



## **PACIFIC ISLANDS FORUM SECRETARIAT**

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### **FORUM ECONOMIC OFFICIALS MEETING**

8 August 2023

### **FORUM ECONOMIC MINISTERS MEETING**

9-10 August 2023

Suva, Fiji

## **INFORMATION PAPER 5: PACIFIC REGIONAL AUDIT INITIATIVES – AN UPDATE BY THE ASSOCIATION OF SUPREME AUDIT INSTITUTIONS**

### **Purpose and Summary**

#### **Purpose**

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

#### **Summary of Issue**

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

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

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

### **A. Overview**

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

2. PASAI's 29 members include the SAIs of all FICs, Australia, New Zealand, and also a number of state or territorial audit offices. FIC members include: Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, Niue, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. State based audit offices include the Australian states of New South Wales, Queensland, and Victoria and also the four states of the Federated States of Micronesia - Chuuk, Kosrae, Pohnpei and Yap. The territorial offices of American Samoa, the Commonwealth of the Northern Mariana Islands and Guam are PASAI members, as are the two French territories of French Polynesia and New Caledonia.

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

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

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

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

## **B. Discussion**

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

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

### ***SAI independence is crucial to external scrutiny and audit function of the Public Financial Management system***

9. International good practice and standards recognize the importance of a country's SAI being independent. There is a growing consensus in the international community on the need to strengthen SAI independence. Independent, effective and credible SAIs are an essential component of an

accountability and integrity ecosystem that contributes to the effectiveness of the public sector and public financial management system.

10. SAI independence is determined by four main criteria. The first is to have an ‘appropriate & effective constitutional framework’, and requires the independence of the SAI to be established in the legal framework of a country. In many FICs, the Auditor-General’s office is recognised as a constitutional office holder, but no provision is made to ensure its independence from the country’s public sector. This compromises its ability to deliver its mandate without the risk of being influenced, or perceived as being influenced by the Executive or audited entities. PASAI recognises the importance of all FICs’ public audit laws to be consistent with international standards<sup>1</sup> and the UN General Assembly resolutions.

11. ‘Financial independence’ is the second criterion for SAI independence to ensure that the SAI’s budget proposal to Parliament should not be influenced by the executive government. Budgets determined by Parliament give the head of SAI discretion on matters regarding staffing and resourcing prioritisation – this is critical to enable SAI to effectively deliver on their mandate. The third criterion for SAI independence is for SAI to have ‘organisational independence’. This allows SAI to recruit and retain qualified staff and determine the functioning and management of their offices to effectively deliver on their mandates. The fourth criterion is the ‘independent appointment of the head of SAI’ that is led by Parliament with no influence from the Executive. SAI head appointments should be long and fixed-term enabling them to carry out their mandate without fear of retaliation.

12. As of June 2023, 55% of SAI in the Pacific region<sup>2</sup> have an appropriate and effective constitutional framework, only 20% have financial independence from the executive government, 50% have the power to recruit staff and operate independently of government and only 50% of SAI are independent relative to the appointment and removal of the SAI head.

### ***Our work to strengthen public financial management, strengthen audit quality and effective legislative scrutiny***

13. The timeliness of FSG audits in FICs have been impacted by a range of factors including competing work priorities, resourcing constraints and capability gaps. SAI also face external challenges including upstream preparer issues and delays in the completion and submission of FSG accounts to SAI by respective Ministries of Finance. At 30 June 2023 only 10% of SAI were achieving the timely audit of their country’s FSG compared to an average of 50% in the previous year.

14. The increase in the number of countries experiencing a FSG audit backlog is due to delays in the receipt of FSG accounts from the Ministries of Finance, due to the flow on impact of Covid-19 on work priorities and staff availability. These circumstances are outside the control of SAI. This is a temporary issue and we expect this to be resolved in the short-term as government financial activities return to normal.

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

<sup>2</sup> (excluding the SAI from the developed countries of New Zealand, Australia, New Caledonia and French Polynesia)

15. Investment is required to build the capability and capacity of public sector agencies responsible for preparing accountability information for public auditors to recognised standards. This will strengthen the overall public financial management system.

16. PASAI continues its partnership with PFTAC to help address the above issue by data sharing arrangements and conducting PASAI joint programmes and workshops with Ministry and SAI personnel.

17. Technical support continues to be prioritised for SAI Papua New Guinea (PNG), and Solomon Islands. Delays in both audits have been caused by the late and/or incomplete preparation of the FSGs by the Ministry/Department of Finance. We are supporting both SAIs to work through these issues. For SAI PNG the audit office, Treasury and Finance officials are working to finalise the 2018 FSG audit by June, and work on the 2019 FSG is due to start in July. SAI Solomon Islands' 2018 FSG accounts have been signed and submitted to Parliament and are yet to be tabled. The audit of 2019 and 2020 FSGs is currently in progress.

