual	Cash	Accrual
4. FSM – Chuuk	Accrual	Cash	Accrual
5. FSM – Kosrae	Accrual	Cash	Accrual
6. FSM – Pohnpei	Accrual	Cash	Accrual
7. FSM – Yap	Accrual	Cash	Accrual
8. Guam	Accrual	Cash	Accrual
9. Marshall Islands	Accrual	Cash	Accrual
10. Palau	Accrual	Cash	Accrual
Commonwealth			
11. Cook Islands	Accrual	Accrual	Accrual
12. Fiji	Modified Cash	Cash	Accrual
13. Kiribati	Cash	Cash	Accrual
14. Nauru	Cash	Cash	Accrual
15. Papua New Guinea	Cash	Cash	Accrual
16. Samoa	Modified Cash	Cash	Modified Accrual
17. Solomon Islands	Cash	Cash	Accrual
18. Tonga	Cash	Cash	Accrual
19. Tuvalu	Cash	Cash	Accrual

FSM = Federated States of Micronesia, GASB = Government Accounting Standards Board.

Source: PRAI Phase 2, 2007.

C. Independence

27. SAI independence can be examined in three areas: (i) the legal framework; (ii) the quality of external relationships; and (iii) the capacity to identify, plan for, and actualize resource requirements.

1. Legal Framework

28. A strong legal framework is an essential prerequisite to SAI independence. The framework needs two components: (i) institutional framework, which is how the SAI is established and is governed; and (ii) mandate and powers, which is what the SAI does and how.

29. **Institutional Framework.** The institutional framework provides the basis for independent governance. Principles 1 and 2 of the Mexico Declaration¹³ require SAIs to exist in

¹³ The Lima Declaration of 1977 was the first INTOSAI document to set out comprehensively the importance of SAI independence. The benchmark for assessing the SAI independence is the *Mexico Declaration on Independence*,

a framework that provides both legal and *de facto* independence for the institution and protection for the office holder.

30. Most Pacific SAIs meet these requirements. Nearly all have constitutional status, which recognizes them as independent and provides security of tenure for SAI Heads. Many Constitutions contain statements about the SAI's freedom from executive direction and control, and or its ability to report independently on the results of its work.

31. Only three Pacific SAIs—one from the Commonwealth-legislative model (Tonga) and two operating under the Congressional-legislative model (Guam and Kosrae)—are established other than under their state's Constitution. However, all Pacific SAIs (other than the Chuuk State Public Auditor who is yet to be appointed) meet at least some of the requirements of the constitutional/statutory/legal framework envisaged by Principle 1 of the Mexico Declaration.

32. **Mandate and Powers.** The second level of the framework covers what the SAI does, and how it operates. A fully functioning, independent SAI has: (i) mandate to audit all entities that form part of the public sector; (ii) a full range of public auditing functions (i.e., not limited to financial auditing); (iii) discretion to determine matters of priority and emphasis in an audit; (iv) ability to function without external direction; (v) powers of access to necessary information; and (vi) reporting powers, creating both an obligation to report to the legislature and an ability to report at other times on matters of the SAI's choosing.

33. Pacific SAIs' mandates vary considerably as does the discretion they have to determine matters of program selection, priority, and emphasis. All Pacific SAIs have a mandate to conduct financial audits, but the description and scope of the mandate vary considerably. Some SAIs, predominantly those in the U.S.-affiliated territories, contract out financial audits and focus on performance auditing. Some also have explicit mandates to conduct compliance and regulatory audits. Such work is not limited to those SAIs, however, because most financial auditing standards require an emphasis on compliance in any event. Accordingly, it is open to any SAI with a financial auditing mandate to undertake compliance and regulatory work as part of that mandate.

34. A number of Pacific SAIs also have explicit mandates to conduct forensic or fraud-related audits. Again, this is often regarded as implicit, to a greater or lesser extent, in financial auditing activity.

35. Over half of Pacific SAIs have some form of performance auditing mandate. In most instances, the mandate enables the SAI to conduct environmental audits. However, some SAIs also have explicit authority for this. Other SAIs carry out elements of performance auditing in the course of their financial auditing work, even if there is no express mandate to do so.

2. Stakeholder Relationships

36. By its nature, independence is about relationships. Perhaps paradoxically, a fully independent SAI is one that has strong relationships with its stakeholders.

37. **Relationship with the Legislature.** Many legislatures, especially those with Westminster backgrounds, have Public Accounts Committees (PACs) which are responsible for

which the XIX INTOSAI Congress adopted in 2007. The Mexico Declaration contains eight principles of independence.

receiving, considering and acting upon SAI reports.¹⁴ Eight Pacific SAIs operate in jurisdictions where there is a PAC or similar committee of the legislature.

38. Where there is not yet any regular legislative review (as in Guam, CNMI, FSM, Chuuk, Kosrae and Yap,) the Office of the Inspector General (OIG) of the relevant agency performs this function. The relationship with the legislature and OIG depends on the SAI Head establishing and maintaining relationships with individual legislature and OIG staff members.

39. **External Relationships and SAI Funding.** Relationships are critically important in obtaining sufficient funds, as part of a funding model that is appropriate to the particular constitutional circumstances. The funding models applied in the region include: (i) minimum dollar amount guaranteed by law (e.g. Commonwealth of the Northern Mariana Islands, CNMI); (ii) percentage of appropriation (also in CNMI); (iii) financial ceilings (including staff ceilings); and (iv) cost of audit services (New Zealand).

40. Whatever the funding mechanism, it should involve a process of consideration and approval by the funding agency (whether in the executive or the legislative branch of government), with input from the SAI (based on its strategic and business plans) and other stakeholders (such as a PAC). Some element of negotiation by the SAI Head with the funding powers may also be needed.

41. **Legislative Involvement in SAI Funding.** Good practice under the Commonwealth legislative model involves the legislature, or a committee of the legislature, having a primary role in determining the SAI's budget, on the basis of strategic and business plans prepared by the SAI itself. The legislature may take advice from Finance Ministry officials, but there should be no direct executive control.

42. Full legislative oversight of SAI funding is uncommon, given the need for a measure of fiscally responsible executive control over budget-setting. However, even where the budget remains under executive control, the legislature ought to have the opportunity to influence and support the setting of the SAI's budget, based upon the SAI's own determination of what it realistically needs. The Congressional approach to budget-setting inherently enables this level of influence and support. In non-Congressional states, there are examples where the PAC must be consulted in the budget-setting process. This is a requirement of the new Audit Act 2007 in Tuvalu, although it remains to be seen how it would work in practice.

43. **Relationships with Funders.** Where executive control or oversight is present, the Government—and in particular the Finance Ministry—becomes a key stakeholder and the SAI needs to develop relationships with it based on mutual understanding of roles. The SAIs with the best access to resources have the support of funding bodies in their role of establishing a baseline from which all public sector entities can be managed. Those with the least resources have yet to educate funders on the role and benefit of the SAI.

44. Other key stakeholders relevant to SAI funding may include: Department of the Interior, Inspector General, General Accountability Office (in US territories); the SAI's mentor organization (for example, the Audit Commission in the Cook Islands); and similar agencies, such as the Ombudsman.

¹⁴ See McGee. *The Budget Process, A Parliamentary Imperative*, Pluto Press, London, 2007.

45. Where the legislature or other authority approving funding (e.g. Department of Interior in U.S. insular areas and, in some Pacific Island countries, donors) know the benefits of audit and are able to regularly assess the use of resources against objectives, they can provide crucial support for the office's resourcing and findings.

46. **Relationships with Other Stakeholders.** It is also important for SAIs to understand the contribution which stakeholders external to government can make to public sector accountability. For example, the media and civil society can play a role in educating and informing members of the Legislature, Ministers and government officials, donors, and other users of audit reports, financial statements and other accountability documents of government. Members of the Legislature, for example, frequently obtain more information from the media than from official reports which they may not find time to read thoroughly. However, these people need access to information to understand the: (i) contribution audit reports make to their needs and (more widely) the constitutional health of the country; and (ii) conditions under which the SAI must function if it is to continue to make that contribution.

47. SAIs play a part in enabling access through the way they interact with the public, including publication of their reports. Educating external stakeholders on SAI roles and functions is a key challenge, which it is easy to overlook amid efforts to achieve high quality audit reports. Yet it is probably one of the most crucial tasks for an SAI. Educating the public is also important. A nation's overall health is enhanced when the public, media, and civil society understand the constitutional relationships of key officers and institutions, routinely report audit findings appropriately, and pressure governments to implement recommendations.

3. Resource Availability

48. The third, and in practice perhaps the most important, independence theme is about the availability of resources. Nearly all Pacific SAIs demonstrate significant levels of independence and security of tenure in their constitutional and legal frameworks. But capacity issues limit their ability to function with the level of independence contemplated by the Mexico Declaration. Typically, this includes a lack of qualified human capital to fulfill the mandate.

49. Resources and capacity are critical to an SAI's ability to function independently. Yet many Pacific SAIs consider that achieving "financial and managerial and administrative autonomy, and the availability of appropriate human, material, and monetary resources", under Principle 8 of the Mexico Declaration, is beyond their reach.

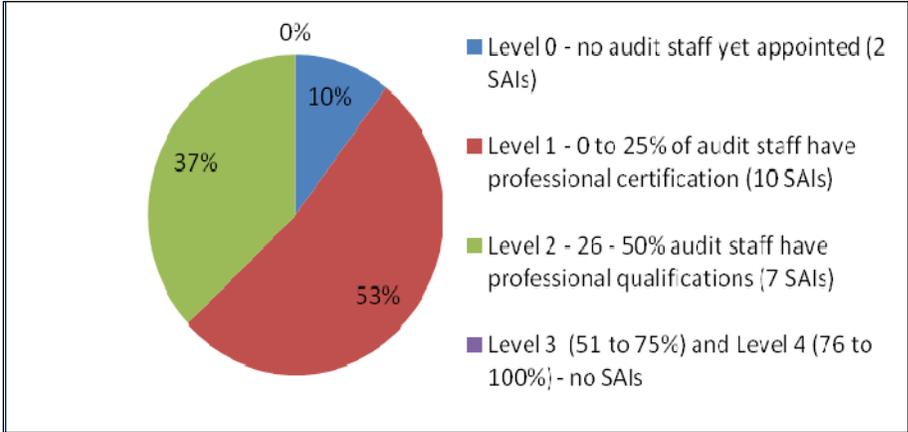
50. These issues go to the heart of SAI independence. That is not to underestimate the importance of a SAI being established on a sound constitutional footing, with security of tenure, a broad mandate, and the necessary authority to carry out its functions. But even if those pre-requisites are in place, an under-resourced SAI finds it difficult to carry out its mandate in the manner or to the standard it would wish, and to report and follow up adequately on its findings. This can affect the SAI's credibility and, as a consequence, the respect in which it is held by its stakeholders and the public.

D. Human Resources

51. People are the essential resource in an SAI. SAI Heads must obtain budget allocations to provide adequate staffing levels and then identify and manage the best available staff to ensure SAI effectiveness. A human resource management (HRM) strategy is central to this effort. Pacific SAIs are executing their HRM responsibilities at various levels.

52. SAI Heads are ultimately responsible for SAIs’ human resource practices. However, in most cases the SAI Head may not have direct control over all HRM aspects, and needs to work closely with the legislature, ministries, and government personnel agencies to establish and implement a comprehensive HRM strategy.

Figure 3.2: Pacific Region: Audit Staff with Professional Certifications or Qualifications as a Percentage of Total Audit Staff



Source: Stantons International (2008).

53. The preliminary SAI stocktake undertaken during the 2006 PASAI Congress highlighted an increase in the number of accounting graduates residing in the Pacific and who are interested in public sector auditing.¹⁵ Therefore, the challenge facing PASAI members is to develop tactics to attract these graduates to government service with the SAI.

54. Job descriptions and competency statements are the fundamental building blocks for a human resource management system or strategy. They are used to recruit, develop, assess, and reward and promote staff. All the Pacific SAIs have reasonably well-developed job descriptions—the Cook Islands, Yap and the Solomon Islands went further with job descriptions incorporating competencies with the tasks.

55. But it was difficult to compare competencies and job descriptions across the region as SAIs have developed and applied job titles within their own governments’ personnel systems—with more than 51 job titles across the region. Some titles are specific (graduate accountant), and others are more general (auditing officer). Consequently, cross-walking titles, salaries, responsibility levels, and tasks would be most difficult. However, implementing a region-wide capacity building approach would require the identification of staff working on the same or similar tasks and or performing at the same competency level.

¹⁵ Su’a Aloese, Aolele. 2007. *Good Practices Features of Supreme Audit Institutions: Background for the Pacific Regional Audit Initiative*. ADB TA 6360-REG.

E. Auditing Approach

1. Auditing Standards

56. Pacific SAIs apply a variety of auditing standards including International Standards on Auditing (ISA); INTOSAI Auditing Standards; U.S. Generally Accepted Government Auditing Standards (GAGAS); Institute of Internal Audit (IIA) Standards; and International Standards on Quality Control (ISQC).

2. Audit Methodology

57. Audit methodologies vary in the region. An audit methodology assists auditors to assess the overall environment, review the previous year's work, undertake preliminary surveys, update audit programs, undertake risk assessments, identify materiality levels and select sampling methods. The Pacific SAI audit methodologies do not yet consistently cover these areas.

58. **Audit Manuals.** Audit manuals enable audit methodologies to be applied consistently. Some Pacific SAIs have good manuals, which contain forms, checklists and policies for the different types of audits, such as attestation, financial, performance, forensic and environmental. For example, the Guam Audit Manual provides guidance to staff on audit policy (to contract or not and why) and administration and management procedures. Regarding audit practices, the manual provides guidance on rules of evidence, interviewing techniques, working paper preparation and use, performance audit field work standards, financial audit fieldwork standards, financial audit reporting standards, and contracting out for professional services. The review process is streamlined where SAIs have computerized audit methodologies. For example, the Cook Islands office maintains its audit programs on Excel spreadsheets (and is shifting to CCH TeamMate Audit Management System).

59. Most Pacific SAIs find it difficult keeping their audit manuals aligned with auditing standards, particularly given the rapid pace of change in recent years. The larger offices have more formal committee structures to approve audit standard updates and consequential audit methodology changes, while smaller offices rely on working paper reviews by supervisors, contractors and or advisors to control audit quality.

60. **Audit Procedures.** Audit procedures vary across the region. For example, some Pacific SAIs use engagement letters. Of those, some have an engagement letter template which they use for all audits. A few send engagement letters only to new auditees. One SAI sends a notification letter and the contractor sends the engagement letter. Three SAIs do not yet send engagement letters.

61. Most Pacific SAIs record audit evidence on manual working papers supported by photocopies, in electronic working papers and in detailed audit programs (electronic and paper-based). Almost all SAIs routinely use audit programs for key systems and controls.

62. **Use of Contractors.** Ten of the 19 SAIs consulted use contractors to complete some or all of their financial statement audits. Most contracts are between the State and the contractor, with the SAI advising the state on contract terms, qualifications and workload.

63. Some Pacific SAIs allocate staff to work with contracted firms (Marshall Islands). Other SAIs complete all the audits in their portfolio using their own staff (Cook Islands, Tonga). Others complete the work using a combination of audit staff and contractors appointed by the Head of

the SAI (Fiji, Solomon Islands, FSM, Yap State, Guam, Papua New Guinea)¹⁶. CNMI, Palau and FSM contract a private sector audit firm to complete financial audits, while the public auditor concentrates on auditing performance and undertaking investigations.

64. Using contractors to complete a significant part of the audit work of the SAI spreads the risk, but also presents a risk to SAI effectiveness and independence. The SAI is also responsible for controlling the contractors' work quality. To assess this risk, a number of private sector firms were consulted. Not all were fully aware of SAIs' constitutional roles and, reflecting the contracting procedures, most considered the Government or the auditee their client. A number included SAI staff in financial statement audit teams. This practice does broaden the SAI staff experience, but also means shared responsibility for audit quality control.

65. **Peer Reviews.** Ten of the 19 SAIs consulted had regular external peer reviews. Generally, the reports on these reviews were tabled in the legislature. Eight had no external reviews, with another SAI yet to have any staff appointed. The private sector audit firms contracted to audit the financial statements in U.S. insular areas are subject to review by the Office of the Inspector General of the cognizant agency (currently the Department of the Interior). Their work is also subject to review by the Government Accountability Office (GAO).

66. Members of the Association of Pacific Islands Public Auditors (APIPA) regularly conduct peer reviews. The review procedures are fully documented and the review team includes two SAI Heads and an APIPA-appointed consultant. The Office of Insular Affairs is the primary funder of these peer reviews.

F. Operations and Governance

1. Audit Portfolio Management

67. Effective audit portfolio management requires SAI staff to maintain a constant watch on government decisions, both those centralized through the 'whole-of-government' executive decision-making body, as well as those de-centralized through controlled entities and government business enterprises.

68. In most Pacific island countries, all public sector entities lie within the SAI Head's mandate. The constitution often defines the audit portfolio. The audit mandate includes all public sector entities subject to audit by the SAI. It includes all public sector entities, whether they are audited by SAI staff or private sector contractors

69. Some SAIs have a clear knowledge of the entities in their mandate. For example, the Fiji SAI maintains a register of entities in its audit portfolio. However, in other Pacific Island Countries, ad hoc legislation has resulted in some public sector entities hiring their own auditors without SAI oversight. This potentially undermines the legislature's ability to receive and review audit reports on all public sector entities. With regard to types of audit performed, most SAIs have the authority to contract in the necessary skills. They can be obtained through secondments from other SAIs, from contracts with private sector experts, or from audit specialists who specialize in particular audits such as financial institution audits.

¹⁶ Two Pacific Island Countries have appointed another SAI to audit its public sector. Niue and Tokelau continue to legislate for the Controller and Auditor General of New Zealand to be its external public sector auditor.

2. Annual Audit Planning

70. Audit planning processes and documentation vary. Plans vary from audit plans for each entity or program audited, to letter and meeting notes on file, to a formal written audit plan, to electronic planning programs, to assignment authorizations after initial analysis of the viability of proposed audits. Some Pacific SAIs allocate staff-days to specific audits and the teams prepare the plans in accordance with the SAI's audit methodology. Others allocate staff-hours to audits and inform auditors of their schedule one year in advance.

3. Managing Audit Quality

71. Pacific SAIs generally manage audit quality through formal governance structures such as an Audit Management Committee. The larger SAIs sometimes have more than one such committee. For example, the Fiji SAI has a Management Committee to monitor the implementation of the Annual Tactical Audit Plan (i.e. audit workplan), a Policy, Research and Development Committee and a Quality Assurance and Review Committee. These internal committees provide assurance that the audit opinions and reports meet professional standards.

72. International standards on quality control, auditing review, other assurance and related services (ISQCs) were issued in 2007. These new standards form part of the international standards on auditing which many Pacific SAIs use. They apply to the public and private sectors and require SAIs to implement quality control systems. These quality control systems are usually designed and implemented by operational staff in collaboration with audit staff.

4. Reporting on Operations

73. Annual SAI performance reports provide a means for SAIs to publicly report their operations and, for many SAIs, also the most significant audit findings. Where these are directly linked to the strategic or corporate plan, the legislative body can assess the SAIs' achievements.

74. All Pacific SAIs report on audits completed and issues raised, but not all SAIs report annually to the legislature on their performance against their annual corporate plans. Seven of the 19 SAIs visited are not yet organizationally independent, and their financial transactions are reported only in aggregate financial statements. Of those that are organizationally independent, only a few provide annual reports containing audited financial statements for their office.

5. Reporting Audit Findings

75. The key outputs of an SAI are audit opinions, the auditee report (management letter), and the Annual Audit Report to the legislature. SAIs report audit findings to the legislature, the executive and auditees. Most legislation sets a minimum period within which each SAI must report, though the right to report at any time is also an important element of an SAI's independence.

