PASAI

"Pacific Auditors Working Together"

LEADING BY EXAMPLE

ACCOUNTABILITY AND TRANSPARENCY IN THE PACIFIC REGION

DECEMBER 2015

ACKNOWLEDGEMENTS

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The views expressed in this report are not necessarily the views of the Asian Development Bank, of the Australian Government, or of the New Zealand Goverment.

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EXECUTIVE SUMMARY

This is PASAI's third report examining the state of accountability and transparency in the Pacific region. The primary focus of this report is the state of ethical behaviour in the use of national resources in Pacific Island countries, and the role that an independent SAI can play in strengthening ethical conduct and the underlying processes for setting national budgets.

The report examines the critical role of SAIs in the following key governance areas:

1. SAIs' financial and operational independence
2. national budget scrutiny across the Pacific and, in particular, whether SAIs could have a broader role in assuring the public that national budgets are appropriately developed and implemented as well as being accounted for
3. how SAIs can promote ethical governance in their jurisdictions.

The report also provides an update on some of the issues addressed in the *2011 Accountability and Transparency Report*.

Report conclusion

Overall the report paints a mixed picture.

The Pacific region's SAIs are at different stages of development, but all are endeavouring to lead by example as best they can. This is most evident in the area of ethical leadership. There is always room for improvement and great potential to do so, although the extent of the 'possible' depends on the availability of time, funding resources, and suitably qualified and capable human resources. Most of the region's SAIs are struggling to manage with what they have, and a lack of financial independence can make it harder to justify doing more.

Report findings

Financial and operational autonomy

Adequacy of resources

Most SAIs reported insufficient resources and funds to effectively carry out their mandate and have difficulty recruiting and retaining staff, a lack of technical accounting and auditing skills, poor facilities, geographical distance, and low pay rates.

How SAIs' budgets are set

All SAIs reported they take their annual work plans into account when preparing budget proposals. But most SAIs are treated as an instrument of the executive government, and their staff as members of the civil service, for budgeting purposes. This makes a SAI's annual work plan open to executive scrutiny and control.

Operational autonomy

Most SAIs are operationally independent, and can use their budgets as the SAI head determines. But for many, employment issues are handled by a public service commission or similar body. This creates a loss of autonomy, and potential interference in SAI staffing matters.

Accountability
More SAIs are making themselves accountable through annual reports on their operations. But not all of these reports are publicly available.

Contracting out audits
More than half of SAIs contract out some of their audits. The report identified quality control as a risk area.

National budget setting and scrutiny

International practices — XXI INCOSAI Beijing Declaration
The XXI INCOSAI Beijing Declaration identified potential for SAIs to play a broader role in national budget setting and scrutiny.

SAIs' involvement in budget setting
No SAIs reported any formal involvement in the budget setting or scrutiny process. Those who participated in the study were generally supportive of developing some form of involvement for the SAI in budget scrutiny. The inherent strengths of SAIs in particular their independence, makes them well placed to do so and there is much to be gained in terms of strengthened integrity in the budgeting process. However, there are issues of independence, capability, and resources to consider

Effectiveness of existing processes
Budget-setting processes often lack transparency and sufficient information. Some legislatures are struggling with their scrutiny role.

Promoting ethical conduct and governance

SAIs' ethical practices, governance and accountability
All SAIs that participated in the study have a code of ethics, but the application of ethical practices is still variable. To hold others to account, SAIs need to be leading by example. For example, SAIs meeting their own accountability and statutory reporting requirements is a must. SAIs can also be more effective by communicating with citizens about their role and mandate.

Current state of ethics in the public sector
Of the SAIs that participated in the study, most countries have a national code of ethics that is applicable to the civil service and public officials. But there is a lack of respect for codes of ethics in a number of countries, and the state of ethics is variable across the region. Leadership codes are not working effectively, and require more education, training and resourcing.

SAIs' involvement in promoting ethics and good governance
SAIs are increasingly looking to play a major part in promoting ethical behavior, and there are ongoing opportunities to do so. For example:

- making better use of the media to report audit findings
- developing additional reporting mechanisms to receive citizen complaints about unethical behavior
- providing training on ethics to public sector organizations.

Going forward

This report encourages SAIs, and their respective governments and legislatures, to broaden their thinking in terms of the contribution that an independent SAI can make to the achievement of national governance outcomes. Ethical leadership is one area, and increasing the scrutiny of the national budgetary process is another. Addressing the problem of SAIs' financial independence would, to a greater or lesser extent, support that contribution.

The report finds only limited progress since 2011 in strengthening anti-corruption activities and opening up other areas of government to transparency and public participation. Much remains to be done.

PASAI's intention is for this report to be useful resource to encourage continued dialogue and sustained action, both at a regional level (including through its own efforts in conjunction with its partners) and at a country level by individual SAIs working with their governments and legislatures to enhance government and public sector accountability.