### **C. Next Steps**

18. PASAI has made significant progress in improving PFM in the region. PASAI continues to encourage and support its member SAIs to carry out their respective mandates to hold executive government accountable for public funds they manage, and to provide assurance to Parliament and citizens that the Government has spent public money in line with the authority provided by Parliament. Through its programme of work, PASAI continues to advocate for good governance and capacity building in auditing public finances resulting in strengthened public financial management in the region.

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

- enhance good governance, accountability and transparency in the Pacific region through high quality public audit contributions to PFM systems.
- support and empower SAIs to increase their relevance and credibility in-country through engaging with all relevant stakeholders and leading by example in promoting strong, effective and accountable public institutions.
- support SAIs to self-assess their progress using the SAI PMF diagnostic tool, and develop strategic and operational plans to address short-falls and gaps identified.
- foster the support of development partners to fund its programmes and operations.
- harness the good relationships with other partners in the region by conducting more regional programmes to build capacity and increase the capabilities of SAIs and other PFM institutions in the region; and
- promote and support SAIs' role in the implementation of programmes to achieve the SDGs in the Pacific region, including through the co-operative audit approach.

20. PASAI trusts that its attendance in future annual FEMM as a 'special technical observer' will be of value in better understanding and increasing awareness of the critical economic, social and developmental issues pertinent to FICs. Such understanding and awareness will assist in determining the scope of audits and provide added value in strengthening controls, improving safeguards and

contributing to robust PFM systems, while promoting effective governance, accountability and transparency.

PASAI Secretariat

30 June 2023

**Acknowledgement**

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

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

PASAI has assisted 100% of its members to review their current state of independence against international best practice and is supporting SAIs to advocate with their governments and legislatures to update their audit legislation, to strengthen their ability to contribute to improved governance outcomes in their jurisdictions.

Recent progress includes:

- Expert legal advice and legal reform support provided to SAIs Kiribati, Marshall Islands and Nauru to amend their legislation to enable full independence. SAIs will individually decide the timing of submission to their legislatures based on the local political environment and other external factors.
- We are supporting SAI Tuvalu to work with key stakeholders to implement the legislative amendments passed in 2016.
- We supported SAIs Kiribati and Nauru to develop their respective SAI independence strategies and continue to support their efforts through our advocacy work.
- Legislative amendments to SAI Guam's enabling Act strengthened financial independence to allow for 25% of General Fund Revenues for its minimum budget from 1 October 2023.
- We continue to support our SAIs to improve engagement with their legislatures. During FY 2022-23, 17 of our member SAIs met with their Public Accounts Committees (PACs) at least once a year to discuss audit reports, budget issues and other matters.

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

- Our fourth Accountability and Transparency Report was published in May 2023 and launched by our Secretary-General in a webinar. Insights from this report continue to inform our work in the region, including our advocacy work to strengthen SAI independence
- PASAI supports SAIs to strengthen their communications and stakeholder function. In FY 2022-23, we supported SAIs FSM National, Kiribati, Papua New Guinea and Solomon Islands to develop their communications or stakeholder engagement strategies and related processes. On behalf of PASAI SAI New Zealand continues to support SAIs Cook Islands and Samoa under their current twinning arrangements. We also delivered virtual training on 'stakeholder engagement' and 'report writing', and in-person 'communications and media training'.
- We advocate to strengthen governance in the region through our communications function, including our quarterly newsletter and monthly blogs. We use our communications channels,

including social media to share information, research, resources and latest developments related to governance, accountability, transparency and public integrity.

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

- The Secretariat is monitoring the development of potential backlogs through its ongoing liaison with SAIs in order to provide support as per the needs of the SAIs. Majority of our member SAIs continue to face delays in FSG audit completion due to competing work priorities, resourcing constraints and capability gaps. SAIs also face external challenges including upstream preparer issues, delays in the completion and submission of FSG accounts to SAIs by respective ministries of finance.
- In addition to supporting SAIs Papua New Guinea and Solomon Islands with their three-year audit backlog, we continue to support SAIs to respond to the above challenges including by using advocacy to address upstream preparer issues entailing the preparation of FSG accounts to an adequate standard and their timely submission to SAIs for auditing.
- In FY 2022–23, we provided support to seven SAIs to complete an independent quality assurance review to determine and enhance ISSAI (audit standards) compliance, including SAIs Fiji, Kiribati, Samoa, Solomon Islands, Papua New Guinea, Tonga and Tuvalu. As a result, a total of 17 of our member SAIs have an independent review process in place to assess their quality assurance and control systems within a three-year period.
- We are participating in the IDI PESA-P programme which started in August 2021 and focuses on building SAI capability to carry out high quality audits related to one of the three audit streams and demonstrating professional behaviour in the SAI context. We provide coordination and coaching support to participants in the Pacific region for SAIs who do not have senior officers to act as coaches and mentors in the programme. A total of 84 participants from 12 SAIs<sup>3</sup> are participating in this programme.