76. Legislatures expect reports on the priority areas that government needs to address to improve public sector management. For example, the Cook Islands SAI tables a quarterly report. It contains sections on significant issues identified during financial audits and special audits and investigations. However, in general, the reports prepared by Pacific SAI are unnecessarily detailed and do not provide the high-level information and advice on problem areas and issues that require government attention. Furthermore, Pacific audit reports are not always well-written or readable.

77. Another reporting limitation involves limited stakeholder understanding of the SAI role. Those within the government and public service, and those working at the regional level, sometimes have little or no knowledge of constitutional law, of the purpose of an audit, or of the role of the SAI, and can therefore make public policy commitments that impact upon the SAI's independence and mandate. In exercising their reporting function, SAI Heads should use audit reports not only to communicate its findings on the operation of the public service, but also to educate the legislature, the public service, auditee staff and the public about the SAI's role.

6. Tracking Audit Findings

78. The impact of audit findings varies: some Pacific Island Governments take little or no responsive action. In this connection some SAIs, including CNMI and Guam, have developed audit-tracking systems that assist the SAI Head to demonstrate that recommendations are being implemented. They report, in their annual performance report, on the audit findings and the value of questioned costs—as required under the Single Audit Act.

G. Information Communications and Technology

1. The term Information Technology (IT) encompasses many aspects of computing, communications and technology. These aspects range from infrastructure considerations, through human resources competency issues to software application development and use. The common theme across all IT aspects, which must remain at the forefront of any IT consideration, is that IT is an enabler of a solution and not a solution in its own right.

2. At the regional level it is important to note the parallel work of the Pacific Regional Digital Strategy and the impact that this has on the pillars of the Pacific Plan, including the Good Governance Pillar, under which the Pacific Regional Audit Initiative (PRAI) sits. The Digital Strategy is a mechanism to address the significant regional ICT constraints, principally involving infrastructure. As these constraints are reduced or removed, additional IT options become available to the PRAI.

3. A longer term advantage of IT at the Supreme Audit Institution (SAI) level is the increased following of good practices through automation. The 'good practices' can be considered as the administrative 'audit and office management' and the operational 'information technology audit'.

4. The development of solutions is driven by the specifics of an SAI, namely; the environment, independence, human resources, auditing approach, operations and governance and finance and administration issues applicable to the SAI. In aggregate these can be considered through the PASAI Capability Model.

5. Each SAI self assessed their PASAI Capability Model level, illustrated at figure 3.4. It is important to note, even if there is a common assessment of say, level 3, this does not indicate that the exact same systems are in place or should be in place. IT as a solution enabler can mean the adoption of a spreadsheet based system of automation as easily and as effectively as the adoption of a database system or a fully integrated audit management application.

6. The SAI diagnostic supported this view of significant IT diversity, both in terms of hardware and networking and also skilled IT operators. The lack of a sophisticated IT system or the limiting data analytics to a spreadsheet does not automatically result in a lower rating on the

capability model – it often reflects the realities of need in smaller countries. An area of improvement noted in the diagnostic is the development of a common understanding of terms and techniques so that comparisons can be strengthened.

7. Given the differing specifics of each SAI and the variety of regional IT constraints, the PRAI has very deliberately focused on ICT solution enablers that provide flexibility and scalability, whilst tying into the wider PRAI approach. As IT in itself is not a solution, IT inputs into PRAI will support the broader PRAI outputs.

8. The principal mechanism to support IT enabling through PRAI will be the engagement of an IT specialist in the first instance, transitioning to the use of suitably qualified, SAI sourced, secondees over time. The IT specialist will then work within the PRAI general outputs to provide technical advice to SAIs as they plan their IT requirements, develop common methodologies and conduct training.

9. As capacity improves and cooperative audit methodologies are developed and refined, the IT specialist would play a role in suggesting IT focused cooperative audits for consideration and then support the delivery of such an audit if programmed.

10. The other significant IT based solution enabler is the development of a PASAI website that will act as the access point to a document repository that will facilitate the dissemination of materials created locally (common methodologies, reports) or created internationally (by INTOSAI or other professional bodies). Over time it would be envisioned that this mechanism, together with training initiatives would develop PASAI into a ‘regional knowledge hub’ on matters of audit related governance and anticorruption issues. The website would likely be ‘two tier’ offering an advocacy and communication mechanism in relation to the general public, while password protecting aspects of the data repository.

11. Related to the PASAI website and the communication and advocacy role is assistance in the development and hosting of individual SAI websites for those Offices that do not currently have a web presence and to provide links via the PASAI website. This presents the same communication and advocacy opportunities as the PASAI website, however at a much more targeted level.

H. Finance and Administration

79. SAI Heads are responsible for ensuring effective and efficient management. Office-policies and procedures, covering time and attendance, leave approvals, travel, etc, must be in place and understood.

1. Time Management

80. Staff time is the critical SAI resource. The completion of staff timesheets enables analyses of staff time to audits and other activities including training. This enables the preparation of realistic audit workplans and corporate plans.

81. Some Pacific SAIs do not allocate budgeted hours for audits. Nor do they actively manage time spent on other activities. To date, not all Pacific SAIs manage their staff in a manner that makes budgeting audits in terms of hours realistic.

2. Financial Management

82. Some Pacific SAI budgets are managed centrally by the Finance Ministry or its equivalent. In these cases, SAI financial management activities are restricted to preparing a cash budget based on staff salaries and allowances, travel and other operational expenses. Accounts are usually prepared in the SAI and entered into the aggregate government accounting system by Finance Ministry staff. In these cases, the SAI Head's aim is to manage the office within the available cash budget.

83. Other SAIs prepare full financial statements, which provides a basis for costing audits. Funding agencies are more likely to consider funding requests when they are supported by useful data and analysis. The availability of comprehensive and regular financial reports provides confidence that further resources would be carefully and economically managed, and support the SAI Head's ability to fulfill their mandate and to manage the quality of audits.

I. Continuous Improvement

84. Accounting and auditing are dynamic, evolving, and changing professions requiring specialized knowledge and skills which must be updated continually. New staff should meet stipulated entry-level qualification criteria. Staff retention and advancement should be based on ongoing education and training. SAIs are obligated to provide staff with opportunities for continuing professional education and development.

1. Education and Training

85. The Pacific region has various tertiary institutions which provide courses appropriate for SAI staff. The coursework of these institutions enables entry-level staff to attain the fundamental finance, accounting, business management and auditing knowledge necessary for an auditing career. However, the scope and quality of the courses offered varies widely. Moreover, because university degrees are a prerequisite for advanced professional certifications, it is important for PASAI and other regional bodies to work with tertiary institutions to ensure that they have the necessary accreditation so that completed coursework and degrees awarded can be applied to professional certification.

86. The Pacific Island Training Initiative (PITI), which is administered by US Department of Interior's Office of Insular Affairs, provides training to insular-area SAIs. APIPA has been established to advance the profession and encourage professional development. The training programs offered by PITI and the INTOSAI Development Initiative (IDI) are of generally high quality, but have not been presented in a standardized format or in a series or sequence that promotes long-term, sustained professional development over the course of an auditor's career.¹⁷

87. Seminars are a hybrid of education and training. Typically they focus on one topic or issue and are intended to provide information, but not practice with, a topic or issue of importance to job performance. For example, seminars might be used to provide staff with information about accounting policy changes or to introduce new auditing standards. While they may be held in the office or at external locations, seminars are generally scheduled on an 'as

¹⁷ IDI was established in 1986 as INTOSAI's training arm. Its mission is to help SAIs, especially in developing countries, to improve their audit capacity and resolve audit issues through training and information sharing.

needs' basis and are relatively short—generally less than a day. At conferences, such as those sponsored by APIPA, staff have opportunities to attend seminar-type training.

88. On-the-job training (OJT) is recognized as the most effective form of learning transfer.¹⁸ Because it is so important, supervisors and managers should be trained in how to effectively conduct on-the-job training. Additionally, when individuals with special expertise are brought into an SAI on contracts or secondments, their OJT coaching skill should also be refreshed; and, as part of their contract, they should be required to provide OJT as they complete work in their area of expertise.

89. Secondments, details, or exchange programs to other SAIs, private firms, or other government offices represent a special form of OJT. These opportunities to work in a different audit environment allow staff to obtain skills not usually found in their own SAI. However, in establishing these programs, it is important to outline clear and specific objectives and timeframes and to identify the benefits to be realized by the SAI as well as the individual. Likewise, it is important to recognize that both partners in the secondment arrangement must be committed to the goals and objectives. The Cook Islands and Tuvalu employ secondments to New Zealand's SAI as a means to foster skill development and obtain experience required for professional certification.

90. Twinning, whereby SAIs establish formal—usually donor-funded—cooperative agreements, provide special opportunities for classroom training, OJT, and secondments. The FSM SAI has twinned with the Department of Interior's Office of Inspector General (DOI-OIG). Among other things, FSM SAI staff have attended training programs and then had opportunities to work at DOI-OIG offices. Through another arrangement, the New Zealand SAI provided legal assistance as Tonga revised its audit legislation. In Papua New Guinea, Australian National Audit Office (ANAO) staff provide on-the-job training, and Papua New Guinean staff have worked in the ANAO offices.

2. Professional Associations, Qualifications and Certifications

91. Professional associations provide opportunities for members to share their experience; discuss challenges, options, and opportunities; and, collectively pursue action to advance the profession. Professional associations of auditors and accountants sponsor speakers, seminars, training programs, conferences and publications to support members' efforts to remain up-to-date and further develop their skills. SAI specialists may belong to professional associations, for example, in Palau the investigator is a member of the Association of Certified Fraud Examiners. In professional associations there are various membership levels, and some professional associations and standard-setting bodies extend certifications based on examinations and experience. Many Pacific SAIs work closely with local professional associations.

J. The PASAI Capability Model

92. The PASAI Capability Model reflects the Pacific public auditing environment, is influenced by the AFROSAI-E capability model and is aligned to INTOSAI capacity-building model concepts.¹⁹ The model draws together all areas of competency which an SAI Head

¹⁸ AusAID. 2004. *Capacity Building in Public Finance: An Evaluation of activities in the South Pacific*. Evaluation and Review Series No. 36. p. xiii.

¹⁹ INTOSAI. 2007. *Building Capacity in SAIs: A Guide*. Revised Draft 14 June 2007

manages at each SAI maturity level. SAI Heads considered the model and identified the level, which they considered best reflected their office's capability in 2007.

93. **Figure 3.3** presents the PASAI Capability Model, which for each level considers the status of five attributes:

1. Audit Types.
2. Audit Management.
3. Office Management.
4. Human Resource Management.
5. Information and Communications Technology.

Figure 3.3: The PASAI Capability Model [To be refined]

Level	Attributes
<p>5. The SAI is contributing proactively to the public sector and to its peers</p>	<ol style="list-style-type: none"> 1. Management responsibility [to be revised]. 2. The SAI contributes to the development of auditing, accounting, performance, forensic and environmental legislation, policies, standards and procedures for use by other SAIs, private sector firms and the public sector. The SAI can audit all public resources. Audit standards maintain parity with international standards. 3. The SAI Head reports to the legislature on matters affecting the SAI performance as they deem necessary. Annual performance reports contain new and innovative ways of managing the SAI, which become a model for other SAIs. 4. Staff perform at the highest levels. Innovative HRM approaches are applied. The SAI serves as a model to others. 5. Good practices are followed and automated.
<p>4. The SAI is confident</p>	<ol style="list-style-type: none"> 1. Management responsibility: Review operations or programs to ascertain whether results are consistent with established objectives and goals, and whether operations or programs are conducted as planned. Propose general guidelines and good practices. Intensive external audit of financial reporting risk areas. External audit of high risk programs and services and their environmental impact. 2. The SAI reports regularly to the legislature and raises sensitive matters with it. The SAI Head interacts freely with the media, business, the judiciary, the government, the public and the legislature. They have an on-going relationship with members of the legislative / the legislative committee reviewing the performance of public sector entities. They interact with other SAIs as peers in the international public sector audit environment. The audit methodology is based on audit standards and quality control systems are used to monitor the application of the methodology. 3. The SAI Head has regular and unfettered contact with professional bodies and interacts with other SAIs as peers in the international professional public sector audit environment. The SAI Head provides annual SAI reports (on its own performance) to the legislature, and these annual reports are available publicly. 4. HRM system includes guidelines for rewarding, promoting and releasing staff. Qualified auditing and accounting staff available in number needed. Staff with special expertise in place. 5. Electronic workflows and centrally managed information.

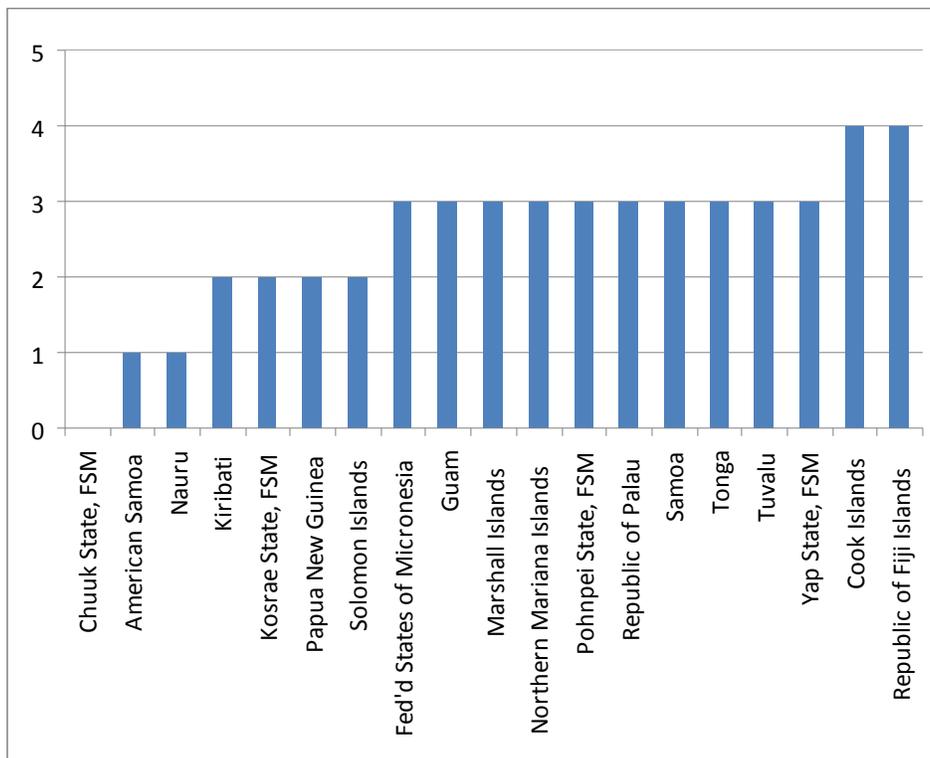
Level	Attributes
3. The SAI is functional	<ol style="list-style-type: none"> 1. Management responsibility: Reviews and appraises the economy and efficiency with which resources are employed. Diagnosis of poor management controls susceptible to fraud, waste, abuse and mismanagement. Liaises with external audit in its audit of financial statements and underlying systems and procedures. 2. The SAI reports annually to the legislature on the audit of all auditees. Audit standards are adopted and distributed to staff. Audit managers review the working papers of audit and contracted staff against audit methodology in the audit manual. The methodology is based on international and national standards. The SAI has general acceptance and recognition for its work. 3. The SAI's staff complement fits its needs, as does its budget. The SAI has use of office equipment and an operating budget that enables it to complete its annual workload. The SAI's budget proposal is supported by plans and there is independent review of its performance. 4. HRM system includes a comprehensive training program and assessment guidelines. Majority of staff possess degrees, some with professional certification. Contract staff fills technical gaps. 5. IT Administration, security and data management, planned IT direction.
2. The SAI is operating safely	<ol style="list-style-type: none"> 1. Management responsibility: Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets. Forensic audits feeding into anti-corruption initiatives. Planned external audit of financial statements. External audit of compliance with laws and regulations, including those applying to the environment. 2. Staff members can complete audits without threats or intimidation. They have access to all required financial records and other information. The head of the SAI can report regularly to the legislature. The audit portfolio includes all public sector entities. 3. The SAI has a reliable and predictable budget. Office equipment and data are secure. They have access to all required financial records and other information. The head of the SAI can report regularly to the legislature without fear or intimidation. 4. HRM system includes recruiting guidelines. Staffing levels are generally met with some staff having relevant certification. Audit standards training provided. 5. Networked data management using common applications.
1. The SAI is established and surviving	<ol style="list-style-type: none"> 1. Management responsibility: Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations, and reporting on whether the organization is in compliance. Routine external audit of cash-based public accounts. Routine external audit of cash-based public accounts. 2. The SAI has access to whole-of-government financial records and sometimes to those of other public sector entities. The SAI audits the compliance of the public accounts / financial statements of government and other public sector entities against regulations and legislated standards. 3. The SAI has an independent office space, staff and an annual budget. It has access to government financial records. 4. HRM system includes job descriptions. Staff resources are allocated to the SAI, and some positions are filled – however, staff numbers and qualifications fall below levels needed to fulfill mandate. 5. Individual computer-based ad hoc processes.

Level	Attributes
<p>0. The SAI is not established or struggles</p>	<ol style="list-style-type: none"> 1. Management responsibility: Reviewing the reliability and integrity of financial and operating information, and the means used to identify, measure, classify, and report such information. Special audit functions: Ad hoc response to requests 2. The internal audit unit has a Charter and an annual budget. It completes its work in accordance with internal audit standards and issues reports to the chief executive/s of the public sector entity/ies audited. The unit has control over both the annual workplan and the standard of the reports issued. 3. The internal audit unit has a Charter and an annual budget. It has professional staff, plans its annual workplan and maintains a quality assurance system. 4. An SAI may be authorized, but there are no staff performing external audit. 5. Paper based data management filing system.

SAI = supreme audit institution, PASAI = Pacific Association of Supreme Audit Institutions.
 Source: Stantons International (2008).

94. **Figure 3.4** presents the capability self-assessments by SAI Heads. It should be noted that the self-assessment were completed on a working model without the benefit of the above full capability model. The highest level at which the SAI is fully capable was selected.

Figure 3.4: The PASAI Capability Model: Self Assessments



Source: Stantons International (2007).

K. External Support to Pacific Public Auditing

1. Introduction

95. Development partners acknowledge the United Nations Millennium Development Goals (MDGs) and the *Pacific Plan*. The MDGs, the *Pacific Plan* and development partner strategies all strongly emphasize governance and anticorruption, a key aspect of which is public auditing arrangements.

96. Furthermore, the *2005 Paris Declaration on Aid Effectiveness* aims to increase efforts in harmonization, alignment and managing aid for results with a set of monitorable actions and indicators.²⁰ In supporting the *Paris Declaration*, recipient countries committed to publishing timely, transparent, and reliable (audited) financial reports, while development partners have, among other things, committed to relying to the maximum extent possible on country public financial management systems.²¹ The *Pacific Aid Effectiveness Principles*, which the July 2007 Forum Economic Ministers Meeting endorsed, tailored these commitments to the region's needs.²²

2. Lessons Learnt

97. Lessons arise in the general context of assistance delivered in the Pacific and from prior experiences with PASAI. In terms of the Pacific, ADB²³, AusAID²⁴, World Bank²⁵ and the U.S. GAO²⁶ have prepared reports on assistance delivery, the key points of which include:

- (i) improving governance and strengthening institutions is critical
- (ii) establish a strong focus on direct operational support in the early years and increasingly incorporate a focus on capacity building over time
- (iii) one-size solutions cannot resolve all problems, and greater flexibility is needed—this is true especially in fragile environments
- (iv) ownership is essential. Foreign input-dominated projects can constrain (or even prevent) change and reform. Proposed solutions are unlikely to succeed if not initiated and owned by relevant communities; and
- (v) The historical context under which assistance is offered can impact on effectiveness measurement.