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RECOMMENDATIONS

Recommendation 1: Support to achieve financial and operational independence

PASAI should:

a.	support its member SAIs to engage with their governments and legislatures about options for increasing their financial and operational independence under their respective country systems
b.	ensure the support includes information about the different means by which: - a country's legislature could be involved in the process of developing and setting the SAI's budget, with the objective that the SAI has access to the resources that are necessary and reasonable to perform its mandate - a SAI could engage with its legislature (and committees of the legislature) to obtain feedback about its annual work plan, and support for its funding proposals - the SAI Head can become more responsible for SAI employment matters, including the terms and conditions of staff employment, salaries paid and staffing levels.

Recommendation 2: Moving towards independence in practice

SAIs should:

a.	continue to develop ways of achieving more within their current funding levels by, for example, adopting 'risk-based' approaches to their audit work and re-organising team structures to ensure they work efficiently
b.	ensure that they have appropriate quality control processes in place to ensure that contracted out audits meet auditing standards
c.	continue their efforts to make themselves accountable for their use of the resources entrusted to them, including through published annual reports to the legislature on their operations and financial management.

Recommendation 3: Promoting SAI involvement in national budget processes

PASAI should support its member SAIs to:

a.	encourage governments to provide a role for the SAI in strengthening the budget process by, for example, providing information about previous years' financial audit results or undertaking performance audits of the budget process, where the SAI's capacity and resources allow
b.	assist legislatures and their committees with their scrutiny of the government's budget proposals by, for example, providing briefings on budget proposals and their links to the SAI's previous audit reports and recommendations
c.	offer assistance in the training of members of the legislature, and its appropriations committee, in respect of the budget scrutiny process

Recommendation 4: Promoting ethical governance in the public sector

PASAI should support its member SAIs to:

a.	ensure that each SAI's code of ethics covers all matters addressed by the INTOSAI Code of Ethics and is appropriately adapted to the needs of the SAI and its operating context, that staff understand their ethical obligations of working for a SAI, and that ongoing training is available on the code of ethics and other ethical matters that may arise for employees in the course of their work
b.	explain effectively the SAI's role and what it does by, for example, making more use of websites and other forms of media (including print, radio, and social media) to communicate with citizens
c.	have their activities and operations independently reviewed to ensure they are operating efficiently and effectively and making best use of the available methods of communication with citizens.
d.	increase their activities in promoting ethical behaviour in the public sector by, for example, encouraging citizens to draw the SAI's attention to unethical behaviour in the public sector, targeting its audit work to include matters of fraud, waste and probity, and working with other government agencies to provide training on ethics to civil servants.

Recommendation 5: Follow up and enforcement of investigation findings

PASAI should:

a.	facilitate exchanges of information between its members across the three systems of government represented in the Pacific, supported by its own research, about ways of following up and enforcing SAIs' investigation findings.

Recommendation 6: Follow up of findings from the 2011 Accountability and Transparency Report

PASAI should:

a.	PASAI should ensure that the findings of the 2011 report (in particular, those in relation to the scrutiny role of legislatures and their committees, the control of corruption, public availability of information, corporate governance, civil society participation, and media freedom and independence) continue to be monitored and followed up through: - interactions with interested stakeholder bodies and development partners - future accountability and transparency reports.

1 INTRODUCTION

1.1. The Accountability and Transparency Report is one of PASAI's key publications

The Pacific Association of Supreme Audit Institutions (PASAI) is the official association of government
audit offices in the Pacific region. PASAI has 28 members, known as SAIs[a], and operates throughout the Pacific with a Secretariat based in Auckland, New Zealand. PASAI's overall goal under its Charter is to promote transparent, accountable, effective, and efficient use of public sector resources in the Pacific.

PASAI's Accountability and Transparency Reports have become some of PASAI's key publications. The first report was published in 2009 and the second in 2011. These reports provided an independent view of accountability and transparency in the Pacific region, which SAIs could use for:

- communicating with their governments and legislatures
- undertaking broader advocacy about the role of SAIs and associated governance mechanisms to improve accountable and transparent use of public resources.

The 2009 report was produced from a survey of PASAI's members. The 2011 report took a more in-depth approach, combining a survey of member SAIs with studies of six specific SAIs and their jurisdictions.

This report builds on the work of the first two reports.

1.2. What is accountability and transparency and why is it important?

Accountability and transparency are two important elements of good governance. Transparency is a powerful force that, when consistently applied, can help fight corruption, improve governance and promote accountability and the confidence of citizens. Accountability and transparency are not easily separated: they both encompass many of the same actions, for instance, public reporting. The concept of accountability refers to the legal and reporting framework, organisational structure, strategy, procedures and actions to help ensure that public funds are expended in a responsible, efficient and effective way.[b]

The INTOSAI Development Initiative (IDI) has stressed that the central role of SAIs in combating corruption is promoting sound financial management and encouraging robust internal control mechanisms in public bodies. In particular, strong financial management systems, based on effective financial reporting and the disclosure of any significant deviations, have a dissuasive effect on those who might otherwise engage in corruption.

This deterrent role is seen to contribute to a wider environment against corrupt activity.