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

- The Secretariat's flagship leadership programme is being attended by 32 SAI Heads and established second-tier leaders identified as likely future SAI Heads. The goal of this programme is to increase executive leadership skills in the Pacific region and to enable effective leadership of SAIs to have greater impact and deliver higher quality outcomes. Online workshops and group coaching sessions are used to build SAI Leadership capability. Workshops and a Communities of Practice forum is used to discuss emerging areas of strategic importance, and develop the skills required to effectively respond to the challenges and complexity of a changing environment.

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<sup>3</sup> Cook Islands, Fiji, FSM Pohnpei, FSM Yap, Kiribati, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu.

- We supported Kiribati, Northern Mariana Islands and Papua New Guinea to develop their strategic plans and annual operational plans. Our project to support to six SAIs is in progress, with expected completion in FY 2023–24. This includes FSM Chuuk, FSM Kosrae, FSM Pohnpei, Guam, Palau and Tuvalu.
- The Secretariat's online programmes covered a range of topic areas to build the audit capability of SAI staff. In collaboration with the Swedish National Audit Office (SNAO), PASAI is delivering our HR Champions programme to build the Human Resource Management capability for SAIs in the Pacific region. The programme consists of in-person online workshops and coaching with an aim to develop human resource strategies and related policies and procedures to enable staff recruitment, development and retention. This programme includes SAIs Fiji, FSM National, FSM Pohnpei, Guam, Kiribati, Marshall Islands, Tonga, Tuvalu and Vanuatu.
- targeted to meet the specific requirements of Pacific SAIs to strengthen their HR practices to enable the effective operations of a public audit office. Expected outputs for participating SAIs included the development of an HR Strategy and Operational Plan. Staff from SAIs Fiji, Kiribati, FSM National, FSM Pohnpei, FSM Yap and PNG participated in the first iteration of this programme. SAIs Marshall Islands, Tuvalu and Yap are participating in the second round of the programme.
- Our IT Policy programme made available a comprehensive package of IT policies to 11 SAIs - Cook Islands, Fiji, FSM National, FSM Yap, Guam, Kiribati, Palau, Marshall Islands, Tonga, Tuvalu and Vanuatu, to strengthen their information systems, policies and processes against cyber-security disruptions.
- PASAI is participating in IDI's Transparency, Accountability and Inclusiveness (TAI) Audit Programme. This is an IDI-facilitated global cooperative compliance audit on the use of emergency funding in response to health and socio-economic crises caused by COVID-19. As participants, SAIs Solomon Islands and Tuvalu are auditing a selected topic based on their country context and priorities. SAI Solomon Islands is auditing 'emergency public procurement' and SAI Tuvalu is auditing 'socio-economic packages'. These audits have been completed and reports have been published.

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

- PASAI's Governing Board meets quarterly. Under the guidance of the Congress, the Governing Board sets PASAI's direction and oversees the activities of its Secretariat. It is responsible for formulating strategies and policies for the organisation. The Board also approves the PASAI Operational plan and budget and the rules for the conduct of PASAI activities.



- PASAI Congresses are held annually and are attended by all PASAI members. Congress is PASAI's supreme authority and provides guidance to the Governing Board on achieving PASAI's objective. The most recent Congress was hosted by SAI Palau in March 2023 and was attended by Pacific heads of SAI and international and regional development partners.
- We continue to use our performance reporting framework and performance indicators to measure our progress against our Strategic Plan 2014-24, and to monitor the outcomes and effectiveness of our programme of work. We evaluate our workshops and incorporate learnings into future programme development and delivery.
- We continue to use a range of modalities to deliver our programme of work, With the opening of international borders following the end of the covid-19 pandemic, we are transitioning towards a combination of face-to-face, online and hybrid learning approach as a more effective and sustainable delivery model.

The hybrid approach involves a combination of virtual 'live' webinar style workshops, face-to-face training and online support or coaching. We are converting existing audio and video recordings of past webinars and additional supplementary material to self-paced e-learning courses to make the most effective use of development partner funding. Our courses are available on our learning platform and allow for flexible learning options for SAI staff to learn at their preferred pace and time, and ensuring effective use of development partner funding. Our e-learning courses contain practical exercises and self-assessments to facilitate applied learning. Course material is updated and new modules added over time in response to the changing requirements of our member SAIs.

- We evaluate the effectiveness of our training workshops. Our evaluations indicate high levels of satisfaction with training delivered across all programmes. An average of over 90% of participants across all training courses delivered reported that the course was relevant to their needs and would help them improve their current or future job performance.