98. Moreover, ADB has provided four technical assistance grants to PASAI since 1989, some of which were supported jointly by IDI. A 2002 ADB review of these efforts concluded that the intended benefits were achieved but much more remained to be done.²⁷ The success was attributed to the strong sense of ownership and commitment of PASAI, IDI and SAIs. In particular, the leadership of the RISC, and the involvement of all parties concerned during the planning and implementation phases enabled the successful design and development of the course and standardized course materials. This has enhanced regional cooperation and collaboration among the member SAIs. Lessons learned included the need to thoroughly

²⁰ High Level Forum. 2005. *Paris Declaration on Aid Effectiveness, Ownership, Harmonization, Alignment and Results*. Paris.

²¹ *Paris Declaration* signatories include Fiji, Papua New Guinea, Solomon Islands, Timor-Leste and Vanuatu.

²² Pacific Islands Forum. 2007. *Pacific Aid Effectiveness Principles*. Suva.

²³ ADB. 2008. *Working in Fragile Environments: A Midterm Review of the Pacific Strategy (2005-2009)*.

²⁴ AusAID. 2004. *Capacity Building in Public Finance: An evaluation of activities in the South Pacific*. Canberra.

²⁵ World Bank. 2005. *Evaluation of World Bank Assistance to Pacific Member Countries, 1992-2002*.

²⁶ GAO. 2001. *Foreign Assistance: Lessons Learnt From Donors' Experiences in the Pacific Region*.

²⁷ ADB. 2002. *Technical Assistance Performance Audit Report on Strengthening Audit Capability in the Pacific*. Manila (October).

diagnose requirements, address legal independence and mandate issues, and address accounts-preparation issues.

3. Development Partner Strategies and Activities

99. **Asian Development Bank.** ADB has provided significant regional and country technical assistance over the past three decades to strengthen Pacific public auditing.²⁸ ADB's *Pacific Strategy for the Asian Development Bank 2005-2009*²⁹ identifies as a key result area, strengthened government transparency and accountability. In keeping with this strategy, ADB has supported the PRAI design exercise jointly with AusAID, and will provide PRAI implementation support. Ongoing support to strengthen public auditing will be also provided at the country level in line with country partnership strategies.

100. **Australian Agency for International Development.** AusAID has provided significant regional and country assistance to strengthen Pacific public auditing and associated accountability mechanisms. The themes of Australia's current aid strategy are (i) accelerating economic growth, (ii) fostering functioning and effective states, (iii) investing in people, and (iv) promoting regional stability and cooperation. In keeping with themes (ii) and (iv), AusAID has supported the PRAI design exercise jointly with ADB.

101. **Commonwealth Secretariat: Commonwealth Pacific Governance Programme.** The CPGP represents the Commonwealth Secretariat's direct response to the Pacific Plan and is focusing on four thematic areas: (i) strengthen democratic institutions and processes and support member countries' efforts to instill a culture of democracy; (ii) improve the capacity and effectiveness of anti-corruption institutions; (iii) assist governments to provide their people access to government information; and (iv) assist governments develop policies for land mobilization that will reduce conflict over land.

102. **European Union and European Countries.** The European Union Strategy for the Pacific has three components: (i) stronger political relations on matters of common interest such as global political security, trade, economic and social development and the environment; (ii) more focused development action, with greater emphasis on regional cooperation to build up critical mass, enhance regional governance and facilitate mutual enrichment; and (iii) more efficient aid delivery.

103. **Government of India.** India provides the Nauru Director of Audit and is also supporting the Cook Islands Audit Office in its procurement and implementation of audit support software.

104. **INTOSAI Development Initiative.** IDI has provided significant regional assistance to strengthen Pacific public auditing, all in cooperation with PASAI. IDI has made a strategic shift in its new strategy from classroom training to broader "training for impact". Lessons learned had

²⁸ Since 1989, ADB has supported PASAI through the following TA grants:

- TA 5347-REG: *Audit Manpower Development in the South Pacific*, for \$300,000 approved on 16 August 1989.
- TA 5589-REG: *Audit Training Program in the South Pacific*, for \$140,000 approved on 25 July 1994.
- TA 5830-REG: *Long-term Regional Training Program for Members of the South Pacific Association of Supreme Audit Institutions (Phase I)*, for \$700,000 approved on 3 February 1999.
- TA 5910-REG: *Long-term Regional Training Program for Members of the South Pacific Association of Supreme Audit Institutions (Phase II)*, for \$300,000 approved on 6 April 2000.
- TA 6360-REG: *Strengthening Governance and Accountability in Pacific Island Countries*, for \$1,579,000 approved on 7 December 2006.

²⁹ ADB. 2004. *A Pacific Strategy for the Asian Development Bank 2005–2009*. Manila.

indicated that professional staff development through training was not sufficient to achieve sustainable institution strengthening. This means that both the strengthening of SAIs as institutions and the professional development of SAI staff will form part of IDI's focus. As IDI seeks to address capacity-building issues in the target SAIs, programs are likely to be more focused on SAI subgroups or clusters rather than on the region as a whole. IDI has adopted four principles to ensure effective development through its programs: (i) regional and local ownership through cooperation with regional training committees and secretariats; (ii) regional partnerships through Memorandums of Understanding; (iii) donor coordination; and (iv) gender balance. IDI is supporting the transitional PASAI process and intends to support the PRAI implementation.

105. **New Zealand Agency for International Development.** *The Pacific Strategy, 2007–2015* guides NZAID's Pacific program, the goal of which is reduced poverty and hardship in the Pacific. The Strategy targets four outcomes (i) strengthened governance; (ii) broader-based growth and improved livelihoods; (iii) improved health and education; and (iv) reduced vulnerability. NZAID is giving particular priority to strengthening governance, in recognition of the role governance plays as a critical pre-condition to poverty elimination and sustainable development. A specific aid delivery mechanism has been established to deliver on governance: the Pacific Programme for Strengthening Governance (PPSG).

106. **United Nations Development Programme.** The UNDP's principal Pacific governance strategy is the '*Governance in the Pacific*' project, which aims to increase accountability and transparency, through a focus in six areas: (i) more effective national legislatures; (ii) increased commitment to right-based development and human rights; (iii) strengthened democratic processes; (iv) improved corporate, public sector and community responsibility to reduce corruption; (v) enhanced capacity for participatory local governance and decentralized development; and (vi) enhanced capacity for the achievement of increased regional cooperation and integration amongst Pacific Island Countries.

107. Through its Country Offices and the UNDP Pacific Centre, the UNDP supports initiatives to improve transparency and accountability. Working through the various Parliamentary Support Projects, UNDP is helping develop the capacity of Parliamentary Public Accounts Committees to enable them to effectively exercise their oversight functions. Other initiatives implemented through the Pacific Centre include support to the development of Information Disclosure Policy, promotion of Freedom of Information and the establishment of the Regional Ombudsman in partnership with the PIF Secretariat and the Commonwealth Ombudsman of Australia.

108. **United States.** The Office of Insular Affairs (OIA), a unit of the U.S. Department of the Interior, has administrative responsibility for coordinating federal policy in the commonwealth and territories of the U.S. (American Samoa, CNMI, Guam, Puerto Rico and the U.S. Virgin Islands), oversight of federal programs and funds in the freely-associated states under compacts of free association (FSM, RMI and Palau), and U.S. territories under OIA (Palmyra Atoll and Wake Atoll). In recent years, OIA has focused heavily on strengthening public auditing through, for example, support for APIPA, the Pacific Islands Training Initiative, and peer reviews.

109. **World Bank.** The World Bank has not to date played a major role in supporting Pacific public auditing, although this may change with the recent scaling-up of resources in the region.

L. Summary of Key Regional Issues

110. The past decade has seen significant improvements in Pacific public auditing—numerous audit backlogs have been cleared and audit quality has improved significantly. The

progress made in the U.S. insular areas is particularly impressive. Just six years ago, not a single one of the 11 insular states was submitting timely or clean Single Audits. Today, the record on timeliness is almost exactly the opposite, with only one jurisdiction not current.

111. These gains have been made in the face of intimidating challenges. And sustaining such gains is difficult in smaller country settings—working in tight-knit social and cultural environments involves significant political, professional and personal pressures. Moreover, rates of improvement vary across Pacific SAIs and much remains to be done to reach uniformly-high standards.

112. **Mandate.** Pacific SAI mandates as provided by legislation vary significantly in terms of both portfolio coverage and mandate to conduct different types of audit such as financial, performance, environmental, grant, and forensic and fraud-based reviews.

113. **External Relationships.** Stakeholder understanding of SAI activities and the purpose of audits varies, which has implications for Pacific SAIs' ability to access funding and advocate improved accountability and transparency, including the acceptance of, and action on, audit findings and recommendations. Furthermore, closer coordination is required with national and regional activities, particularly those involving oversight and accountability institutions.

114. **Public Auditing Capacity.** Common human resource challenges include the small number of trained and qualified personnel, the disproportionate effects in small offices of staff turnover or absences, difficulties in attracting and retaining staff, in part due to a lack of training opportunities, access to professional qualifications, and the absence of structured career and professional development paths. The absence of generic competencies has hampered the development of structured capacity-development programs. These issues are further exacerbated by high international demand for accountants and auditors, together with the broadening of audit activities under modern audit approaches requiring new skills to be developed or sourced.

115. Anecdotally staff turnover and absenteeism are seen as significant issues, particularly in some smaller offices. The PRAI diagnostic work indicated that in addition to the acknowledged problems of high turnover, low turnover is a problem for some SAIs. Human resource management in this case, is impeded by the absence of structured career and professional development paths, because of the opportunities such paths offer to SAIs to manage the issues.

116. **Managing and Conducting Audits.** The diagnostic work identified audit management issues, including incomplete audit registers, gaps in audit planning, the absence of risk-based approaches, challenges in managing contracted-out audits. Moreover, audit methodologies differ across the region which constrains opportunities for, among other things, regional training and development.

117. To complicate matters, auditing has become more demanding as expectations grow, financial reporting becomes more complex, and the scope of audit work expands beyond a narrow financial focus to performance and environmental auditing. To be effective in this more demanding environment, public auditors need access to specialist resources and high-level technical support.

118. **Public Financial Management Capacity.** The effectiveness of public auditing is hampered severely by gaps in financial management frameworks and capacity—it is difficult, to say the least, to audit non-existent financial statements. In that connection, preliminary

discussions by the PFTAC-sponsored Pacific Island Financial Manager's Association (PIFMA) March 2008 meeting considered the potential merits of designing a parallel Pacific Regional Financial Management Initiative.

IV. TRANSFORMATIONAL EXPERIENCES: PACIFIC SUCCESS STORIES

A. Introduction

119. INTOSAI's Capacity Building Subcommittee has developed an SAI capacity-building guide.^{30,31} The guide notes that SAIs build capacity, through internal training, staff development schemes and informal and formal exchanges between colleagues and partner institutions. However a program of capacity building goes further and involves SAIs: (i) systematically assessing their current capacity, strengths and weaknesses; (ii) deciding why they are seeking to build capacity and what barriers or constraints are faced; (iii) determining what additional capacity they seek to build, the resources they will need and the outcomes they expect to achieve; (iv) developing strategies for delivering this increased capacity, and related outcomes, without interfering with delivery of their remits; (v) implementing these strategy; (vi) evaluating the impact of the changes and the outcomes achieved; and (vii) sustaining the changes and developing new strategies to build on what has been achieved. Strengthening professional and technical audit skills is an important element in a capacity-building strategy. A major element is also likely to involve development of the SAI's skills in managing resources and people, and in influencing external stakeholders.

120. All Pacific SAIs provide examples of successful capability-building efforts. This section profiles four such examples:

- (i) The Cook Islands SAI was established as a well-functioning SAI following the 1996 transfer of external audit functions from the New Zealand SAI
- (ii) The Fiji Islands SAI changed the composition of audit staff from non-graduates to professionally-qualified graduates. In 1996 the SAI employed just 3 graduates. By 2005 all professional staff were either qualified or studying towards graduate qualifications
- (iii) The CNMI SAI introduced an innovative internship program; and
- (iv) Through a measured institutional change program, the Samoa SAI Head dramatically strengthened the capacity and effectiveness of his office following his 1998 appointment.

B. Cook Islands: Building from Scratch

121. The statutory mandate for the function of the Cook Islands Audit Office is provided by the Constitution of the Cook Islands under Article 71 and Part 3 of the Public Expenditure Review Committee and Audit (PERCA) Act 1995/96. The Office's mission statement is to *provide an independent assessment to Parliament on the Crown's finances, resources and other interests of the Cook Islands.*

122. Until 1987 the Cook Islands Treasury Department maintained an internal audit function that focused primarily on the integrity of the Treasury Department's centralized imprest system, the supply and sale of liquor, stamps, and cash counts. During this period the internal audit

³⁰ INTOSAI. 2007. *Building Capacity in SAIs: A Guide*. Revised Draft 14 June 2007.

³¹ The Guide is intended to provide guidance on attainment of Goal 2 of the INTOSAI Strategic Plan 2005-2010: "Building the capabilities and professional capacities of SAIs through training, technical assistance and other development activities".

function, which had four local staff, uncovered a major fraud involving the supply and sale of liquor and cash losses in government-run post offices. In 1987, the Office of Audit and Inquiries, the Audit Office's predecessor, was established under the Public Money and Stores Act. During this period, the Cook Islands government delegated responsibility for the external audit function to the New Zealand Audit Office.

123. In 1995 the Cook Islands economy experienced an economic collapse due to non-sustainable public expenditure and an over-sized public service. The government was forced to undertake a reform program to downsize and restructure the public service. The under performance of various government-owned assets contributed to the economic collapse and, consequently, privatization saw the sale of various assets, including the government's failing flagship hotel.

124. The reform program introduced the PERCA Act in July 1996 to help ensure financial management oversight and improve accountability and transparency. As a result of this legislation, the Office of Audit and Inquiries was replaced by the Cook Islands Audit Office. The external audit function carried out by the New Zealand Audit Office, and private sector chartered accounting firms, was transferred to the Cook Islands Audit Office, which took on full responsibility for external audit in 1996, when, for the first time, the Director of Audit position was localized. The Director of Audit issued his first auditor's opinion on the Crown Financial Statements for the year ended 30 June 1998. Since then, the Audit Office has been fully responsible for providing auditor's opinions on the financial statements of the Crown and all of its Ministries and Crown Agencies (with the majority of State Owned Enterprise audits being outsourced due to resourcing constraints).

125. After the public sector reform program began in 1995/96, the Ministry of Finance and Economic Management Act was enacted, which required strict financial management controls and replaced line item budgeting with output budgeting. The PERCA Act was also designed to ensure adequate oversight and monitoring of compliance with the Ministry of Finance and Economic Management Act. The Audit Office had to respond quickly to deal with these changes. In addition, since the reform program was initiated, the standards for reporting accounting information from Ministries and other reporting units to the Ministry of Finance and Economic Management have improved considerably. The transformation from the cash basis of accounting to the accrual basis has also been completed (the Financial Secretary has recently decided not to implement IFRS but instead requires all crown funded agencies to fully comply with the International Public Sector Accounting Standards).

126. The Audit Office has experienced significant growth since its inception on 1 July 1996. The size of the audit staff has increased substantially and staff have attained formal tertiary qualifications and received ongoing training through PASAI training programs and other donor funded training programs and technical assistance. Now a team of 4 staff are responsible for special reviews, with a further two teams of a total of 10 staff, responsible for the audit of financial statements of Ministries, other entities, State Owned Enterprises and the Crown Accounts. The Office has two support staff, an Office Manager and a Receptionist. In the twelve months to September 2007 three sets of Crown Accounts were signed off, the last, for the year ending 30 June 2005, on 28 September 2007. The Audit Office became an Approved Training Organization through the New Zealand Institute of Chartered Accountants on 8 July 2005. An approved mentor is currently engaged to ensure that staff can attain Chartered Accountancy status whilst employed by the Office.

127. The Office reports to Parliament on a quarterly basis. All management letters and their responses, special review reports and details of training programs attended by staff are compiled into one document and tabled in Parliament. The media has played an active role in publishing these reports.

128. The Office has been successful in accessing the India Grant Fund to acquire *CCH TeamMate* (an audit management system) and propose to have *CCH TeamMate* fully applied by May 2008.

129. Since its establishment the Audit Office has had to contend with many of the issues facing smaller Pacific SAI's; however it is widely considered that the transfer of external audit functions from the New Zealand Audit Office to the Cook Islands and the resulting establishment of a SAI has been a successful one. In particular it has allowed the Audit Office to be responsive to the needs of Parliament and other stakeholders in a way that was not fully possible under the previous regime.

C. Fiji Islands: Professionalizing Auditing Personnel

130. The Office of the Auditor-General of Fiji is established under section 166 of the Constitution. Sections 167 and 168 discuss the functions and appointment of the Auditor General. The Financial Management Act 2004 requires the Auditor General to audit the financial statements and annual appropriation statement of the whole of government and the annual financial statement of each government entity, including all budget and non-budget entities. The Audit Amendment Act 2006 elaborates on the powers of the Auditor General and specifies the procedures, and timelines in the conduct of assurance and performance audits, and special investigations and the reporting of these to the Parliament.

131. In 1987, when Fiji went through a period of political upheaval, the 1970 Constitution which empowered the existence of the Office was annulled. The Office of the Auditor-General, however, remained intact. The immediate effect of the political upheaval in 1987 was the loss of qualified staff who had either migrated or joined the private sector for more attractive salary packages. The loss was never fully recovered and by 1996 the Office employed just three graduates.

132. The Auditor-General acknowledged that to be effective a SAI must be staffed with well-qualified and experienced professionals and he went about putting in place steps to strengthen the Office's capacity with the aim of having all staff with qualifications by 2003. This target was achieved by sending staff on part-time or full-time scholarships to the University of the South Pacific.

133. The Fiji Ministry of Finance and National Planning and the Fiji Public Service Commission supported the Office's efforts to strengthen its capacity. With the support of these agencies the Office was able to offer competitive pay rates for entry-level positions. In addition, the minimum qualification requirement for auditors was raised; for entry-level auditors the minimum qualification is a Bachelor of Arts Degree in Accounting.

134. The Office's approach has been successful; the Office's annual report recorded that by the year ended 31 December 2005 all professional staff (except one) were qualified or studying toward graduate qualifications. The Auditor-General actively encourages staff to undertake tertiary studies and professional training, and the Office has its own training committee which looks after internal training. **Table 3.3** identifies the status of staff qualifications.

Table 3.3: Fiji Office of the Auditor General: Staff Qualifications at 31 December 2005

Classification	Number of Staff	Details
Post-graduate qualifications	3	2 are registered Chartered Accountants with the Fiji Institute of Accountants.
Undergraduate qualifications	45	7 Chartered Accountants, 10 provisional members and 1 affiliate member of the Fiji Institute of Accountants. 5 others are eligible for membership but have yet to apply.
Diploma qualifications	3	Officers with Diploma in Business Studies or Accounting are also studying towards graduate qualifications.
Studies at University of the South Pacific	6	Units completed: 11-15 units (2 officers); and 16-19 units (4 officers).
Professional Development Courses	23	Studying towards Fiji Institute of Accountants membership.

Source: Fiji Office of the Auditor General.

D. Northern Mariana Islands: Cleverly Attracting Staff

135. Article III, Section 12 of the Commonwealth of the Northern Mariana Islands Constitution and the Commonwealth Auditing Act established the Office of the Public Auditor as an independent agency of the Commonwealth of the Northern Mariana Islands Government to audit the receipt, possession, and disbursement of public funds and to perform such other duties as required by law.

136. Effective April 2001, the Office of the Public Auditor implemented its refocused intern program where interns can receive the necessary skills, job training, and guidance to eventually fill professional positions at the Office of the Public Auditor. The Intern and Professional Development Program has two tracks for entry, one for full-time interns and auditors and another for part-time interns. Both tracks are open to individuals majoring in accounting, finance, economics, business management, business administration, or criminal justice, or who have received degrees in any of those fields.