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a. This report uses the term 'Supreme Audit Institution', or 'SAI' to include state and provincial audit institutions (for example, audit institutions of the states of the Federated States of Micronesia), and those self-governing territories such as Guam (US) and New Caledonia (France), even though the correct definition of a SAI is confined to a national audit body.

b. van Zyl, A. et al. *Responding to the Challenges of Supreme Audit Institutions: Can Legislatures and Civil Society Help?* U4 Issue 2009: 1 Norway: Anti-Corruption Resource Center, 2009. Available at http://internationalbudge.org/wp-content/uploads/Responding-to-the-Challenges-of-Supreme-Audit-Institutions-Can-Legislatures-and-Civil-Society-Help.pdf.

A system of financial checks and controls can bolster accountability by providing assurance that reported information is credible and that financial reporting promotes the transparency of government spending. As such, a SAI provides the public with information on accepted standards of financial management and probity and details of any deviations from these standards or from legality. In particular, commentators stress the importance of these functions to the wider institutional framework, where they are seen to bolster the application of the rule of law and add to the predictability of government behaviour.

PASAI's members include the SAIs of some of the smallest and most remote nations on earth. Public auditing in the Pacific region has advanced substantially; however, sustaining these improvements is difficult in smaller countries because auditing in tight-knit social and cultural environments involves significant political, professional, and personal pressures.[a]

Within this environment, it is vital that SAIs adhere to the highest standards of integrity, transparency, and accountability. The rule of law and democracy are essential foundations for independent and accountable government auditing and serve as the pillars on which the Lima Declaration[b] is founded. Independence, accountability and transparency of SAIs are essential prerequisites in a democracy based on the rule of law and enable SAIs to lead by example. Leading by example is a key theme of this report. One of the primary international standards for SAIs, ISSAI 12—The Value and Benefits of SAIs—making a difference to the lives of citizens, is summarized in Appendix 1. The standard emphasizes three primary contributions of a SAI to country outcomes:

- strengthening the accountability, transparency and integrity of government and public entities
- demonstrating ongoing relevance to citizens and other stakeholders
- being model organizations through leading by example.[c]

1.3. In 2015, we looked at ethical governance, scrutiny of national budgets and SAI independence

The terms of reference for the 2015 study focused on three areas:

1. SAIs' financial independence and operational autonomy
2. national budget scrutiny across the Pacific and, in particular, whether SAIs could have a broader role in assuring the public that national budgets are appropriately developed and implemented as well as being accounted for
3. how SAIs can promote ethical governance in their jurisdictions.

The terms of reference also asked that the recommendations made in the Accountability and Transparency Report 2011 be followed up to understand the progress SAIs and their countries have made in the past four years in some of the key areas of transparency and accountability considered by that report. The recommednations included adopting corruption control measures, community and civil society participation in national budgetary processes, adopting open government systems and the principles of corporate governance in Pacific nations, and media

a. Asian Development Bank, 2008, Strengthening Governance and Accountability in Pacific Island Countries (Phase 2). Available at http://www.adb.org/sites/default/files/project-document/67647/42454-reg-tar.pdf.

b. ISSAI 1 *The Lima Declaration of Guidelines on Auditing Precepts*, International Organization of Supreme Audit Institutions (INTOSAI), 1977.

c. INTOSAI (nd), *ISSAI 20—Principles of Transparency and Accountability*.

freedom and independence.

1.4. A three-stage methodology was used

The project was undertaken in three stages:

- Stage 1 — project scoping: Stage 1 involved reviewing the 2011 report and focus areas of the 2015 report alongside INTOSAI's newly developed global performance management framework for SAIs (known as the SAI PMF) to develop the terms of reference and to develop relevant benchmarks for the study.[a] Stage 1 also developed the data gathering approach, including writing a questionnaire to be sent to all Pacific SAIs and preparing materials for the country visits.
- Stage 2 — fieldwork: Stage 2 was the data gathering phase. The team visited seven countries to study in depth: Cook Islands, Fiji, Kiribati, New Caledonia, the Republic of the Marshall Islands, Tuvalu and Vanuatu. The questionnaire was sent to 21 SAIs[b] and 17 SAIs responded.
- Stage 3 — data analysis and reporting: Stage 3 was a desk-based analysis of the survey data and information from the country visits. In addition to this Report, separate country reports were provided to the SAI Head of each country visited that can be used for their own purposes, including ongoing advocacy work with their own stakeholders.

A summary of the benchmarks used for the study is in Appendix 1.

PASAI also arranged for this report to be the subject of three external reviewers. The reviewers were Mr Sili Sala Epa Tuioti-Mariner, a public financial management expert based in Samoa, and Dr Haruo Nagakawa and Professor Vijay Naidu of the University of the South Pacific, Fiji. PASAI expresses its deep appreciation of their insights and guidance in finalising the report.

1.5. The results of the study are arranged in five parts

Chapter 2 addresses the financial and organisational independence and accountability of SAIs, including the risks associated when SAIs contract out audits.

Chapter 3 describes SAIs' contribution to national budgets.

Chapter 4 looks at promoting ethical governance in the public sector reviews the ethical standards and pracices used by SAIs in their work and considers how SAIs can contribute to improvong ethical behavior in the public sector.

Chapter 5 contains an update on other recommendations made in the 2*011 Accountability and Transparency Report* and the extent to which SAIs and their jurisdictions have made progress against the recommendations.

Chapter 6 concludes the report.

a. The SAI PMF was developed by the IDI, and adopted by INTOSAI for piloting purposes in 2013. The English language of the pilot version is available at http://www.idi.no/Filnedlasting.aspx?MId1=130&FilId=821. A final version is expected to be ready for adoption in 2016. However, SAIs are being encouraged to use the SAI PMF in the meantime as a measurement tool as a step towards ISSAI implementation, an internal performance reporting method, to demonstrate progress against a strategic plan, or to get support for capacity development. PASAI is also currently working with the IDI to develop a customized version of the SAI PMF that is more suitable for use by smaller SAIs.

b. Of PASAI's 28 members SAIs, 22 are from Pacific Island nations, states, and territories. The other six are the SAIs of Australia and New Zealand and four Australian state or territory audit offices. They were expressly excluded from the 2015 study.

2 FINANCIAL INDEPENDENCE AND OPERATIONAL AUTONOMY OF SAIS

SAIs need to be fully independent if they are to perform the modern public auditing mandate effectively, and if their roles are to develop.

True independence means that a SAI should have the necessary financial means and human resources to enable it to perform its mandate and hold the executive and other agencies to account for their stewardship over, and use of, public resources. This means that the SAI's budget should not be under the control of the executive. SAI Heads should also be able to manage the SAI's budget and human resources, allocate them as they see fit, and be accountable to the legislature for doing so.

These precepts have been stated often internationally, including in:

- Section 7 of INTOSAI's Lima Declaration of Guidelines on Auditing Precepts (1977, now recorded in ISSAI 1), which says that 'SAIs shall be provided with the financial means to enable them to accomplish their tasks. If required, SAIs shall be entitled to apply directly for the necessary financial means to the public body deciding on the national budget. SAIs shall be entitled to use the funds allotted to them under a separate budget heading as they see fit'.
- Principle 8 of INTOSAI's Mexico Declaration on Independence of SAIs (2007, now recorded in ISSAI 10), which makes it a principle of SAI independence that SAIs have 'financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources'.
- The guidelines under Principle 8 (contained in ISSAI 11 Guidelines and good practices related to SAI Independence), which state that the executive should not control or direct the access to a SAI's reasonable human, material and monetary resources; that the legislature should be responsible for ensuring that a SAI has the proper resources to fulfil its mandate; and that SAIs should manage their own budget and allocate it as appropriate.
- Resolution A/66/209 of the United Nations General Assembly, Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions, which recognized (among other matters) that SAIs can accomplish their tasks objectively and effectively only if they are independent of the audited entity and protected against outside influence.
- The World Bank's Public Expenditure and Financial Accountability (PEFA) Framework, section PI-27 of which establishes a benchmark that the legislature's procedures for budget review of the SAI are 'firmly established and respected'. Such procedures should include internal organisational arrangements, such as specialized review committees, and negotiation procedures.

These aspects of a SAI's independence are also reflected in ISSAI 12, including:

- Principle 1(8) — SAIs should seek to maintain financial and managerial or administrative and appropriate human, material and financial resources
- Principle 11(4) — SAIs should have sufficient and appropriate resources to perform their work in accordance with relevant standards and other requirements, including having timely access to external and independent advice where necessary.

Meeting these international standards requires laws and mechanisms enabling:

- a SAI's budget to be fixed without the risk of interference from the executive, which is also the SAI's primary audit client
- the budget to be determined by what a SAI needs to accomplish to perform its mandate
- the SAI's Head to have financial and managerial autonomy over the use of its resources
- the SAI to be accountable to the legislature for its performance.

The terms of reference for this study required a particular focus on these aspects of SAI independence. This chapter considers the issue under three main headings: SAIs' views of the adequacy of their own resources; the arrangements for determining a SAI's financial budget, in particular the extent of independence from the executive; and the organizational and operational autonomy of SAIs and SAI Heads, including in respect of human resources. The chapter also examines the practice of contracting out of audits, which is an element of the SAI's operational autonomy, and the development of annual reporting as a form of SAI accountability for their use of the resources entrusted to them.

2.1 The adequacy of Pacific SAIs' resources

Inadequate resourcing can result in a SAI:

- lacking the capacity to perform both performance and financial audits across a full mandate
- being unable to produce quality audit reports, in a timely manner
- being unable to follow up its audit recommendations effectively, or to provide support to the legislature and its committees to do so, often because of a lack of time or capacity
- being unable to attract and retain staff because of inadequate levels of remuneration
- falling behind in its use of technology (for example, not having the resources to implement computer-based auditing systems) and being unable to keep up-to-date with technical accounting and auditing developments.