137. The program goal is to develop new resident auditors. The program aims were to: (i) attract and bring on board at the Office of the Public Auditor, five interns and auditors within the first year of the Intern Program (2001); and (ii) develop and recruit additional auditors annually.

138. Earlier the Office of the Public Auditor's efforts to develop and implement an intern program met with limited results. As a result, the Office felt a need to improve and refocus the program. The program changes that were made were to:

- (i) include two paths for entry into the program – part-time interns and full-time interns and auditors;
- (ii) expand outreach efforts at bringing interns into the program
- (iii) change the eligibility requirements for entering the program so that students majoring in, or planning to major, in finance, economics, business administration,

- business management, or criminal justice can be eligible for the program which in the past was limited to those majoring in, or planning to major, in accounting
- (iv) allow experience to be substituted for education in qualifying for entry into the program
 - (v) adjust Office of the Public Auditor salaries and benefits so that they are commensurate with those in the public sector and increasingly with the US
 - (vi) greatly expand the extent of in-service formal training provided to program interns and staff
 - (vii) use private independent auditing firms to assist the Office in training new interns
 - (viii) allow full-time interns time off from work at the Office of the Public Auditor so they can attend the Northern Marianas College or University of Guam classes; and
 - (ix) provide an improved local schooling program that enables interns to obtain a 4-year degree in accounting in the Commonwealth of the Northern Mariana Islands.

139. In addition, any student with a four-year college degree in economics, finance, business administration, business management, or criminal justice may now be hired directly as a full time auditor at the Office of the Public Auditor. In the past, the Office primarily hired individuals with accounting degrees to fill auditor positions. Under the Office's revised hiring policy, a newly hired graduate having one of these additional degrees would enter the Office in an auditor position, and would not need to process through the intern program. The staff would, however, receive the same in-service formal training as current auditors receive annually. The Office considers such in-service training to be essential for an individual to become fully proficient as an auditor.

140. The Office of the Public Auditor reports that the program is a success and in its 2003/04 annual report (the most recently available on the Office's web site) the Office reports that its first intern graduated in December 2005 and on graduation advanced to analyst level in the Office.

E. Samoa: A Fundamental Overhaul

141. Article 99 of the Constitution of Samoa empowers the Audit Office to audit the Treasury Fund; the accounts of all Ministries and Departments and Offices of Executive Government; the Public Accounts, Statutory Corporations, and Local Authorities and Bodies; and such other Public Funds or Accounts as may be established. The Constitution of Samoa and the Audit Office Ordinance 1961 determines the appointment, term and employment conditions of the Controller and Chief Auditor.

142. When Mr. Tamaseu Warren rejoined the Audit Office in 1998 as the Controller and Chief Auditor after serving as Deputy General Manager at the National Provident Fund, the first thing he did was to assess the Audit Office's existing. From this assessment he developed a strategy to develop and improve the Office.

143. Mr. Warren's strategic vision was to "do the basics right first and the rest would follow". Staff numbers then were very low and there was no strategic plan to direct and guide the Office's future activities. He also inherited a major backlog of 10 years in audits of Public Accounts and some Departmental/Ministry and Corporations audits.

144. Mr. Warren formulated the Audit Office Strategic/Corporate Plan for the period 1999-2002 and put into place a recruitment plan to raise the number of staff which was found to be at a low level and responsible for the very poor performance and outcomes at the time.

145. Further strategic and corporate plans were developed later, the most recent one lasting to 30 June 2007. In addition, the Office was restructured twice to further enhance the structural and human resource position of the Office. One of these restructures led to the re-introduction of the position of Deputy Controller and Chief Auditor, a position that was last held by Mr. Warren before his move to the National Provident Fund nine years earlier.

146. Initially, the proposed restructures (and associated funding) were not readily approved however the much needed support from Cabinet was obtained by highlighting the Audit Office's valued contribution to good governance and accountability of public funds and the need to establish and stabilize it to be in a position to fulfill its mandate. The restructure implemented additional roles throughout all levels with increased pay providing better career paths and incentives for staff to stay in the Office. The quality of work was significantly increased due to the motivation of staff and the training provided for them. There were no staff resignations in 2007 and the few staff that did leave in 2006 were appointed to significant roles as a result of the training and experience gained while working in the Audit Office.

147. In simple terms, Mr. Warren's focus when first appointed was on three performance drivers: strategy, structure and staff. In the last Strategic/Corporate Plan (which concluded on 30 June 2007), he started to envision the next stages of the plan to sustain and make further improvements. This started with the formulation in 2006 of a design for the Institutional Strengthening Project of the Office. This design looked at progressing further, the reforms already started as well as introducing further reforms to the Office's systems and methodologies.

"Looking back over the years, this first phase of my focus has effected major changes to the Audit Office and its performance. The recruitment plan has helped raise staff numbers from 14 when I started, to 20 at the end of my first term, 26 at the end of my second term, and 31 as of 30 June 2007. Despite staff turnover due to greener pastures elsewhere, I tried my best to keep the staff numbers at a stable level to minimize adverse impacts on the work of the Audit Office."

— Mr. Tamaseu Warren, Controller and Chief Auditor of Samoa

148. The backlog in the Public Accounts and Departments/Ministry and Corporations audits has also been substantially reduced. Most audits are now almost completed up to the year ended 30 June 2007 and reports to Parliament are almost current.

149. As indicated above, the Office currently has an Institutional Strengthening Project awaiting approval of funding from the Public Sector Improvement Facility Steering Committee and once approved is expected to be implemented over the next two years. The Project starts with reforms to the systems and methodologies. Its activities will look at 2 main goals. First it will look at enhancing existing capabilities such as financial audits and audits of performance measures with modern tools and technologies. Second it will introduce and build new capabilities such as information technology audits, performance audits and environmental audits. Staff numbers will rise to 41 by the end of June 2008 and further increases are planned in line with the restructuring and new capabilities being implemented under the Project.

F. Conclusion

150. The experiences of these four SAIs illustrate the desire and ability of Pacific SAI Heads to improve their institutions. It is reasonable to contend that their interaction with other SAI Heads, through PASAI, provided some inspiration to embark on these impressive transformational efforts.

V. THE STRENGTHENED PASAI

A. Introduction

151. Delivering on PRAI goals and outcomes requires a restructured PASAI organization with an enhanced Secretariat. Before beginning any discussion about the PRAI Roadmap, it is necessary to discuss PASAI's current role, then potential future role within a new and transformed PASAI model.

B. Current Roles and Structures

1. PASAI Development

152. For more than twenty years, Pacific SAIs have pursued capacity building activities by working collaboratively within PASAI. While discussing supporting and maintaining PASAI as a regional working group within INTOSAI, it is important to develop an appreciation of PASAI's history and understand its operations in the context of INTOSAI's generally accepted practices. Additionally, attention should be given to the benefits of INTOSAI membership. In these discussions, it is important to distinguish between references to PASAI as an *organization* and PASAI as a *geographic grouping* of member SAIs.

153. Pacific region SAIs began meeting together in 1973 to share information and experiences. Many of these SAIs were INTOSAI members and recognized that INTOSAI's Regional Working Groups enjoyed benefits arising from their more formal status within INTOSAI. In 1987, these SAIs applied for and received organizational recognition as a Regional Working Group of INTOSAI. Under its previous constitution, PASAI:

- (i) Promotes understanding and co-operation among member-institutions through exchange of ideas and experiences in the field of Public Audit
- (ii) Provides facilities for training and continuing education for government auditors with a view to improving the quality of their performance
- (iii) Serves as a centre of information and as a regional link with organizations and institutions in other parts of the world in the field of Public Audit
- (iv) Promotes closer collaboration and brotherhood among auditors in the service of the government of the respective member-institutions and among regional groups
- (v) Assists each other by providing technical assistance and exchange of expertise that would benefit members in the field of Public Audit; and
- (vi) Co-operates with non-member SAIs in the South Pacific region.

154. Today PASAI members realize many advantages through their INTOSAI membership. As individual members, they participate in INTOSAI Committees and Working Groups—sometimes acting as the PASAI representative. While the participating SAI benefits from the opportunity to work with peers on common issues, all PASAI members benefit because the committee members carry information and ideas and transfer knowledge and best practices back to their PASAI colleagues. INTOSAI's Committees and Working Groups also issue standards and guidance to support members. Furthermore, the IDI provides training programs on a regional basis, thus supporting the professional development and capacity building efforts of PASAI members. More recently INTOSAI's Peer Review program is promoting ongoing improvements among INTOSAI members. Finally, and perhaps most importantly, as one of the Regional Working Groups, PASAI has a representative on INTOSAI's Governing Board and thus plays a role in setting INTOSAI's policies and programs.

2. INTOSAI Organizational Models

155. INTOSAI's statutes recognize regional working groups as INTOSAI organs, and PASAI is one of INTOSAI's seven regional working groups. In all cases, the leadership of INTOSAI activities comes from within INTOSAI. Whether it is a rotating or a permanent role, SAIs always fill the leadership positions and generally provide the requisite support. While some services (like printing or conference management) may be contracted out—the direction, staffing, and the majority of material resources come from the SAIs fulfilling the leadership roles. Thus a critical factor in the successful operation of the regional working groups is the commitment, ownership and involvement of SAIs.

156. The organizational leadership and staffing model applied in INTOSAI's Regional Workings is patterned after the INTOSAI Secretariat in Vienna, Austria. In this model:

- (i) the SAI Head serving as the Secretariat provides sustained leadership across several years—although the length of service varies from region to region, it is usually longer than the chair/president's term
- (ii) the SAI Head serving as the Secretariat assumes responsibility for contracting for such services as may be needed from time to time
- (iii) the SAI serving as the Secretariat provides 'in-kind' contributions of staff, office space, and other resources to support the Secretariat functions
- (iv) the Secretariat collects and manages monies taken in through member dues, voluntary contributions, conferences, training, and other activities and prepares financial reports according to requirements established by the Regional Group
- (v) occasionally the Secretariat is reimbursed from the Regional Group's budget for some administrative costs, but generally expenses are paid from the SAI's own budget; and
- (vi) the Secretariat reports regularly to the region's Governing Board or to all members at the regional congress.

157. Currently New Zealand's SAI serves as PASAI's Secretary General executing the duties described above and reporting to PASAI Congresses.

158. INTOSAI's two special ongoing activities, the *International Journal of Government Auditing (Journal)* and the INTOSAI Development Initiative (IDI), operate under a different model. In this model, INTOSAI's Governing Board agrees on which SAI shall head the *Journal* or IDI and on the following.

- (i) the organization is incorporated under the laws of the country of the SAI Head organizing the activity, and the SAI Head (or their designee from within the SAI) becomes the President/Director/Chair of the Board of the corporation
- (ii) a Board of Directors is established and the SAI Heads responsible for the *Journal* and IDI report regularly to their Boards as well as to the INTOSAI Governing Board
- (iii) staff to support the *Journal* and IDI operations come from within the sponsoring SAI and /or other SAIs as "in-kind" contributions of services; and
- (iv) the SAI Head (or designated representatives) may solicit resources and funding, contract for services, commit resources, and perform other such services as required to deliver products and services.

3. INTOSAI Regional Working Groups: Implications for PASAI Organization

159. The regional working groups operate under the INTOSAI statutes. Article 5c of these statutes establishes that the Governing Board has the authority to “recognize regional working groups wishing to cooperate as such within INTOSAI.” Across time, seven such groups have applied for status and received Governing Board recognition. The following table provides a complete listing of the regional working groups and indicates when they were recognized by the Governing Board.

Table 5.1: INTOSAI Regional Working Groups

Regional Working Group	Year Recognized by the Governing Board: Official Working Languages
Organization of Latin American and Caribbean Supreme Audit Institutions (OLACEFS)	1965: Spanish, Portuguese
African Organization of Supreme Audit Institutions (AFROSAI)	1976: English, French, Arabic
Arab Organization of Supreme Audit Institutions (ARABOSAI)	1976: Arabic, English, French
Asian Organization of Supreme Audit Institutions (ASOSAI)	1978: English
Pacific Organization of Supreme Audit Institutions (PASAI)	1987: English
Caribbean Organization of Supreme Audit Institutions (CAROSAI)	1988: English
European Organization of Supreme Audit Institutions (EUROSAI)	1990: English, French, Spanish, German, Russian

Source: www.intosai.org (accessed 28 March 2008)

160. INTOSAI’s Governing Board exercises limited oversight relative to the Regional Working Groups. The Regional Working Groups provide their goals and organizational structures when applying for recognition and the INTOSAI Governing Board considers these when granting official INTOSAI status. Several years ago, AFROSAI approached the Governing Board about splitting into two groups, AFROSAI-English and AFROSAI-French; however, this approach was discouraged and within INTOSAI, the African SAIs are treated as a single AFROSAI Regional Working Group. Likewise, the Southern African Development Community Organization of Supreme Audit Institutions (SADACOSAI) considered applying for independent status as a new Regional Working Group, but decided to remain an AFROSAI subset known as SADCOSAI/AFROSAI-E. Within this framework, they receive substantial capacity building support from the Swedish International Development Agency, the Swedish National Audit Office and the Netherlands Court of Audit, but, they operate within the established INTOSAI Regional Working Group structure.

a. Membership

161. There are two relevant factors to consider when discussing PASAI’s organizational and operational issues in terms of membership. Firstly, INTOSAI members may belong to more than one Regional Working Group. For example, Australia, Papua New Guinea and New Zealand belong to both PASAI and ASOSAI. However, for IDI training and other purposes (i.e.,

representation on the Governing Board) SAIs must “declare” which Regional Group is their primary affiliation. Secondly, Regional Working Groups may admit members who are not actually members of INTOSAI. Article III of PASAI’s Constitution sets forth the basic requirements for membership, stating that “membership shall be open to Supreme Audit Institutions of the countries, states and territories within the basin of the South Pacific.” Under this provision several of the Australian states and US insular areas who are not INTOSAI members belong to PASAI.

b. Governance Structure

162. Known variously as by-laws, statutes, or constitutions, each Regional Working Group has established policies and procedures for its internal governance and operational arrangements. The level of specificity and the issues addressed in their organizing documents vary, but at a minimum, they describe the mission and goals for the region, establish their organizational structure and membership requirements, and set out the roles and responsibilities for determining and implementing policies.

Congresses

163. Within INTOSAI, when all members gather in a decision-making assembly, they are referred to as a congress. INTOSAI congresses (INCOSAI) are held every three years, but there is no standard for the timing of Regional Congresses. While, congresses provide members with the opportunity to set broad policy guidance, more importantly they provide a forum for SAI Heads to discuss and debate current issues of importance, and participate in professional development activities.

164. Most Regional Working Groups reflect INTOSAI’s model and meet once every three years (usually in the year that INCOSAI and the Commonwealth SAI Heads are not meeting). Alternatively, during the period between the INTOSAI congresses, some of Regional Working Groups hold a Congress one year and a training program in the other year. Currently, PASAI holds an annual Congress.

Secretary General

165. The Secretary General has responsibility for managing the ongoing operations for the organization and implementing policies and decisions taken during the congresses. Although the INTOSAI Secretariat, as a permanent institution, is incorporated in Austria, the Regional Working Groups’ Secretariats operate without incorporating.

166. The procedure for appointing the Regional Group Secretariats varies. The EUROSAI statutes establish a permanent Secretariat in Spain’s Tribunal de Cuentas (SAI).³² Other Regional Groups apply various rotation schemes. For example, when asked, “For how many years has your SAI served as the General Secretariat and how is the General Secretariat selected?” the responses from the ASOSAI Secretary General and the CAROSAI Secretary General varied:

ASOSAI: “SAI-India is the General Secretariat since October 2000. The secretariat is nominated by the members of the Governing Board and ratified by the members of ASOSAI during the triennial assembly. Generally the term is for three years till the next assembly but it is renewable for another two terms subject to the approval of the ASOSAI assembly.”³³

³² Articles 13-14, EUROSAI Statutes

³³ Letter from ASOSAI Secretary General to L. Weeks dated 16 November 2007.

CAROSAI: “The Saint Lucia SAI has served as the General Secretariat for almost two years. Before the Secretariat was housed in Saint Lucia it was housed in Trinidad for twelve years. However ... when the then Secretary General indicated that it was time for another SAI to take over the responsibility of the Secretariat, the Saint Lucia SAI volunteered to do so.”³⁴

167. Article V of PASAI’s Constitution states: (i) the Secretariat shall be headed by a Secretary General, who shall be the Head of a member-institution, selected by the Assembly; and (ii) the Secretariat shall perform administrative functions including the following: (a) keeping records and files, (b) disseminating necessary information by providing continuing contact among member-institutions, and (c) performing other related duties that may be assigned to it.

168. While there is no specific mention of the length of term for the Secretary General, it has traditionally been interpreted that the Secretary General is elected at each Congress of Assembly. New Zealand’s Auditor General has served as PASAI’s Secretary General since 1994. In this capacity he has assisted IDI and ADB in preparing for and delivering training programs and worked with Congress chairs to plan and facilitate PASAI congresses.

C. Establishing the Strengthened PASAI

169. The April 2008 PASAI Congress deliberated a range of options for the strengthened PASAI, including issues of institutional form, structure and location. The Congress made many decisions on these arrangements including the establishment of the PASAI Transitional Working Group (TWG) to address unresolved matters and to drive the PRAI-implementation process, including the establishment of the strengthened PASAI.³⁵ The April 2008 PASAI Congress and the September 2008 TWG Meeting took the following decisions:

- (i) A **PASAI Governing Board** will be established comprising the Current PASAI Chair, Secretary-General, Immediate-Past PASAI Chair, Next PASAI Chair. ‘Representative’ members would be appointed on a language (geographic) basis – Melanesian, Micronesian, Polynesian, Other.
- (ii) The **Executive Director** will be an ex-officio member of the Governing Board. The Governing Board will appoint the Executive Director and the Executive Director will be responsible to the Governing Board through the Secretary-General.
- (iii) **Congresses** will be held every second year.
- (iv) The PASAI **Chairperson** and **Secretary-General** roles will remain separate, with the Secretary-General being appointed for a four-year term.³⁶

³⁴ Letter from CAROSAI Secretary General to L. Weeks dated 12 October 2007.

³⁵ The TWG comprises Cook Islands (PASAI and TWG Chair), New Zealand (PASAI Secretary-General), Fiji Islands, Northern Mariana Islands, Palau (next PASAI Chair), Papua New Guinea (outgoing PASAI Chair), Samoa and ADB.

³⁶ This issue was the subject of much discussion at the April 2008 Congress and was passed to the September 2008 TWG for consideration and resolution.

- (v) The April 2008 PASAI Congress agreed unanimously that **Suva, Fiji** will be the initial location for the strengthened PASAI Secretariat.³⁷ This would be reviewed after a period of time on terms and conditions as specified in the PASAI Charter.

³⁷ The Secretary-General and the Secretariat need not be located in the same place. Consideration criteria for the Secretariat's location included reliable communications and easy and economical access from other PASAI locations. The Suva-located PFTAC had been proposed as an option for locating the PASAI Secretariat given the close linkages between financial statement preparation (on which PFTAC advises) and auditing. However, the April 2008 Congress rejected this option as conflicting with one of the fundamental principles of the role of audit – auditor independence (to maintain independence, auditors should not be involved in accounting or commenting on their own work).