The study asked SAIs if they considered they had sufficient resources to undertake their work plan for the previous three years.

Eleven SAIs said that they had sufficient resourcing, and six said they had insufficient resources to undertake their work.

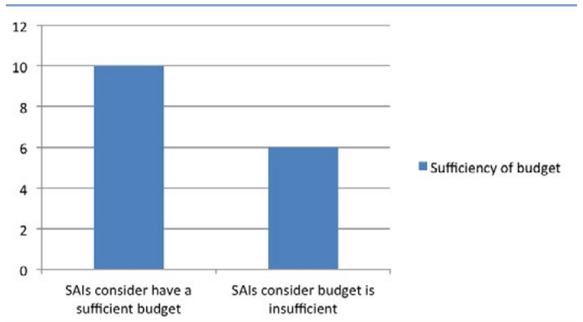

Figure 1 Sufficiency of budget

SAIs were asked what are the main issues and challenges they face in being able to carry out their full mandate, arising from issues such as lack of human capacity, audit methodologies and office facilities. Figure 2 identifies the most common resourcing issues.

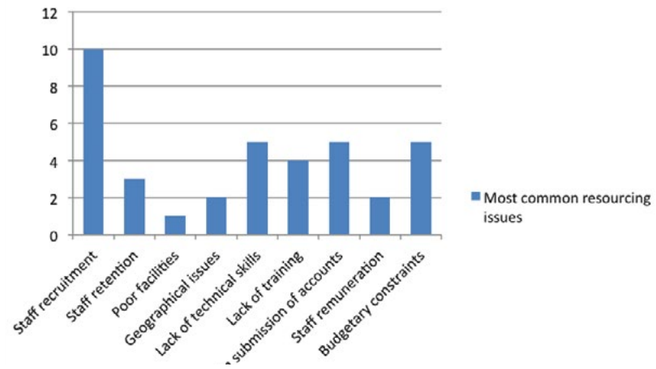

Figure 2 Most common resourcing issues

Particular points to note from the responses include:

- SAIs find it difficult to recruit staff. The main reasons cited for this difficulty included having a small talent pool to draw on, being locked into low pay rates compared to other government ministries or private sector auditing firms, and younger people choosing careers other than auditing/finance (e.g. engineering and law).
- SAIs find it difficult to retain staff. The main reasons cited for this difficulty included competition from other government departments (which in some circumstances can pay more for equivalent work), people wanting to move overseas, and family reasons.
- SAIs find it difficult to make opportunities for staff development and promotion, which creates a lack of staff with the right levels of technical expertise. This includes IT skills, technical auditing skills, and writing skills.

One SAI reported a staff turnover of 50% for the last year. Another reported that while its corporate plan provides for 23 technical staff, it has never been sufficiently funded for a full staff complement and currently has only ten technical staff (including the SAI Head) and one administrative assistant.
The responses also suggest that some SAIs lack the capacity to fulfil their mandate due to lack of staff, infrastructure and office facilities. Two SAIs reported that, because of resourcing issues, they have only completed audits of the 2012 year whole-of-government accounts.

However, the study also revealed that SAIs are adopting a range of strategies to address their resourcing issues. Examples included:

- enrolling staff in colleges to improve their technical skills
- meeting with the Prime Minister and Minister of Finance to emphasize the important role of the SAI, highlighting the challenges faced and seeking additional resources
- creating financial incentives to attract and retain staff, where possible
- outsourcing some audits

- reorganising team structures for efficiency
- resizing staff positions to make them more competitive
- 'working smarter', for example, two SAIs said they now prioritize the entities to be audited according to risk and one of these SAIs has decided to undertake less intensive 'agreed-upon procedures' engagements (which are different from auditing engagements) for those entities that present lower financial risk.

2.2 How SAIs' budgets are set

2.2.1 The legal basis for setting SAIs' budgets

Of the SAIs that responded to the questionnaire, there was an even split between those that have a specific legislative provision for the SAI's budget and those that do not.

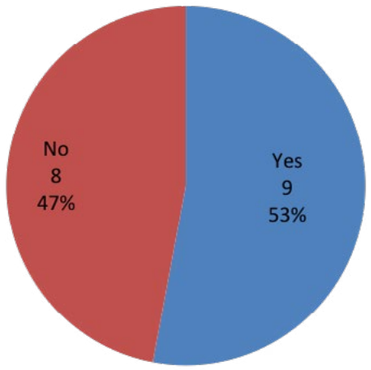

Figure 3 Is there a specific legislative provision for your SAI's budget?

Although 53% of SAIs reported a specific legislative provision, most said that it does not guarantee any specific level of budget or security of funding. For example, the budget provision for Tuvalu, under section 16 of the Tuvalu Audit Act, simply provides for the Auditor-General to prepare estimates of revenues and expenditure for the Office each financial year. This gives no security to the amount of funding it receives.