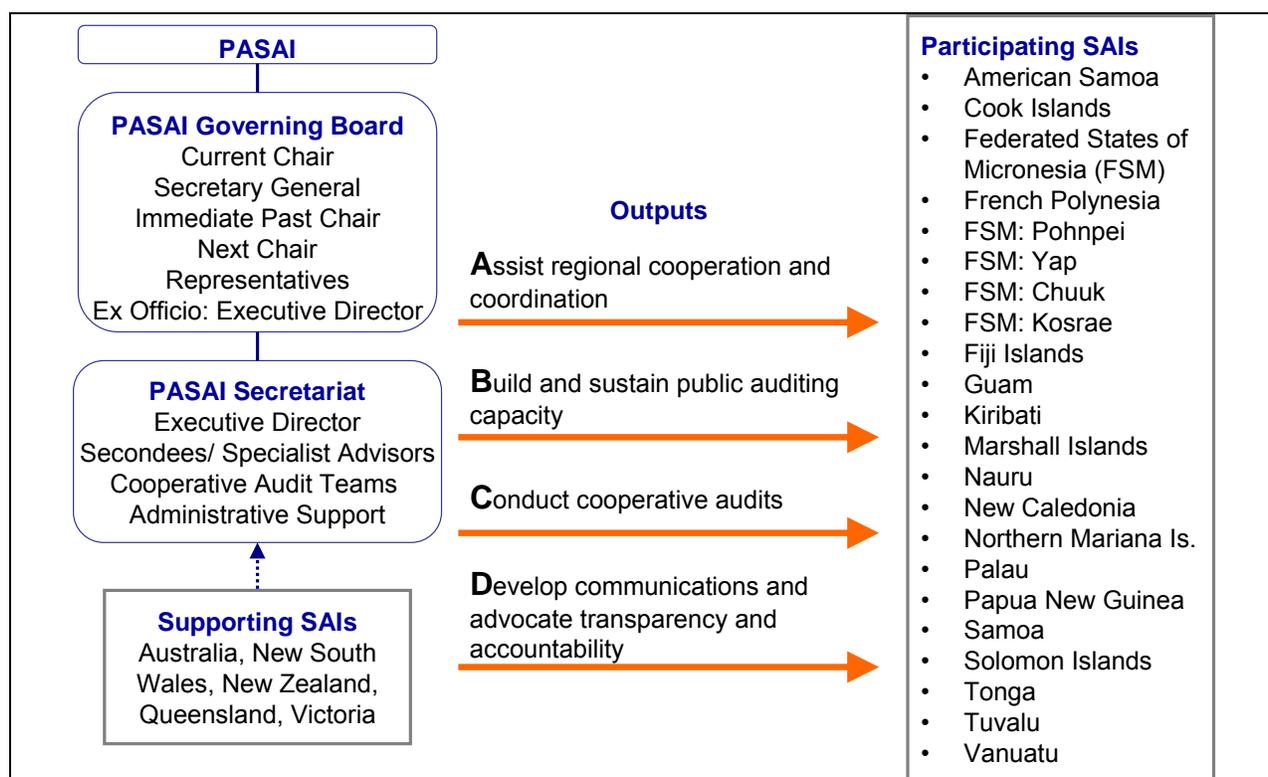
VI. THE PACIFIC REGIONAL AUDIT INITIATIVE

A. Overview

170. This section presents the PRAI, the overarching objective of which is to raise Pacific public auditing to uniformly-high standards. It will also strengthen public financial management capacity and enhance broader accountability mechanisms.

171. The PRAI will enhance the PASAI Secretariat to give it the institutional form, capacity and resources to coordinate and deliver services to PASAI SAs (see **Figure 4.1**). The initial program period will be 2008–2012 at which point the program will be evaluated thoroughly.

Figure 4.1: The Pacific Regional Audit Initiative

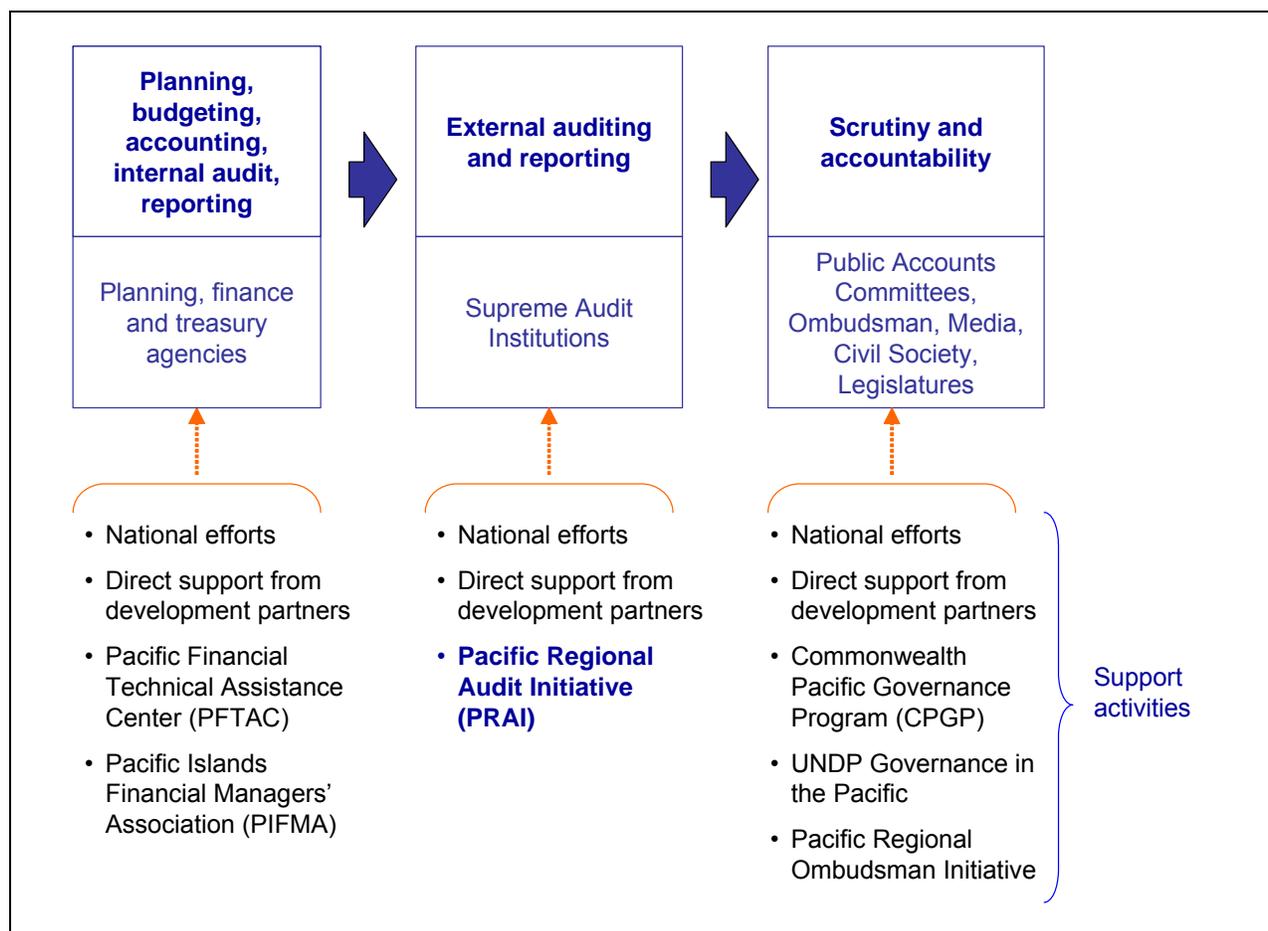


SAI = Supreme Audit Institution, PASAI = Pacific Association of Supreme Audit Institutions

172. The PASAI Secretariat will coordinate with complementary regional activities and programs, such as those offered by the INTOSAI Development Initiative (IDI).

173. The public resource accountability chain begins with planning and ends with scrutiny and accountability activities. **Figure 4.2** indicates where SAs and the PRAI fit into the accountability chain.

Figure 4.2: The Public Resource Accountability Chain



CPGP = Commonwealth Pacific Governance Program, PFTAC = Pacific Financial Technical Assistance Center, PIFMA = Pacific Islands Financial Managers' Association, PRAI = Pacific Regional Audit Initiative, UNDP = United Nations Development Programme.

B. Impact and Outcome

174. The PRAI is intended to improve transparency and accountability in managing and using public resources in Pacific Island countries. Specifically, the PRAI will enable the public accounts of participating countries to be audited, in a timely manner, to uniformly-high standards. The PRAI will also enhance the impact of audit findings and assist with performance audits. Furthermore, it is intended that by end-2012 80% of participating SAIs will be at level 3 or higher on the PASAI Capability Model.

C. Outputs

175. The PRAI will deliver the following outputs during the initial program period (2008–2012).

1. Assist Regional Cooperation and Coordination

176. PASAI is one of the Pacific's older regional bodies, with a successful track record in supporting regional cooperation and capacity-building. By providing additional resources, the PRAI will enable PASAI to build on these successes. Among other things, SAI Heads will cooperate closely to plan and monitor PRAI activities. The PRAI will deliver the following suboutputs in support of strengthened regional cooperation and coordination:

- (i) **Establish Enhanced PASAI Secretariat.** The enhanced PASAI Secretariat will be established with the new institutional form, an Executive Director and additional resources.
- (ii) **Support Regional Coordination.** To enhance regional coordination, the PRAI will provide organizational and financial support to PASAI Congresses and Governing Board meetings. The PRAI will also support the Secretariat's involvement in regional and international interactions: for instance, involvement and interaction with INTOSAI and participation in annual meetings of the Pacific Islands Financial Managers' Association (PIFMA). The PASAI Secretariat will liaise closely with regional stakeholders including APIPA, development partners, civil society and other relevant regional initiatives (for instance, the Pacific Regional Ombudsman initiative).
- (iii) **Prepare Strategies for Common Methodologies.** The PASAI Secretariat will work with SAI Heads to agree, where possible and appropriate, strategies and plans for moving towards common audit methodologies, focusing initially on performance auditing methodologies (as there is greater potential to move more quickly to harmonize regional approaches), but while not neglecting financial methodologies.
- (iv) **Prepare Programs for Cooperative Audits and Peer Reviews.** The PASAI Secretariat will prepare and maintain programs for cooperative audit and peer reviews, which Governing Board meetings and Congresses will review and monitor. The programs will identify the focus, sequencing and timing of audits and other activities and provide the basis for monitoring and evaluation.
- (v) **Establish PASAI Website.** The PASAI Secretariat will establish and maintain a website to provide SAIs access to materials from INTOSAI and other professional bodies. The website will allow PASAI members to access shell manuals, database information and other special resources. Other portions of the website will contain reports, and other information for the public and members. The PASAI Secretariat will also develop and maintain individual SAI websites.

2. Build and Sustain Public Auditing Capacity

177. SAI capacities differ across the region, but all face similar human resource capacity challenges. Common challenges include small numbers of trained and qualified personnel, the disproportionate effects in small offices of staff turnover or absences, difficulties in attracting and

retaining staff (in part due to a lack of training opportunities but also due to high external demand for auditors), and the absence of structured career and professional development paths. Moreover, SAIs face difficulties in keeping pace with changes to financial reporting and auditing standards and practices, and ensuring that audit methodologies and systems reflect these changes. The PRAI will deliver the following suboutputs to build and sustain auditing capacity:

- (i) **Prepare Guidance and Training Materials.** The PRAI will develop best-practice guidance materials covering financial and performance audits, investigations, operations (including human resource management, risk management, corporate and strategic planning) and peer review. Materials will be endorsed formally. The materials will provide PASAI members with the technical information needed to plan and conduct audits, including standards and guidelines for implementing standards together with templates and sample forms and checklists. Support will be given to SAIs to adapt these manuals to their own environments. The materials will draw on previously developed PASAI guidance including those materials prepared in partnership with IDI. The initial focus will be developing a shell manual for conducting cooperative financial and performance audits. The shell manuals will draw upon INTOSAI Guidelines and the experiences of other SAIs and will include information about structuring and planning audits as well as templates that can assist in conducting the work.
- (ii) **Develop Generic Competencies and Deliver Structured Training Program.** The efficacy of regional training programs could be improved by matching competencies and designing courses to align with career structures. To that end, the PRAI will prepare a generic set of job descriptions and competencies, which will enable the design and delivery of a long-term training program in conjunction with universities, IDI, professional associations, and other training providers. Because professional development for audit and support staff promotes improvements in the quality of audit reports, establishing a comprehensive career training plan and delivering training programs is important. Comprehensive curricula for audit and support staff, endorsed by the Governing Board, will provide the basis for developing and delivering training. Training will require the preparation of action plans to demonstrate how skills learnt will be applied in each SAI. In developing the training program, attention will be given also to identifying professional development topics to be included at PASAI Congresses. Where possible, training will make use of existing programs and modify these to make them suitable for PASAI member SAIs. The training will build on lessons learned from previously delivered training in the region and will be supplemented by in-country support and follow-up. Training will be closely linked to those areas covered by the guidance materials.
- (iii) **Support Attainment of Professional Accountancy Qualifications.** Personnel face significant barriers in attaining professional accountancy qualifications: tertiary qualifications may not be recognized, practical experience may not be accepted, entrance and ongoing membership fees are high, and meeting continuing professional education requirements can be difficult. In this connection the PASAI Secretariat will work with regional professional bodies to explore ways to reduce these barriers. Moreover, the Secretariat will consider the applicability of international professional qualifications to the Pacific (for instance, internal audit qualifications).

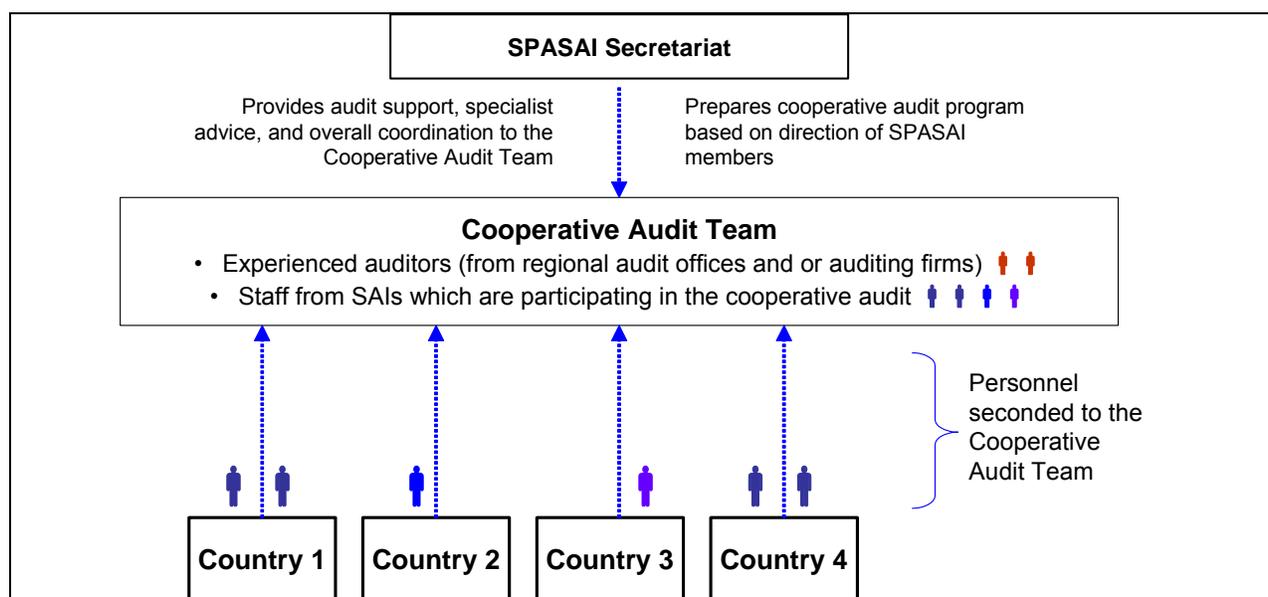
- (iv) **Support Peer Reviews and Institutional Strengthening Designs.** Peer reviews are internationally accepted as an effective quality assurance tool. INTOSAI is currently developing peer review standards and peer reviews are required by U.S. Government Auditing Standards. Moreover, U.S. insular areas have already successfully introduced a peer review program. Recognizing INTOSAI progress on peer review standards, the PRAI will work with SAIs to develop peer review guidelines and establish and support peer review teams. Moreover, the peer review process will help define institutional strengthening requirements and approaches. The PRAI will support in-depth SAI institutional and capacity assessments, leading to the design of institutional strengthening programs (however care will be taken not to duplicate diagnostic efforts already undertaken).
- (v) **Support Improved Contract Management.** The PRAI will develop a generic model for contracting out and assuring the quality of audits completed by private sector auditors on behalf of the SAI. Guidelines will also be prepared on contract management and engagement of specialists. The PASAI Secretariat will provide direct advice to SAIs on negotiating and managing contracted-out audits.
- (vi) **Provide Management and Operational Support.** The PRAI will provide advice and support on strategic and corporate planning, records management, internal performance management and reporting, human resources, legal, information technology and communications, and funding models. Among other things, the PRAI will investigate the use of computer-based audit and performance management software, and support the sharing of management expertise from SAIs which have established effective planning and management systems.
- (vii) **Provide Technical Support.** Few SAIs are large enough to establish and sustain the in-house technical capacity necessary to respond to the increasingly-complex financial reporting and auditing environment. Recognizing the benefits of regional economies of scale, the PRAI will provide advice to SAIs on technical accounting and audit issues, and related issues, such as approaches to align governing legislation with the 2008 Mexico Declaration.
- (viii) **Facilitate Secondments and Attachments.** The PRAI will facilitate secondments and attachments by providing information on opportunities, secondees selection, mobilization and administrative arrangements. Financing of secondments or attachments will be by bilateral arrangement and not by PRAI.

3. Conduct Cooperative Financial and Performance Audits

178. Cooperative audits involve multiple institutions working together on a single audit.^{38,39} Cooperative audits enable high quality audit services to be delivered—particularly in specialist or complex areas—and support effective capacity development. The PRAI will support cooperative audits that result in joint audit reports and individual national reports. SAI Heads will authorize individual reports.

179. The Governing Board and Congresses will determine cooperative audit topics. Individual SAIs will consider the audit topics and decide whether to participate in the cooperative audit. A cooperative audit team will be then established. Cooperative audit team members will work mainly in their own jurisdiction, but the team will come together at key points: at the planning stage and when the joint audit report is prepared. The team will draw on specialist expertise while undertaking the audit. **Figure 4.3** presents this approach. In those SAIs where capacity is limited, a participating SAI may wish to pool staff with a stronger SAI to derive the benefits from participating in the initiative.

Figure 4.3. The Cooperative Audit Approach



SAI = Supreme Audit Institution, PASAI = Pacific Association of Supreme Audit Institutions

³⁸ See *Cooperation between Supreme Audit Institutions, Tips and Examples for Cooperative Audits, November 2007* prepared by the INTOSAI Working Group on Environmental Auditing. Other guidance on cooperative audits is the *Good Co-operation Practice Guide for Audit Activities based on experience gained by SAIs in the Candidate Countries and the European Union* prepared by the EU Contact Committee and Candidate Countries Joint Working Group on Audit Activities (undated).

³⁹ INTOSAI classifies cooperative audits as joint, concurrent (or parallel) and coordinated audits:

- **Joint audit:** Conducted by one audit team comprising auditors from multiple SAIs, which prepares a single, joint audit report for publication in all participating jurisdictions.
- **Concurrent (or parallel) audit:** Conducted by multiple SAIs, but with separate audit teams from each SAI reporting to their own legislature or government, and only on the observations and or conclusions pertaining to their own jurisdiction.
- **Coordinated audit:** Any form of cooperation between joint and concurrent audits. In a coordinated audit, participating SAIs coordinate their audit approaches in some way, but differences between countries are possible. It can be a joint audit with separate reports or a concurrent audit with a joint audit report in addition to a separate national report.

180. The PRAI will deliver the following cooperative audit-related suboutputs:

- (i) **Conduct Cooperative Financial Audits.** The cooperative audit program will include entity or sector-focused financial audits. For example, cooperative financial audits might be undertaken of water supply projects, public debt or provident funds. It is envisaged that the financial audits will extend beyond attestation to legislative compliance, waste and probity.

Each participating SAI will report individually to their legislature. Joint regional audit reports will be also prepared and disseminated. For example, the joint cooperative audit report on water supply projects might identify common regional matters—for instance, revenue collection issues, system maintenance costs and comparative efficiency.