Such provisions are commonly found elsewhere. Only four SAIs reported that they have the benefit of legislative provisions ensuring either sufficiency of budget or a specific level of funding:

1. Commonwealth of the Northern Mariana Islands — a minimum budget is provided.
2. Fiji — the Constitution provides that 'Parliament shall ensure that adequate funding and resources are made available to the Auditor-General, to enable him or her to independently and effectively exercise his or her powers and perform his or her functions and duties'. (However, no mechanism has yet been developed to give effect to this.)
3. Republic of Marshall Islands — the budget is fixed under a formula that gives the SAI access to a fixed percentage of certain elements of the government's revenue. This formula provides a stable operational base for the SAI, although the budget itself is set through the same budgetary mechanism (under the control of the Ministry of Finance) that applies to all government ministries.
4. Tonga — Section 26 of the Public Audit Act provides that 'the Legislative Assembly shall appropriate sufficient moneys, to enable the effective administration of the Act'.

The SAI of Vanuatu has recognized that its current legislative arrangements for its budget are unsatisfactory and has proposed significant amendments to the Vanuatu Expenditure Review and Audit Act (1998) to provide more certainty around its funding levels. The study was also made aware of legislative proposals being developed in one other jurisdiction, that are aimed at providing some security of funding.

2.2.2 The budgetary process

The study found that most Pacific SAIs are subject to the same financial budgeting processes as government ministries. The most commonly found model is:

- The SAI prepares its budget proposal in accordance with a budget circular, or other instructions, developed and issued by the ministry of finance or equivalent agency of the executive.
- The starting position for budget proposals is the previous year's funding levels. This is often referred to as the SAI's 'budget ceiling'. However, additional funding may be requested.
- The budget proposal, along with those of government ministries and other agencies, is considered by a budget committee comprising senior ministry of finance personnel and other senior officials. This committee makes recommendations to the Cabinet, or relevant Cabinet committee.
- The Cabinet, or Cabinet committee, makes the final budget decision in relation to the SAI.
- The SAI's budget is included in the budget submitted by the government to the legislature, containing the full budget, which is scrutinized by a committee of the legislature and subsequently debated by the full legislative body before being formally approved or enacted into law.

All SAIs reported that they take their annual work plans into account when determining their budget proposals. This includes considering the number of audit staff, the number of audits to be completed, the number (and cost) of audits to be contracted out (where applicable), and the resources needed for training and development activity.

However, the practical outcome of the process described is that the SAI's budget proposal, and the annual work plan intentions underlying it, are open to review and scrutiny directly by the government officials and then the Cabinet. A number of SAI Heads expressed concern about this, which does not meet the standard of independence and freedom from executive control or direction that has been established by the Lima and Mexico Declarations.

There is a historical explanation. Many SAIs in the Pacific region were originally established as government agencies to audit and report on government accounts. Under this model, the SAI Head is legally independent, but the SAI as an organisation is an instrument of the executive government. The SAI's staff are civil servants, and its budget is determined in the same way as for other executive government agencies.

This model is reflected in many of the constitutions and other legislation of Pacific states, especially those that achieved their independence from colonial rule from the 1960s and 1970s.[a] It was developed on the basis, also reflected in the public financial management and auditing legislation dating from that era, that auditing in the public sector followed a largely transactional-based approach that was suitable for government officials to undertake.

a A similar model exists for the Australian SAI and state audit offices: see Independence of Auditors-General: A 2013 update of a survey of Australian and New Zealand legislation, commissioned by the Victorian Audit Office, 2013 (VAGO report). The same model also existed in New Zealand until the enactment of new public auditing legislation in that jurisdiction in 2001.

Public sector auditing in the modern era bears little resemblance to that approach. SAIs now follow a professional, risk-based approach to their financial audits, using standards (the ISSAIs), which are drawn from and, to a large extent, follow the approach of the international standards that apply to audits of private sector companies.

At the same time, the demands on SAIs have expanded to include considerations of how well government bodies perform their work, typically looking at the economy, efficiency, and effectiveness of service delivery. Citizens and their elected representatives increasingly demand that their SAI goes beyond judgments of compliance and accuracy in the government's accounts, to also evaluate government performance and the value for money obtained through government transactions.[a]

There is a need to change the approaches used for funding Pacific SAIs to bring them more into line with the international standards and, in particular, to reduce the element of executive control over, and ability to direct, the SAI's access to reasonable and necessary resources to perform its role.

2.2.3 Interaction with the legislature on budgetary matters

The counterpoint to removing executive control is that the legislature should play a significant role in reviewing a SAI's budget proposal and determining the amount of the SAI's budget, before the budget is finalized and presented. [b] The best practice approach, reflected in Principle 8 of the Mexico Declaration and the associated guidance material, is that the SAI's budget should be determined by, or at least on the recommendation of, the country's legislature and with reference to the SAI's independently determined work plan intentions.