- (ii) **Conduct Cooperative Performance Audits.** The cooperative audit program will include entity or sector-focused performance audits.⁴⁰ Potential examples include performance audits of infrastructure projects (say road projects with an emphasis on environmental aspects), pharmaceutical purchasing and distribution, and procurement practices.

- (iii) **Undertake Subregional Audit Support (SAS) Program.** An SAS Program will be introduced for Kiribati, Nauru and Tuvalu.⁴¹ The SAS Program's objective is to enable the public accounts of these countries to be audited to uniformly high standards in a timely manner. The Program will also strengthen in-country public financial management capacity and enhance accountability mechanisms. The Program will establish an SAS Team which will work with the three SAIs to primarily conduct financial audits. SAS Team members will be seconded from each SAI and will be led by external audit staff with practical auditing and training experience (see Figure 4.3).

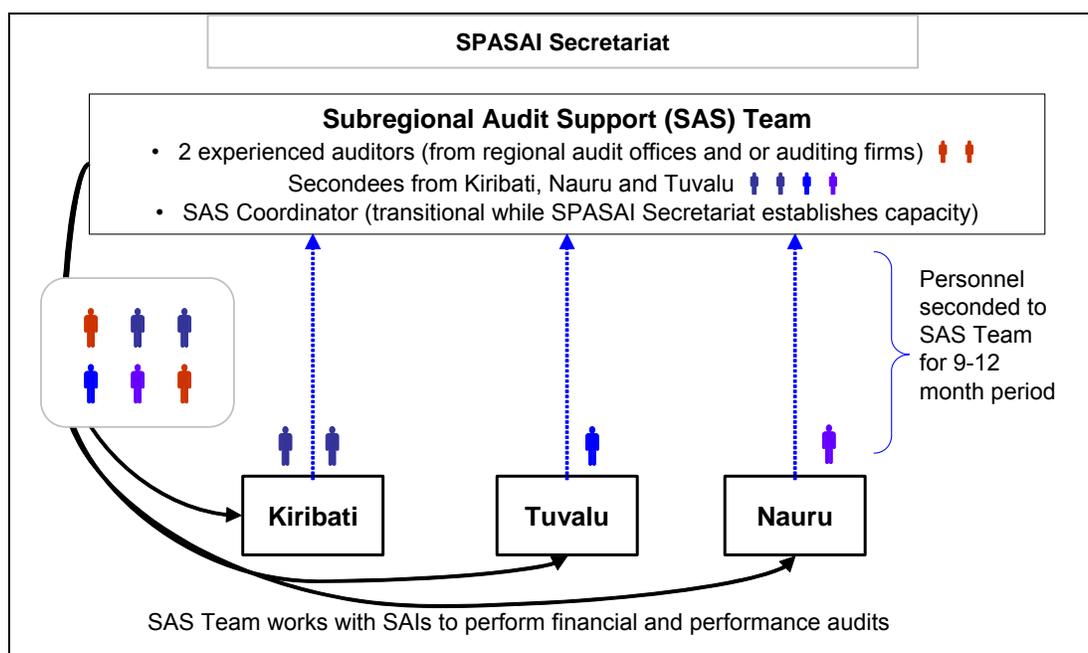
The SAS Team will be based in the PASAI Secretariat. A jointly-agreed audit program will determine the timing and focus of SAS Team visits to each participating country. The PRAI will backstop and supplement the SAS Program. The SAS Program will work in the following areas during the initial program period (2009-2012):

(a) Strengthen Subregional Cooperation and Adopt a Common Methodology. Participating Auditors-General will cooperate closely to plan and monitor activities through preparing and maintaining a rolling subregional audit program. While the participating countries have broadly similar Commonwealth-based accounting and auditing frameworks, differences exist which could hinder subregional cooperation (for instance, audit methodologies vary). Therefore the SAS Team will work with Auditors-General to agree and implement a common audit methodology based on International Standards on Auditing.

⁴⁰ A performance audit is an audit of the economy, efficiency and effectiveness with which an audited entity uses resources to carry out its responsibilities.

⁴¹ The subregional group reflects their geographical adjacency (albeit transport links are indirect), indications of interest, small populations, currency unit (Australian dollars) and similar auditing and accounting environments.

Figure 4.4: The Subregional Audit Support (SAS) Approach



SAI = Supreme Audit Institution, SAS = Subregional Audit Support, PASAI = Pacific Association of Supreme Audit Institutions

(b) *Enhance Financial Audits of Public Accounts.* The timeliness and quality of public accounts varies among the participating countries.⁴² The timeliness of public accounts preparation has improved dramatically in recent years; both Nauru⁴³ and Tuvalu are up to date. Kiribati is just behind having prepared their most recent public accounts for FY2004. Kiribati and Nauru use a cash accounting basis when preparing the public accounts, whereas Tuvalu has started to move to an accrual accounting basis. There is a need to improve audit impact—the application of audit findings needs to be greatly improved through a mix of strategies. Greater transparency through more interaction with civil society along with more focused and effective report-writing and report follow up processes will increase the incentives for auditees to take action on audit findings. The SAS Team will work under the guidance of the Auditors-General to perform financial audits of the annual public accounts, including the preparation of audit opinions and reports.⁴⁴ The SAS Team will also support their dissemination to PACS, legislatures and civil society. As separate accounts are prepared in Kiribati for each component part of the public accounts, the SAS Team may focus initially on a component part, rather than the full public accounts.

⁴² The public accounts are the core Government financial statements. Developing countries' public accounts are usually prepared on a cash accounting basis. It is usual for cash transactions with public enterprises to be disclosed in the public accounts (e.g., capital contributions, subsidies paid or dividends received)

⁴³ The accounts in Nauru have been prepared for FY 2006 and FY 2007, but the absence of records prevents the preparation of prior-year accounts.

⁴⁴ Given the generally poor state of accounting records and financial statement preparation, the SAS Team is likely to provide some advice and assistance on financial statement presentation, but not to the extent that this undermines auditor independence. Parallel assistance on financial statement preparation will be examined on case-by-case basis.

(c) *Undertake Performance Audits.* The participating SAIs all have explicit or implicit mandates to undertake performance audits.⁴⁵ In accordance with the agreed subregional audit program, the SAS Team will work with each SAI to undertake performance audits; for example in infrastructure management or procurement. However, it is envisaged that the SAS Team's initial focus will be on financial audits of the public accounts.

(d) *Undertake Public Enterprise Audits.* In accordance with the agreed SAS Program, the SAS Team will work with each SAI to undertake financial audits of public enterprises, but will not, however, undertake audits which are being performed by private sector auditors on behalf of the SAI. However, as with performance auditing, the SAS Team's initial focus will be on financial audits of the public accounts.

(e) *Train Secondees and SAI Personnel.* SAS Team secondees will receive high-quality training and experience. Moreover, during their time with each SAI, the SAS Team will train SAI staff and related staff (such as in the Department of Finance). This training will include updates on international developments, the audit's focus, the SAS Team's approach, and how to interpret and communicate audit findings. Furthermore public finance professionals working in the subregion are unable to obtain the necessary practical experience required for professional memberships. It is envisaged that the strengthened PASAI Secretariat will advocate to regional professional bodies, the recognition of SAS Team experience for professional qualifications.

⁴⁵ The Kiribati SAI has no explicit mandate to undertake performance audits, but the Auditor-General regards such a mandate as implicit in the requirement to undertake financial audits. The Kiribati SAI does undertake some performance auditing and reports on the results in the audit report presented to Parliament. The Tuvalu SAI has a mandate to undertake performance audits, but due to a lack of capacity has been unable to do so.

4. **Develop Communication and Advocate Transparency and Accountability**

181. Audit findings and recommendations often go unheeded in the region—it isn't uncommon for audit reports to repeat recommendations that were first made ten years' prior. Among other things, the impact of audit recommendations depends on how those recommendations are presented. Moreover, given the environments in which most Pacific SAIs operate, it is often challenging for SAIs to advocate for enhanced independence or to improve audit follow up. The PRAI will deliver the following suboutputs to strengthen communication and advocate transparency and accountability:

- (i) **Educate Stakeholders on Public Auditing.** Stakeholders often misunderstand and or undervalue public auditing. Consequently auditees, legislators, public accounts committees, financial management personnel, media, civil society, citizens and development partners have mismatched expectations of auditing and resources allocated to SAIs are inadequate. The PASAI Secretariat will develop informational materials highlighting the focus and relevance of SAIs' work and assist SAIs to convey this information to stakeholders.
- (ii) **Advocate Enhanced Transparency and Accountability.** In keeping with the Pacific Island Forum's Eight Principles of Accountability, the PASAI Secretariat under the guidance of the PASAI Governing Board will prepare and publish an annual report on the regional status of SAI independence, audit finding follow-up, and other issues of concern to SAIs.
- (iii) **Provide Editorial and Communications Advice.** A key measure of an SAI's effectiveness is the impact of its recommendations. The PRAI will provide editorial support to SAIs to improve the communication of their findings and recommendations, including preparation of media releases. Communications training and advice will be also provided to SAI heads and staff, including on how to present findings to public accounts committees and auditees.

D. Cost Estimates

182. **Table 4.1** summarizes the cost estimates for the initial program period (2008–2012), which are estimated to be \$11.287 million, including contingencies and secondee salary costs. **Appendix 4** presents detailed cost estimates.

Table 4.1: Cost Estimates (2008-2012)

Item	Amount (\$'000) ^a
A. Base Costs	
1. Assist regional cooperation and coordination	1,618
2. Build and sustain public auditing capacity	3,330
3. Conduct cooperative financial and performance audits	5,141 ^c
4. Develop communication and advocate transparency and accountability	519
Total (A)	10,608
B. Contingencies^b	679
Total (A+B)	11,287

Source: PASAI estimates.

^a In 2008 prices.

^b Physical contingencies are computed at 5%. Price contingencies computed at an average of 2% per annum.

^c Includes secondee salaries, which participating governments will continue to pay (\$696,000).

E. Financing Plan and Funding Options

183. **Table 4.2** presents the draft financing plan for the initial program period (2008–2012). It is anticipated that support for the transitional period (2008–late-2009) will be provided by ADB (\$1,300,000), AusAID (\$400,000) and IDI (to be determined). This financing will align with the Phase I implementation objectives (see below) and will support, among other things, the preparation of a 3-year work program and budget, including a business plan and a long-term funding strategy. The funding strategy will consider cost-recovery options.

184. PASAI intends operating beyond the transition period on a PFTAC-type funding model. There is significant flexibility within the cost estimates, for instance to tailor the capacity-development program or the cooperative audit program to fit within available resources.

Table 4.2: Indicative Financing Plan (2008–2012)

Source	Amount (\$ 000)
A. Total Financing Required	11,287
B. Anticipated Financing (by October 2008)	
Phase I (anticipated from ADB, AusAID and IDI)	1,700
Government (in-kind costs associated with secondee salaries)	696
Total anticipated financing	2,396
C. Financing to be covered by Funding Strategy (A–B)	8,891

Source: PASAI estimates.

F. Implementation Arrangements

185. The PASAI-strengthening process will occur in two phases during 2008–2012:
1. **Phase I: Establish Strengthened PASAI Secretariat and Initial PRAI Implementation (2008–late 2009)**
186. Phase I activities include:
187. **Establish Strengthened PASAI Secretariat** by analyzing legal and institutional issues regarding the PASAI Secretariat, designing institutional structures and positions, engaging PASAI Secretariat staff and establishing administrative arrangements. Options for longer-term PASAI funding will be also identified in consultation with potential funders.
188. **Design Capacity Development Program** by developing generic competencies and job descriptions on the basis of which a structured 3-year capacity-development program will be developed. The capacity-development program will include costed, sequenced and prioritized activities.
189. **Initiate Cooperative Financial and Performance Audits:**
- (i) This will involve establishing the SAS program for Kiribati, Nauru and Tuvalu, which will include updating the SAS program design, agreeing SAS program implementation plans, and establishing and mobilizing the SAS team to conduct the first round of SAS financial audits. The SAS team will comprise consultants and secondees from participating countries. The TA will support SAS program meetings in November 2008 and in March 2009 (to coincide with the TWG meeting).
 - (ii) The TWG will identify and prioritize cooperative performance audit topics, on the basis of which, support will be provided to develop a design for the identified cooperative audit, and to present the program and the design to the XIIth PASAI Congress for consideration, endorsement and implementation.
190. **Prepare and Release First PASAI Annual Report** on regional accountability and transparency issues.
191. These start-up activities will focus on establishing the enhanced PASAI Secretariat in Suva, forming the SAS and initiating the cooperative performance audit. The first priority will be recruiting the Program Coordinator for the enhanced PASAI Secretariat. Concurrent to this activity, an SAS Program coordinator will be engaged to initiate work on the SAS Program. The two key initial tasks of the strengthened PASAI Secretariat in Phase 1 will be to establish the governance arrangements for the Secretariat and to develop a three-year program, to be approved by PASAI members, which will include the cooperative audit program and the capacity development program. The cooperative audit program will be initially modest (in terms of scope and topic) in order to build understanding of the approach, have realistic deliverables and ensure early gains. The capacity development program will be designed to support SAls raising their competency standards to those outlined in this report. The three-year program will be the key document to support funding requests to donors.

2. Phase II: Expand PRAI Activities (2009–2012)

192. Once the strengthened PASAI Secretariat is established and key positions filled, the PRAI will begin to deliver technical and management assistance to PASAI members in accordance with the approved three year program. The program will be updated annually (in other words, it is a rolling program) in consultation with PASAI members. The Secretariat will also develop and implement reporting arrangements to members and funders. After the initial establishment period, the SAS program could be expanded: (a) as the SAS approach demonstrates its effectiveness in improving audit quality and timeliness and building in-country capacity, additional SAIs may wish to join the SAS Program. Expansion options will be reviewed on a case-by-case basis; (b) the scope of audits could be extended, beyond the initial focus on financial and performance audits to include, for example, compliance, risk management and environmental audits; and (c) the SAS Team's size can be expanded to incorporate more staff from participating SAIs.

193. **Figure 4.5** presents the 2008-2012 implementation schedule.

194. The PRAI will be managed by the Executive Director of the enhanced PASAI Secretariat, once established, under the oversight of the Secretary-General and the Governing Board. The Executive Director will prepare a three-year outline work plan and a draft detailed annual work plan for the next twelve months which will be discussed and agreed with the Secretary General and the Governing Board.

Figure 4.5: Implementation Schedule: 2008–2012

Key Activities	Phase I		Phase II		
	2008	2009	2010	2011	2012
Calendar					
INCOSAI (South Africa)					
PASAI Congresses					
APIPA conferences					
Commonwealth Auditors-General meetings					
PRAI Consultation and Approval					
Pacific Plan Action Committee (July)					
Forum Island Leaders (August)					
Strengthen PASAI Secretariat					
Transitional consultants appointed					
PASAI Secretariat established					
Governing Board and Secretary-General appointed					
Governing Board meetings					
PASAI Secretary-General elected					
Executive Director appointed					
Capacity Development					
Generic set of competencies confirmed					
Structured training program developed and endorsed					
Guidance materials prepared					
Regional training courses conducted					

Key Activities	Phase I		Phase II		
	2008	2009	2010	2011	2012
Contract management support provided					
Management and operational support provided					
Technical support provided					
Peer reviews supported					
Cooperative Financial and Performance Audits					
Cooperative audit programs agreed					
Subregional audit support program undertaken					
Cooperative financial audits conducted					
Cooperative performance audits conducted					
Communication and Advocacy					
Establish PASAI web site					
Media articles published					
Annual PASAI report					
Training courses on communications					
Editorial services to SAIs					
Monitoring and Evaluation					
Mid-term review					
Program evaluation					

3. Program Management

195. The PASAI Governing Board will oversee the program. The Governing Board will comprise PASAI members and will be elected by the PASAI Congress. At each Governing Board meeting, members will review progress against the Secretariat work plan and objectives. The Executive Director will report to the Secretary-General on a day-to-day basis.

196. **SAS Program Management.** The PASAI Secretariat will manage the SAS Program under the oversight of a SAS Governing Committee. Until the PASAI Secretariat is established, the SAS Program will be established and managed by a program coordinator under oversight of the Governing Committee. The Governing Committee will comprise the Auditor-General of each of the three SAIs along with the PASAI Secretary-General. Development partner representatives will also be on the Governing Committee. One of the subregional Auditors-General, appointed by consensus, will act as Chair.

4. Human Resources

197. The PASAI Executive Director will be appointed through a competitive process on a 12-month extendable contract. Administrative staff and experts will be appointed on long-term or short-term contracts or via secondment arrangements. The special arrangements for resourcing the cooperative audit teams and the SAS team are described below.

198. **Cooperative Financial and Performance Audits.** Under the PASAI Secretariat's coordination and guidance, each SAI participating in a cooperative audit will identify suitably qualified and/or experienced staff to be involved in the audit. The length of involvement will depend on the size and complexity of the planned audit. While the staff will be based primarily in

their home country, there may be some international travel required (such as to attend an audit planning and audit finalization meetings). Each participating SAI is responsible for the salaries of their staff and costs associated with audit activities within their own country. The Secretariat will be responsible for funding travel and allowances when staff travel outside their country for approved activities.

199. **Subregional Audit Support Program.** Each participating SAI will supply personnel to the SAS Team for 9-12 months, during each SAS Program “year”. Recognizing the direct benefits which will flow from the SAS Team’s services, participating countries will continue to pay secondees’ salaries. The SAS Program will provide travel, living allowances and medical insurance in line with standard secondment arrangements around the region. Secondees will ideally be accounting diploma or degree holders, with potential for further career development and advancement. Given Kiribati’s relatively larger size, the SAS Team will host two Kiribati secondees. There will be one secondee from each of Nauru and Tuvalu.

5. Selecting and Managing PRAI Experts

200. An AusAID study of capacity building in public finance concluded that “at the very least, [external] adviser[s] must be technically competent and have the interpersonal skills needed to ensure they are able to work well with, and transfer skills to, local staff. A common view was that, in the main, the experience and background (particularly previous development aid experience) of an adviser was relatively unimportant – that the key to success lies with their personal attributes and commitment to the task.”⁴⁶

201. When selecting experts to support the Secretariat or SAS, the following qualities will be sought:

- **Technical Qualities:** (i) technical expertise and direct practical experience of the highest order (an essential quality); (ii) the capacity to work at both the strategic and operational levels; (iii) able to demonstrate their operational capacity by performing line tasks within the Partner Agency; (iv) conceptual and analytical skills; (v) problem-solving skills; (vi) organizational development skills and knowledge; and (vii) knowledge of, and adherence to, the boundaries of his/her role, or consulting extensively prior to any departures so that these are understood and endorsed.
- **Interpersonal Qualities:** (i) well developed interpersonal skills (an essential quality); (ii) people management skills; (iii) communication skills; (iv) presentation and on-the-job training skills; (v) cultural awareness/ sensitivity; (vi) flexibility and responsiveness; (vii) patience; (viii) non-aggressive manner; and (ix) discretion.
- **Other Abilities:** (i) ability to learn the local language (an issue in Vanuatu); and (ii) capacity to ‘celebrate project achievements’.
- **Experience:** (i) experience working in government or directly in the technical field; and (ii) experience working with different cultures.

⁴⁶ AusAID. 2004. Capacity Building in Public Finance: An evaluation of activities in the South Pacific. Canberra: AusAID. p. 65-66.

202. The PRAI Expert selection process will be rigorous, as a poor selection will have a large impact on efficacy. The following mitigating strategies will be applied:⁴⁷

- (i) Relevant SAI Heads will be involved in selections. Joint selection helps build ownership of the project (this will add a cost to the selection process, but this is offset by the reduction in risk associated with a poor selection).
- (ii) Selection processes will be designed to test interpersonal as well as technical skills, and advisers must meet both sets of criteria: technical expertise is considered of little value if the adviser does not have the ability to share their expertise and work well with their counterparts.

6. Performance Monitoring

203. Ongoing monitoring of PRAI performance will culminate in a formal assessment at the end of 2012. From 2009-2012, the Executive Director will report regularly to the Secretary General. The Secretary General will present an annual financial and performance report to the Governing Board, which will identify how PRAI resources have been allocated to PASAI member countries. The Program's impact will be monitored through PRAI status reports (including SAI capability assessments), stocktakes of audited public accounts, and movements in selected PEFA public financial management performance measurement framework indicators.⁴⁸

7. Reviews and Evaluation

204. The PASAI Secretary General and cofinancing partners will conduct annual review missions. The reviews will consider budgetary allocations, operation and maintenance costs, staffing and other incremental recurrent costs, implementation arrangements, and Program achievements. The review will include assessing progress, identifying difficulties and constraints, and identifying corrective approaches.

205. In addition, the PASAI Secretary General and cofinancing partners will jointly conduct a mid-term Program review. The mid-term review will: (i) review the scope, design, and implementation arrangements; (ii) assess performance against targets and benchmarks; (iii) review implementation lessons and experiences; (iv) review compliance with the [grant] agreement; and (v) recommend project implementation changes if required.

206. The PASAI Secretary General and cofinancing partners will evaluate the Program in 2012 to determine whether it should be continued and, if so, what changes might be made to improve efficacy and efficiency.

⁴⁷ AusAID. p. 67.

⁴⁸ The relevant performance indicators (PI) will be PI-10 (public access to key fiscal information); PI-25 (quality and timeliness of annual financial statements); PI-26 (scope, nature and follow-up of external audit); and PI-28 (legislative scrutiny of external audit reports).

VII. BENEFITS, IMPACTS, ASSUMPTIONS AND RISKS

A. Benefits

1. Improving Transparency and Accountability

207. Fiscal transparency aims at enhancing the public's understanding of the structure and functions of government, fiscal policy intentions, the soundness of public sector accounts, and fiscal projections.

“Enhanced transparency is particularly important for small states, because they are at an informational disadvantage compared to large countries—foreign investors tend to know less about them—while at the same time they are more open and dependent on foreign capital. In an increasingly globalized world, small states need to compete with large countries that investors are more familiar with, that benefit from economies of scale, and that suffer less from isolation.”⁴⁹

208. **Enhancing the Timeliness and Reliability of Financial Information.** The absence or late provision of audited financial information fundamentally undermines accountability mechanisms. Furthermore, without timely and reliable information on emerging issues, policy-makers are unable to react in a timely manner to emerging crises and problems. Although some countries have made significant progress to reduce audit backlogs—in line with the general Pacific-wide trend for improved financial information—others have far to go. The PRAI is intended to enhance the timeliness and reliability of financial information.

209. **Improving Audit Impact.** There is a pressing need to improve audit impact. Audit recommendations and observations—where made—often go unheeded. The PRAI will focus on improving the application of audit findings. Greater transparency through more interaction with civil society along with more focused and effective report-writing and report follow-up processes will increase auditees' incentives to take action on audit findings. In that connection, the PRAI will support improved audit reports and their communication, and the understanding of those reports by public accounts committees, legislators and other stakeholders.

210. **Safeguarding Public Revenues and Assets.**⁵⁰ Several Pacific countries have established sovereign funds to manage revenue uncertainty and support fiscal sustainability.⁵¹ Given the reliance of many Pacific island states on volatile export bases—such as tourism, fishing licenses, remittances and development assistance—these funds are a tool for short-term stabilization, long-term savings, and or long-term budgetary self-reliance. Many Pacific Island countries also have provident funds (retirement funds).

211. Most of these funds have high levels of oversight, including the requirement for regular, independent, high-quality audits. Others do not. It is worrying that certain funds in the region have not been audited for several years.

⁴⁹ Cas, Stephanie Medina and Rui Ota. 2008. Big Government, High Debt, and Fiscal Adjustment in Small States. IMF Working Paper WP/08/39.

⁵⁰ This section draws heavily on Le Borgne, Eric and Paulo Medas. 2007 December. Sovereign Wealth Funds in the Pacific Islands Countries: Macro-Fiscal Linkages. Washington: International Monetary Fund.

⁵¹ These funds were set up with revenue from non-renewable sources (Kiribati, Timor-Leste, Papua New Guinea, Nauru), revenue windfalls (Tonga, Tuvalu), and or donor contributions (Tuvalu, Marshall Islands, Micronesia, and Palau).

212. Any unforeseen difficulties will have significant flow-on effects such as salary arrears and sudden service cutbacks. The civil unrest associated with the near-collapse of the Vanuatu National Provident Fund and other state-owned financial institutions in 1998, illustrates the potential real impacts of poor governance of funds.⁵² The PRAI is intended to ensure that these funds are audited to high standards in a timely manner.

213. **Supporting Fiscal Adjustment.** Transparency can support fiscal adjustments in small states by creating wider public support and understanding of government policies. In addition, transparency can help investors make better-informed assessments on risk and lending to small states, and can reassure financial markets and donors on the Government's fiscal goals.⁵³

214. A recent study suggested that improving governance (government effectiveness) may help small states reduce public and external debt and thus support fiscal adjustment. This means that small states should strive to improve their institutional capacity to devise and implement government policies and improve the quality of public services and the civil service. Weaknesses in the delivery of government services, combined with the fact that small states tend to have larger governments, may well lead to over borrowing and higher public debt in small states. Measures that enhance policy credibility, such as increasing the accountability of the government to fiscal targets, regular publication of economic data, and improving transparency, should also help raise government effectiveness.⁵⁴

2. Enhancing Governance and Development Outcomes

215. Governance arrangements affect development outcomes. Sound auditing practices are integral to good governance. One examination of [175] economies found strong positive relationships between good governance arrangements and per capita incomes, infant mortality rates and literacy rates.⁵⁵

216. Furthermore, *Toward a New Pacific Regionalism* presented estimates of the cost of poor governance in the region.⁵⁶ The report noted that Pacific governance rankings tend to fall below the global median.⁵⁷ The report noted also that—despite decades of donor flows and natural resource exploitation—per capita income in many Pacific island states had stagnated or declined since independence. Specifically, the report contended that:⁵⁸

⁵² In early 1998, allegations by the Ombudsman of political bias in the investment policies of the Vanuatu National Provident Fund (VNPF) resulted in serious civil disturbances in Port Vila, followed by a Government decision to authorize the unconditional refund of all VNPF contributions. Because the VNPF itself could provide less than half the required funds, the Government as guarantor had to make up the shortfall, leaving it with a projected overall budget deficit of 14 percent of GDP and posing a major challenge to both fiscal and monetary policy. Given the implications of the payouts for the balance of payments, and the currency devaluations in the region, it was not surprising that a run on the currency began (ADB. 2002. Country Strategy and Program Update 2003-2005: Vanuatu. Manila).

⁵³ Daniel, James, Jeffrey Davis, Manal Fouad, and Caroline Van Rijckeghem, 2006, Fiscal Adjustment for Stability and Growth, IMF Pamphlet Series, No. 55. Washington: IMF.

⁵⁴ Cas and Ota [op. cit.]. p. 31.

⁵⁵ See Kaufmann, Daniel, Aart Kraay, and Pablo Zoido-Lobaton, Aggregating Governance Indicators. Washington: World Bank Policy Research Working Paper No. 2195. and Governance Matters, World Bank Policy Research Working Paper No. 2196 (Washington), both available at www.worldbank.org/wbi/governance.

⁵⁶ ADB and Commonwealth Secretariat. 2005. *Toward a New Pacific Regionalism*. Manila.

⁵⁷ As measured by ADB, Transparency International and the World Bank.

⁵⁸ The report drew on a study conducted by Professor Ron Duncan of the University of the South Pacific ("Quantitative Assessment of the Cost of Governance Failure in Fiji Islands, Nauru, Papua New Guinea, and Solomon Islands", available at www.adb.org). Professor Duncan in turn based his results on a global average derived from a 2005 World Bank study by Lisa Chauvet and Paul Collier ("Policy Turnarounds in Failing States",

- (i) Since independence, poor governance has cost the average Papua New Guinean \$12,000. For the country as a whole, the poor-governance-related aggregate GDP loss for 1975–2003 was at least \$52.8 billion (and possibly three times that level)
- (ii) There has been zero growth in GDP per capita since independence in Fiji. Poor governance has cost the Fijian population an estimated \$10.8 billion in foregone GDP since independence
- (iii) For the Solomon Islands, the loss due to poor governance for the entire population is an estimated \$2.8 billion in forgone GDP – nearly 12 times the current GDP level
- (iv) Had Nauru invested its phosphate earnings wisely and transparently, they would be today worth around \$8 billion and earning 4–5% from interest and dividends. The present population of approximately 12,000 would have per capita income of around US\$20,000. Actual per capita GDP is about 5% of that amount; and
- (v) A 2007 study estimated the costs of state failure in the Pacific for 1974–2001—i.e. failure in Papua New Guinea and the Solomon Islands, with resultant impacts on their island neighbors—at \$36 billion.⁵⁹

217. Finally, one study found that since small countries are more vulnerable, the quality of their institutions matters more than in large countries. The study maintained that small states with high-quality institutions have less growth volatility and are more likely to benefit from higher rates of economic growth.⁶⁰

3. Developing and Sustaining Capacity

218. **Leveraging Local Capacity.** A recent ADB study on Pacific Capacity Development⁶¹ notes that the effectiveness of technical assistance depends largely on the human dynamic which is shaped by advisors' personal and professional qualities. The study notes however, much also hinges on the extent to which the process allows local partners to use their own capacity (existing or emergent) to find their own solutions to their particular challenges. The cooperative audit approach is designed to balance the use of technical advisors and local staff. The local staff will also experience auditing in another country and will be able to apply lessons learned to their own jurisdiction while in-country as a cooperative audit team member; but also once their cooperative audit team attachment concludes.

219. **Emphasizing On-the-job Training.** Previous ADB assistance on Pacific auditing has included classroom-based training. This training can have immediate benefit, but sustainable impacts are limited as auditing is best learned on-the-job. Following initial classroom-based

available at www.world.bank.org) that estimated that developing countries suffering poor governance (but not civil unrest) record, on average, 2.3% less GDP growth per year than other developing countries.

⁵⁹ Chauvet, Lisa, Paul Collier and Anke Heffler. 2007. *Paradise Lost: The Costs of State Failure in the Pacific*. prepared for UNU-WIDER, February 2007.

⁶⁰ Bräutigam, Deborah, and Michael Woolcock, 2001, *The Role of Institutions in Managing Vulnerability and Opportunity in Small Developing Countries*. Small States in a Global Economy. Discussion Paper No. 2001/07 Helsinki: United Nations University/WIDER.

⁶¹ Bolger, Joe. 2007 September. *Pacific Capacity Development Study*. Final Report, Paper prepared for ADB.

training, the cooperative audit teams will spend most of their time auditing in participating countries. This emphasis is consistent with an AusAID evaluation, which found that on-the-job training was most effective and well regarded by senior managers and project teams for the results that it achieved.⁶²

220. **Incubating Financial Talent.** In the Pacific (and elsewhere), SAIs often serve as incubators for financial talent. For example, within the subregion, the former Deputy Auditor-General of Kiribati is now the Permanent Secretary of Finance and Economic Development, and the former Auditor-General of Tuvalu is now the Minister of Finance. The cooperative audit teams are expected to play an incubator role with former secondees moving on to more senior SAI positions or to other government finance positions.

221. **Filling Capacity Gaps.** Narrow human resources in small states—often accentuated by brain drain—tends to limit capacity in both public and private sectors. Brain drain occurs when professional staff with important technical skills migrate because, among other things, there are better professional opportunities in larger, more developed countries. This makes providing specialized services, such as public auditing, difficult.⁶³ On one hand, the PRAI will enhance the marketability of SAI personnel. Conversely, the PRAI will make staying more attractive because of the quality training opportunities and enhanced professional development.

B. Assumptions and Risks

222. **Commitment to Transparency and Accountability.** Pacific Island countries are committed to improving public sector transparency and accountability, which includes effective public auditing. Nevertheless, this commitment might wane as the PRAI makes public auditing more effective. In mitigation, the PRAI will focus heavily on building and maintaining in-country ownership, and communicating the positive benefits of transparency and accountability.

223. **Regional Cooperation.** PASAI members have a successful history of working closely together, but this commitment may waver. Recognizing this risk, the PRAI will support enhanced SAI collaboration through the Governing Board meetings and Congresses.

224. **Availability of Financial Reports.** Accounting systems, standards and records continue to improve in the region. As a consequence, there have been significant improvements in the timeliness of financial statements (albeit, not all of these financial statements have been audited). The PRAI will work with finance ministries to encourage and support the continued availability of timely financial reports.

⁶² AusAID. 2004. Capacity Building in Public Finance: An evaluation of activities in the South Pacific. Canberra. p. xiii.

⁶³ Cas and Ota. [op. cit.] p. 15.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/ Indicators	Data Sources/ Reporting Mechanisms	Assumptions (A) and Risks (R)
<p>Impact Improved transparency and accountability in managing and using public resources in Pacific Island countries.</p>	<p>Average one-step improvement by end-2012 of relevant public expenditure and financial accountability (PEFA) performance indicators (PI):</p> <ul style="list-style-type: none"> • PI-10: public access to key fiscal information • PI-25: quality and timeliness of annual financial statements • PI-26: scope, nature and follow-up of external audit • PI-28: legislative scrutiny of external audit reports 	<p>Country PEFA public financial management (PFM) assessments.</p> <p>Pacific Regional Audit Initiative (PRAI) status reports prepared by the Pacific Association of Supreme Audit Institutions (PASAI) Secretariat.</p>	<p>A: Participating jurisdictions remain committed to improving transparency and accountability.</p> <p>A: PFM systems continue to improve.</p> <p>R: PRAI is overly effective leading to withdrawal of participating jurisdictions.</p>
<p>Outcome The public accounts of participating countries are audited in a timely manner to uniformly-high standards, with enhanced audit impacts and improved audit capability.</p>	<p>By end-2012, 70% of available public accounts and their components, will have been audited to internationally-accepted standards within 12 months of fiscal year-end.</p> <p>Improvement by end-2012 of the PEFA PI-26 indicator to an average C rating.</p> <p>By end-2012 80% of participating SAs will be at level three or higher on the PASAI Capability Model.</p>	<p>PASAI Secretariat stocktake of audited public accounts.</p> <p>PEFA PFM assessments.</p> <p>PRAI status reports.</p>	<p>A: Continued strong commitment from participating jurisdictions to effective public auditing.</p> <p>A: PASAI members continue to work collaboratively.</p> <p>A: Accounting systems, standards and records continue to improve.</p> <p>R: Financial reports and records are not available for audit in a timely manner.</p>
<p>Outputs 1. Strengthen regional cooperation and coordination.</p> <ul style="list-style-type: none"> • Establish Enhanced PASAI Secretariat • Support Regional Coordination • Prepare Strategies for Common 	<p>PASAI Governing Board and Secretary-General appointed by August 2009</p> <p>Enhanced PASAI Secretariat established by August 2009.</p> <p>Support for 3 PASAI Congresses and [4] PASAI Governing Board meetings as well as participation in regional and international meetings.</p> <p>Strategy and plan for moving toward common audit methodologies prepared by</p>	<p>PRAI status reports.</p> <p>Minutes of PASAI Governing Board meetings.</p> <p>Minutes of PASAI Congresses.</p> <p>PASAI website.</p>	<p>A. PASAI members agree in a timely manner on new governance structures and institutional arrangements, including Secretariat location.</p> <p>R: Participating jurisdictions resist a stronger PASAI secretariat.</p> <p>R: Training and practical experience is not suitable to actual environments.</p> <p>A: SAs are willing to participate in the peer review</p>

Design Summary	Performance Targets/ Indicators	Data Sources/ Reporting Mechanisms	Assumptions (A) and Risks (R)
<p>Methodologies</p> <ul style="list-style-type: none"> • Prepare Programs for Cooperative Audits and Peer Reviews • Establish PASAI Website 	<p>[March 2010].</p> <p>Rolling program for cooperative audits and peer reviews approved by [August 2009] and updated annually.</p> <p>PASAI website operational by [September 2009].</p>		<p>program.</p> <p>A: For cooperative audits, suitable secondees are available from participating countries.</p> <p>R. Demand from jurisdictions to participate in the cooperative audits overstretches organizational and financial capacity.</p>
<p>2. Build and Sustain Public Auditing Capacity</p> <ul style="list-style-type: none"> • Prepare Guidance and Training Materials • Develop Generic Competencies and Deliver Structured Training Program • Support Attainment of Professional Accountancy Qualifications • Prepare Institutional Assessments and Strengthening Programs • Support Improved Contract Management • Provide Management and Operational Support • Provide Technical Support • Coordinate and Support Peer Reviews 	<p>Guidance materials prepared by [August 2009] on cooperative audits.</p> <p>Generic set of competencies and job descriptions confirmed by [September 2009].</p> <p>PASAI Governing Board endorses structured training program by [December 2009].</p> <p>Guidance materials prepared by [June 2010] covering financial and performance audits, investigations, operations and peer reviews.</p> <p>Per structured training program, [20] regional training courses for [200] participants conducted by [December 2012].</p> <p>Barriers to professional qualifications reduced by December 2012.</p> <p>Institutional assessments and development plans prepared for [8] SAIs by [December 2012].</p> <p>Contracting-out model prepared by [March 2010] and contract management support provided to [21] SAIs by [December 2012].</p> <p>Management and operational support provided to [21] SAIs by [December 2012].</p>	<p>PRAI status reports.</p> <p>Minutes of PASAI Governing Board meetings.</p> <p>Minutes of PASAI Congresses.</p> <p>Evaluation reports on training program.</p> <p>Peer review reports.</p>	

Design Summary	Performance Targets/ Indicators	Data Sources/ Reporting Mechanisms	Assumptions (A) and Risks (R)
	<p>Technical support provided to [21] SAIs by [December 2012].</p> <p>Peer reviews supported for [12] SAIs by [December 2012].</p>		
<p>3. Conduct Cooperative Financial and Performance Audits</p> <ul style="list-style-type: none"> • Conduct Cooperative Financial Audits • Conduct Cooperative Performance Audits • Undertake Subregional Audit Support (SAS) Program 	<p>Conduct [4] cooperative financial audits involving an average of [6] SAIs by [December 2012].</p> <p>Conduct [5] cooperative performance audits involving an average of [8] SAIs by [December 2012].</p> <p>By December-2012, audits of public accounts of participating subregional countries are completed and presented to Public Accounts Committees (PACS).</p>	<p>PRAI status reports.</p> <p>Minutes of PASAI Governing Board meetings.</p> <p>Minutes of PASAI Congresses.</p> <p>Cooperative audit reports.</p> <p>Personnel capacity evaluations (self and external).</p>	
<p>4. Strengthen Communication and Advocate Transparency and Accountability</p> <ul style="list-style-type: none"> • Educate Stakeholders on the Value of Public Auditing • Advocate Enhanced Transparency and Accountability • Provide Editorial and Communications Advice 	<p>Brochure on the value of public auditing prepared and disseminated by June 2010.</p> <p>At least [6] media articles published widely each year on public auditing from 2010 to December 2012.</p> <p>PASAI report on regional accountability and transparency issues (covering the regional status of SAI independence, audit finding follow-up, and other issues of concern) released annually from 2009 to 2012.</p> <p>[3] communications training courses for [80] participants conducted by [December 2012].</p> <p>Editorial support provided on [80] SAI reports by December 2012.</p>	<p>PRAI status reports.</p> <p>Media articles.</p> <p>Annual PASAI reports.</p> <p>Evaluations of communications training courses.</p>	

Activities with Milestones	Inputs
1. Strengthen Regional Cooperation and Coordination	Proposed financing and in-kind contributions
1.1. PASAI Congress approves new Governance Structure (Jul 2009)	
1.2. PASAI Governing Board appointed (Jul 2009)	
1.3. PASAI Secretary-General elected (Jul 2009)	
1.4. Executive Director appointed (Aug 2009)	
1.5. PASAI Secretariat fully operational (Dec 2009)	
1.6. PASAI Governing Board meetings (Jul 2009, 2010, 2011 and 2012)	
1.7. Strategy for moving towards common audit methodologies agreed and adopted (Jul 2010)	
1.8. Programs for cooperative audits and peer reviews agreed (Apr 2009)	
1.9. PASAI website operational (Dec 2009)	
2. Build and Sustain Public Auditing Capacity	
2.1. Guidance materials prepared on cooperative audits (Aug 2009)	
2.2. Generic set of competencies and job descriptions confirmed (Sep 2009)	
2.3. Structured training program endorsed (Dec 2009)	
2.4. Guidance materials prepared on financial and performance audits, investigations, operations and peer reviews (Jun 2010)	
2.5. Regional training courses conducted (Jan 2010 – Dec 2012)	
2.6. Advocate reduction in qualification barriers (Mar 2010 – Dec 2012)	
2.7. Institutional assessments and development plans prepared (Dec 2012)	
2.8. Contracting-out model prepared (Mar 2010)	
2.9. Contract management support provided (Mar 2010 – Dec 2012)	
2.10. Management and operational support provided (Jan 2010 – Dec 2012)	
2.11. Technical support provided (Jan 2010 – Dec 2012)	
2.12. Peer reviews supported (Jul 2010 – Dec 2012)	
3. Conduct Cooperative Audits	
3.1. Subregional audit support program agreed (Feb 2009)	
3.2. Cooperative audit program agreed by PASAI Governing Board (Jun 2009)	
3.3. Cooperative financial audits conducted (Jan 2010 – Dec 2012)	
3.4. Cooperative performance audits conducted (Jan 2010 – Dec 2012)	
3.5. Subregional audit support program undertaken (Jan 2009 – Dec 2012)	
4. Strengthen Communication and Advocate Transparency and Accountability	
4.1. Brochure on the value of public auditing disseminated (Jun 2010)	
4.2. Annual auditing-related media articles published (Jan 2010 – Dec 2012)	
4.3. Annual PASAI report on regional accountability and transparency published (Jan 2010 – Dec 2012)	
4.4. Training courses on communications organized (Jan 2010 – Dec 2012)	
4.5. Editorial services contracted and provided to SAIs (Jan 2010 – Dec 2012)	

PAC = Public Accounts Committee (PACS), PEFA = Public expenditure and financial accountability, PFM = public financial management, PI = performance indicator, PRAI = Pacific Regional Audit Initiative, SAS = Subregional Audit Support, PASAI = Pacific Association of Supreme Audit Institutions.