The questionnaire results and the in-country visits both suggest that many SAIs have reasonable levels of engagement with the legislature, including committees of the legislature, on their work plans. For example, in Guam, the SAI annually sends out letters to senators, as well as to selected government officials, requesting feedback on potential performance audit topics or areas of concern. In addition, the SAI periodically meets with senators to get their input into the annual plan.

There are good reasons why a SAI should consult with the legislature in this way:

- it provides the legislature with an opportunity to inform the SAI of what the legislature considers to be important for the SAI to examine (subject to the SAI having the final say as to the content of its work plan)
- it provides the SAI with an opportunity to discuss its business with the legislature, which could also include budgetary matters, staffing, audit timeframes and backlogs, and audit recommendations
- it enables ongoing development of the relationship between the SAI and the Public Accounts Committee, to generate an understanding of the respective roles of the legislature and the SAI in relation to holding the executive government to account.

The study also asked SAIs if they engage with their legislature about setting their budgets. Ten SAIs reported some form of engagement. But, significantly, none of those involved any formal interaction during the process of preparing the SAI's budget proposals. This practice in the Pacific falls short of international standards and practices.[c]

a. van Zyl, A. et al. Responding to the Challenges of Supreme Audit Institutions: Can Legislatures and Civil Society Help? U4 Issue 2009: 1 Norway: Anti-Corruption Resource Center, 2009. Available at http://internationalbudge.org/wp-content/uploads/Responding-to-the-Challenges-of-Supreme-Audit-Institutions-Can-Legislatures-and-Civil-Society-Help.pdf.

b. Guidance on Principle 8 of the Mexico Declaration (ISSAI 11), as quoted at the start of this chapter.

c. The approach under the New Zealand legislation represents the best practice standard for the Pacific (see the VAGO report). Under that approach, the budget of the New Zealand SAI is fixed through the legislature, which makes a formal request to the executive (by way of address) to include the budget in an appropriation bill: Public Finance Act 1989 (NZ), section 26E. The Australian approach is also commended for consideration as a means of advancing reforms in Pacific nations. For example, for the Australian SAI, a joint parliamentary committee is required by statute to consider the draft estimates of the Auditor-General (as developed through the executive's budgetary process) and make recommendations to both houses of the Parliament and the responsible Minister: see the VAGO report, page 44.

However, several SAIs reported interactions with the legislature after the government's budget proposal (which includes the proposed budget of the SAI) has been presented to the legislature and before it is enacted into appropriations. For example:

- The SAI of Pohnpei (a state of the Federated States of Micronesia) reported that extensive discussion and review of the SAI's work program occurs during the budget hearings conducted by the Finance Committee of the legislature. These hearings afford the SAI an opportunity to address issues relating to its work program.
- In American Samoa, the SAI Head appears in person before the legislature to justify the budget and answer any questions from representatives and senators. The legislature has the power to approve, increase, or decrease the budget.

The study also revealed potential for legislatures to increase their influence in the setting of the SAI's budget in other ways. For example, public accounts committees, or their equivalents, are an important part of the relationship between a legislature and the SAI. Committees receive the SAI's audit reports and recommendations, can call officials to account for their actions, and can follow up the SAI's audit recommendations. Committees can also be strong advocates for the SAI, supporting, for example, additional funding for it to deliver on its mandate.

The in-depth country studies confirmed the benefits of this relationship. For example, in 2013, the Public Accounts Committee of the Republic of the Marshall Islands recommended that the SAI's budget be increased to enable it to more effectively carry out its full range of auditing duties.

2.3 Organisational and operational independence

To effectively hold governments to account for their stewardship of public resources, it is also important that SAI Heads have appropriate organisational and operational independence to:

- protect the SAI from undue influence in performing its mandate
- allow the SAI to operate efficiently and effectively.

The precepts and standards quoted at the start of this chapter indicate that SAI Heads should be free to manage their office as they see fit, including organising the office, recruiting staff, allocating resources, providing training, managing the media, and deciding how to allocate funds, subject to any appropriation constraints. This independence should extend to audit selection, how the SAIs undertake audits, how audit findings are reported (subject to any requirements to report to the legislature), and how audit recommendations are followed up.

In return for that autonomy and independence, SAIs should report annually to the legislature on activities, with audited financial statements where appropriate.

2.3.1 Freedom from external interference

SAIs reported a significant level of independence in the way they operate and are free to use resources as they see fit. Two SAIs reported that their operational independence is provided for in the Constitution.

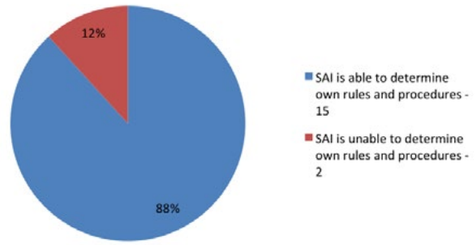

Figure 4 Organisational independence

Two exceptions were in the areas of procurement and employment. Eleven SAIs said they are subject to the civil service procurement rules and processes (which is appropriate, provided the SAI Head is in a position to make procurement decisions).