STAKEHOLDER BRIEFINGS AND CONSULTATIONS

American Samoa	
Office of the Territorial Auditor	
Mr. Francis Sefo	Acting Territorial Auditor
Cook Islands	
Government of Cook Islands	
Sir Terepai Maoate KBE	Deputy Prime Minister
Audit Office	
Mr. Paul Allsworth	Director of Audit
Ms. Louise Wittwer	Audit Advisor
Ms. Liz Tommy	Audit Manager
Mr. Allen Parker	Audit Manager
Ms. Rosalie Fiel	Audit Manager
Ms. Rebekah Buchanan	Office Manager
Ministry of Finance and Economic Management	
Mr. Sholan Ivaiti	Financial Secretary
Office of the Public Service Commissioner	
Mr. Tonumaivao Navy Epati	Public Service Commissioner
Cook Islands Investment Corporation	
Mr. John Tini Jnr	Chief Executive
KPMG	
Mr. Mike Carr	Resident Director
Chamber of Commerce	
Ms. Teresa Trott	Board Member
Federated States of Micronesia	
Office of the Public Auditor	
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Mr. Donald Yamada	Audit Supervisor
Mr. Mike Henry	Auditor III
Ms. Sophia Pretrick	Acting Chief Investigator
Ministry of Finance	
Mr. Finley S. Perman	Secretary of Finance
Mr. Richard Yamada	Systems Administrator

Federated States of Micronesia	
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JEMCO	
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Finance and Administration	
Mr. Tiser H. Reynold	Director

FSM – State of Chuuk	
FSM National Office of Public Auditor	
Mr. Nakama Sana	Auditor in Charge
Mr. William Billimon	Investigative Auditor I
Senate	
Hon. Dotare Santos	President
Office of the Chief Justice Chuuk State Supreme Court	
Mr. Camillo Noket	Chief Justice
Office of the Governor	
Mr. Wilfred S. Robert	Chief of Staff
Department of Education – Student Services (Scholarships Office)	
Miss Julie William	Secretary

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Mr. Herner S. Braiel	Business Instructor
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Ms. Kate	Auditor
Mr. Bryan	Auditor
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Office of Administrative Services	
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Mr. Francis Faney	Assistant General Manager
Mr. Edwin Barnuevo, CPA	General Manager

Republic of the Fiji Islands	
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Mr. Ajay Nand	Director (April 2006 Auditors' Meeting, Nadi)
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Mr. Thomas Gloerfelt-Tarp	Principal Portfolio Management Specialist, SPSO
Mr. Fernando Garcia	Principal Country Specialist, SPSO
Mr. Anqian Huang	Country Economist, SPSO
Australian Agency for International Development	
Mr. James Sweeting	Counsellor, Development Cooperation Section
Mr. Noa Seru	Program Manager Governance/Tuvalu, Development Cooperation Section Second Secretary
New Zealand High Commission	
Mr. Richard Kay	Second Secretary
Pacific Islands Forum Secretariat	
Mr. Roman Grynberg	Director, Economic Governance Programme
Mr. Edward Vrkic	Executive Officer, Pacific Plan

Republic of the Fiji Islands	
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United Nations Development Programme	
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Prof. Michael White	Faculty
Mr. Arvind Patel	Faculty
Prof. Ron Duncan	Faculty

Territory of Guam	
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I Mina' Bente Nuebi Na Liheslaturan Guahan Office of the People	
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Mr. Vicente C. Pangelinan	Senator
Office of the Governor of Guam, Bureau of Information Technology	
Mr. Jim Lacson	Chief Information Officer
Department of Administration	
Mr. Ken Borja	Management Analyst
Association of Government Accountants	
Mr. Matthew Quinata	President
Consolidated Commission on Utilities	
Mr. Simon A. Sanchez II	Chairman
Mrs. Gloria Nelson	Board Member

Territory of Guam	
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Mr. Randy Wiegand	Chief Financial Controller
Guam Waterworks Authority	
Mr. John Benavente	General Manager
Mr. Greg P. Cruz	Chief Financial Controller
Mr. Joseph Claveria	Assistant CFO
Deloitte & Touche	
Mr. Daniel S. Fitzgerald	Partner, Assurance & Advisory Services
Mr. Chris Wolseley, C.A.	Director, Assurance & Advisory Services
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Ernst & Young	
Mr. James N. Whitt	Partner
Pacific Daily News	
Ms. Rindraty Celes Limtiaco	President and Publisher
Guam Community College	
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Ministry of Finance and Economic Development	
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Ms. Joanne Craigie	Acting First Secretary (Development Cooperation)
New Zealand High Commission	
Mr. Craig Rickit	High Commissioner

Republic of the Marshall Islands	
Office of the Auditor General	
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Mrs. Linda Anderson	Executive Secretary

Republic of the Marshall Islands	
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Nitijela	
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Ministry of Finance	
Mr. Jefferson Barton	Secretary of Finance
Mr. Edma Tartios	Systems Administrator
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Mr. McAnthony Keah	Legislative Strengthening Project, Project Manager / Legislative Strengthening Specialist
Marshall Islands Shipping Corporation Ltd.	
Mr. Wally Milne	General Manager
Marshall Islands Energy Corporation	
Mr. Steve Wakefield	Assistant Manager
Mr. Maurie Williams	Financial Controller
Ms. Tracey Kattil	Accounting Manager
Marshall Islands Water and Sewage Corporation	
Mr. Terry Mallan	General Manager
Mrs. Seiko Shoniber	Consultant / Fiscal Officer
Mrs. Martha Edward	Accountant
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Mrs. Roselyn Riklon	Fiscal Officer
National Environmental Protection Authority	
Mr. Ted Tarkwon	Deputy General Manager
Mercy Elbon	Fiscal Officer
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Mr. Richardo Aggabao	Comptroller

Republic of Nauru	
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Ministry of Finance	
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Ms. Angela Baum	Budget Advisor
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Department of Foreign Affairs and Trade	
Mr. Iosefa Maiava	Secretary for Foreign Affairs
Australian Government and Australian Agency for International Development	
Mr. David Chick	Director Pacific Programs Strategy and Review
Mr. Peter Hatfield	First Secretary, Development Cooperation
Mr. George Fraser	Consulate-General of Australia to Nauru

Commonwealth of the Northern Mariana Islands	
Office of the Public Auditor	
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Ms. Velma A. Hofschneider	Analyst
Mrs. D C Revilla	Analyst
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Mr. Tony Muña	Director

Commonwealth of the Northern Mariana Islands	
Saipan Tribune	
Mrs. Agnes E. Donato	Reporter
Marianas Variety	
Mrs. Haidee V. Eugenio	Assistant Editor
Deloitte	
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Ministry of Finance	
Mr. Elbuchel Sadang	Minister of Finance, ROP
Ms. Ruth Wong	Comptroller, Ministry of Finance
Mr. Gandhi Ngirmidol	Grants Management Officer / Senior Accountant, Ministry of Finance, Bureau of National Finance
Government	
Mr. Antonio Bells	Speaker of the House
Mr. Flavian Carlos	Chairman, Foreign Affairs Committee
Senator Hokkons Baules	Chairman, Capital Investment Projects Committee, The Senate
Senator Alfonso Diaz	Chairman, Tourism Committee, The Senate
Mr. Jonathan Cio Isechal	Delegate, Palau National Congress
Mr. Alan Seid	Senate Floor Leader, Chairman Ways & Means & Financial Matters, The Senate
Mr. Mario S. Endo Gulibert	Delegate, State of Angaur, Chairman, House Ways & Means Committee, Vice Chairman, Health and Education Committee
Embassy of Japan	
Mr. Kunio Nakamura	Charge d'Affaires ad interim, Embassy of Japan
Deloitte & Touche	
Ms. Aurea C. Kuartel-Kanai	Experienced Senior Assurance & Advisory Service,
The Palau Chamber of Commerce	
Mr. Tmetuchl Baules	Executive Officer,
Mr. Peter Gayman	Board Member, Palau Chamber of Commerce, General Manager, Neco Plaza Corporation
Mr. Mark	Board Member, Palau Chamber of Commerce
Department of the Interior, Office of Insular Affairs	
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Mr. Peter Siperau	First Assistant Auditor General, Provincial and Local Level Government
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Mr. John Hawley	Auditor General's Advisor (Enhanced Cooperation Program)
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Mr. Marco Kiap	Assistant Auditor General
Mr. Benjamin Stephens	Audit Advisor (Stantons International) (AusAID Project)
National Parliament of Papua New Guinea	
Mr. Repe Rambe	Public Accounts Committee Secretary
Mr. Phil Smith	General Counsel to PNG Parliamentary Committees
Media Council of Papua New Guinea	
Mr. Peter J. Aitsi	Board Member
Price Waterhouse Coopers	
Mr. Jonathan Seeto	Partner, Assurance & Business Advisory Services
Australian Agency for International Development (AusAID)	
Mr. Warren Turner	First Secretary
Ms. Shaska Martin	Governance Reform Section
United Nations Development Programme (UNDP)	
Mr. Jeremiah Andrew	Legislative Strengthening Project, National Project Manager
Mr. Simon G. Pentanu	Legislative Strengthening Project, Senior National Advisor
Mr. Joshua Waive	Legislative Strengthening Project, National Researcher
Ms. Enaha Kwa	Legislative Strengthening Project, Gender Social Researcher

Independent State of Samoa	
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Solomon Islands	
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Mr. Robert Cohen	Group Director B
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Ms. Auges Tui'ai	Audit Manager
Mr. John Crook	Training Manager
Mr. Dismus Orihao	Senior Auditor,

Solomon Islands	
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Ms. Feva Iabule	Assistant Auditor
Ms. Beverley Papabatu	Assistant Auditor,
Ms. Joyce Mesipitu	Acting Administration Manager/ Senior Auditor
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Ms. Hilda	Cleaner
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Mr. Wayne Morris,	Partner
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Mr. Ian Davies	Program Director, Machinery of Government Program, Regional Assistance Mission to Solomon Islands
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Ms. Jenny Sinclair	Financial Management and Reporting Advisor, Financial Management Strengthening Program
Mr. Haggai Arumae	Chart of Accounts Framework CA
Mr. Donly Tigulu	AAG Framework
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Ms. Janet Forau	ADB Post-Conflict Emergency Rehabilitation Project (PCERP) Accountant
Ms. Sue Mackie,	ADB Solomon Island Road Improvement (SIRIP) Project Contracted Finance Specialist
Ms. Iverlyn Diudi	ADB SIRIP seconded Ministry of Infrastructure Development Accountant, Project Accountant
Ms. Jane Poloso	ADB SIRIP Project Accountant
Mr. Mike Qaqara	ADB PCERP Deputy Project Manager

Kingdom of Tonga	
Audit Department	
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Mr. Tiofilusi Tiueti	Deputy Auditor General
Mrs. Teuila F. Tai	Assistant Secretary
Mrs. Lotomo'ua Faleafa	Principal Auditor
Ministry of Finance and National Planning	
Mr. 'Aisake Eke	Secretary
Tongan Institute of Higher Education	
Mrs. Tui'fua Tapakautolo	Deputy Director, Education
Tongan Society of Accountants	

Kingdom of Tonga	
Mr. Sefita Tangi	President
Media Council	
Katalina Tohi,	Secretary Media Council
Chamber of Commerce	
Tapu Panuve	

Tuvalu	
Tuvalu Audit Office	
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Mr. Eli Lopati	Deputy Auditor-General
Mr. Steve Bonnor	Audit Adviser
Ms. Aiga Tehulu	Auditor I
Ministry of Finance	
Hon Mr.Lotoala Melia	Minister of Finance
Mr. Temate Melitiana	Acting Secretary of Finance
Mr. Taufia Patolo	Government Accountant
Mr. Kerry Jones	Consultant
Ministry of Foreign Affairs	
Mr. Enele Sopoaga	Secretary for Foreign Affairs
Public Accounts Committee, Parliament of Tuvalu	
Hon. Mr.Maatia Toafu	Leader of the Opposition
Mr. Elisala Pita	Member of Parliament
AusAID / NZAID	
Ms. Pasemeta Talaapa	Representative
Tuvalu Media Corporation	
Ms. Melali Taape	General Manager
National Bank of Tuvalu	
Mr. Siose Penitala Teo	General Manager

United States of America	
Government Accountability Office	
Mr. David Gootnick	Director, International Affairs and Trade
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Office of Insular Affairs, U.S. Department of the Interior	
Mr. Nikolao Pula	Director
Ms. Marina Tinali	Accountability and Insular Policy Specialist
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United States of America	
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Pacific Island Training Initiative	
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Europe	
National Audit Office (UK)	
Mr. Frank Grogan	Director, International
INTOSAI Development Initiative (IDI)	
Mr. Magnus Borge	Executive Director
INTOSAI Development Initiative (IDI)	
Mr. John Stunnenberg	EU/USP Senior Projects Coordinator

**PACIFIC SUPREME AUDIT INSTITUTIONS:
REGIONAL AND INTERNATIONAL AFFILIATIONS**

SAI Jurisdiction	Membership					
	PIF	PASAI	INTOSAI	APIPA	ADB	PFTAC
American Samoa	No	Yes	No	Yes	No	No
Australia (National Audit Office)	Yes	Yes	Yes	No	Yes	Yes
Australia (New South Wales)	...	Yes	No	No	...	...
Australia (Queensland)	...	Yes	No	No	...	...
Australia (Victoria)	...	Yes	No	No	...	...
Cook Islands	Yes	Yes	Yes	No	Yes	Yes
Federated States of Micronesia (FSM)	Yes	Yes	Yes	Yes	Yes	Yes
FSM (State of Pohnpei)	...	Yes	No	Yes	...	...
FSM (State of Yap)	...	Yes	No	Yes	...	...
FSM (State of Chuuk)	...	No	No	Yes	...	...
FSM (State of Kosrae)	...	No ^a	No	Yes	...	...
Fiji Islands	Yes	Yes	Yes	No	Yes	Yes
French Polynesia	Obs.	Yes	...	No	...	...
Guam	No	Yes	No	Yes	No	No
Kiribati	Yes	Yes	Yes	No	Yes	Yes
Marshall Islands, Republic of	Yes	Yes	Yes	Yes	Yes	Yes
Nauru	Yes	Yes	Yes	No	Yes	Yes
New Caledonia	Obs.	Yes	No	No	...	No
New Zealand	Yes	Yes	Yes	No	Yes	...
Niue	Yes	Yes ^b	Yes ^b	No	...	Yes
Commonwealth of the Northern Mariana Islands (CNMI)	No	Yes	No	Yes	...	No
Palau	Yes	Yes	Yes	Yes	Yes	Yes
Papua New Guinea	Yes	Yes	Yes	No	Yes	Yes
Samoa	Yes	Yes	Yes	Yes	Yes	Yes
Solomon Islands	Yes	Yes	Yes	No	Yes	Yes
Timor-Leste	Obs.	No	No	No	Yes	No
Tokelau	Obs.	Yes ^b	Yes ^b	No	...	...
Tonga	Yes	Yes	Yes	No	Yes	Yes
Tuvalu	Yes	Yes	Yes	No	Yes	Yes
Vanuatu	Yes	Yes	Yes	No	Yes	Yes

ADB = Asian Development Bank, APIPA = Association of Pacific Islands Public Auditors, INTOSAI = International Organization of Supreme Audit Institutions, Obs. = observer or special observer status, PFTAC = Pacific Financial Technical Assistance Centre, PIF = Pacific Islands Forum, PASAI = Pacific Association of Supreme Audit Institutions.

^a Consultations regarding Kosrae's membership in PASAI are ongoing following the April 2008 PASAI Congress.

^b The New Zealand auditor general is also auditor general of Niue and Tokelau, so these jurisdictions are by default PASAI and INTOSAI members.

Source: PASAI and ADB.

DETAILED COST ESTIMATES
(\$'000s)

Item	COSTS BY OUTPUT						COSTS BY PERIOD					
	A. Reg. Coop.	B. Cap. Dev.	C. Coop. Audits	D. Comms & Adv.	Total		2008	2009	2010	2011	2012	Total Costs
A. Base Costs												
1. Equipment:												
- Purchases	64	-	9	-	73	1%	-	48	25	-	-	73
- Operations and Maintenance	292	-	56	80	428	4%	-	72	119	119	119	428
2. Human Resources:												
- Staff, Consultants and Travel	900	1,523	3,914	265	6,602	62%	47	1,335	1,740	1,740	1,740	6,602
- Secondee Salaries	-	108	588	-	696	7%	-	138	186	186	186	696
3. Workshops and Meetings	343	1,700	574	174	2,791	26%	20	246	557	984	984	2,791
(A) Total Base Cost	1,599	3,331	5,140	519	10,589	100%	67	1,838	2,626	3,029	3,029	10,589
B. Contingencies												
1. Physical	80	82	257	26	445	4%	3	92	114	118	118	445
2. Price	42	43	133	14	232	2%	0	23	48	70	90	232
(B) Total Contingencies	121	126	390	40	678	6%	4	115	163	188	208	678
Total Costs	1,720	3,456	5,531	559	11,266	106%	70	1,954	2,789	3,216	3,237	11,266
% Total Costs	15%	31%	49%	5%	100%		1%	17%	25%	29%	29%	100%

Source: PASAI estimates.

^a In 2008 prices.

^b Physical contingencies are computed at 5%. Price contingencies computed at an average of 2% per annum.

^c Includes secondees salaries, which participating governments will continue to pay (\$696,000).