The study found no examples of recent political interference in the activities of SAIs. The in-country visits confirmed that most SAIs appear to be free from direct political influence in the performance of their work.

2.3.2 Autonomy on human resource matters

The international precepts and standards also confirm that it is good practice internationally for the SAI Head to have independence in all employment matters. The study asked SAIs if the SAI Head has the legal capacity to appoint and remunerate the SAI's staff. Six SAIs reported that they do.

The study found only one example of SAI independence in relation to employment matters. That is set out in the Constitution of the Republic of Fiji:[a]

The Auditor-General has the authority to determine all matters pertaining to the employment of all staff in the office of the Auditor-General, including:

a. the terms and conditions of employment

b. the qualification requirements for appointment and the process to be followed for appointment, which must be an open, transparent and competitive selection process based on merit

c. the salaries, benefits and allowances payable, in accordance with its budget as approved by Parliament

d. the total establishment or the total number of staff that are required to be appointed, in accordance with the budget as approved by Parliament.

All the other SAIs said they are regarded as part of the civil service for staffing and employment purposes, with recruitment decisions being made by a body such as a public service commission.

a. Constitution of the Republic of Fiji, Article 152(7). By way of comparison with the region's developed countries, the SAI of New Zealand has similar autonomy under its legislation (the Public Audit Act 2001 (NZ)) and the SAI of New South Wales has achieved autonomy in employment matters by being classified as a 'statutory body' under law.

As with budgeting matters, as discussed in section 2.2.2, this type of administrative arrangement has an historical explanation. But the adoption of a risk-based approach to auditing using international auditing standards requires a different, professionally qualified workforce. The breadth of SAIs' contemporary mandate also requires both a wider range of personnel and a greater amount of discretion for the SAI Head in the selection and allocation of staff.

The study noted that, at a practical level, some SAIs experience difficulty with public service commissions' employment processes. For example:

- Two SAIs have experienced recruitment delays involving the commission, putting the recruitment of suitable staff at risk.
- Two SAIs considered that the commission's job-sizing and pay rate bands means that the SAI has to offer less to attract potential staff than other government organisations for similar positions. This is particularly the case in entry-level appointments. One SAI said that it has overcome this problem by obtaining the commission's agreement to re-size some of its positions.

Having a public service commission overseeing the SAI's recruitment activities also creates the potential for interference in SAI staffing matters. One SAI recently had a senior staff member redeployed into a civil service role without the SAI Head's agreement.

PASAI's members discussed this issue during the 18th PASAI Congress held at Port Vila, Vanuatu, in October 2015. The widespread lack of autonomy in employment matters is a significant and widespread problem. The members discussed ways to use this report to draw attention to the problem and to reduce, or remove, the potential for executive interference in SAI staffing matters

2.3.3 Accountability for the use of resources

Financial independence and autonomy come with a need for accountability. An annual report provides an opportunity for the legislature, the executive government, and citizens to be informed of how the SAI has used the resources entrusted to it, and whether it has achieved its objectives for the year. Where the country's public financial management system requires it, an annual report may also contain the SAI's own audited financial statements.[a]

Of the seventeen SAIs that responded to the questionnaire, fifteen reported that they produce an annual report providing information about what the SAI achieved during each year. Of these, fifteen SAIs, eleven reported they produce audited financial statements, either on their own account or as part of the central government accounts.

The means by which SAIs communicate their work is discussed in detail in chapter 4. Annual reporting is a key element of that communication, and the questionnaire results are encouraging.

One point for further development is the need to make annual reports available. The results indicate that not all SAIs are able to do so.

a. ISSAI 12 provides that 'SAIs should be subject to independent external scrutiny, including external audit of their operations, and make available these reports to stakeholders'.

2.4 Contracting out of audits

It is common practice internationally for a SAI to be able, or in some cases to be required by law, to contract out some of its audit activities. Contracting out audits can give the SAI access to a wider range of resources and specific expertise. However, it is important that the SAI Head retains control over the audit by setting auditing standards and other requirements.

2.4.1 The extent of contracting out

Thirteen SAIs currently contract out some of their audits. Three SAIs (American Samoa, Guam and the Commonwealth of the Northern Marianas) contract out all of their financial audits. The Republic of the Marshall Islands contracts out 92% of its financial audits, and Tuvalu contracts out 50%. Contracting out of financial audits is a legal requirement for American Samoa and the countries and territories of the northern Pacific, which are either US territories or members of the Compact of Free Association with the United States.

The financial costs of contracted out audits can be significant. For example:

- Fiji outsourced 11 audits, at a total cost of USD88,500
- the Commonwealth of the Northern Mariana Islands contracted out 13 audits, at a total cost of USD500,000
- Guam contracted out 24 financial audits, at a total cost of USD1.3 million.

There is also significant variation in the way contracted out audits are funded. For example, in the Cook Islands, all contracted out audits are funded by appropriation. In other countries, such as Vanuatu, contracted out audits are either for the purpose of auditing aid projects or are third-party (donor) funded.

2.4.2 The advantages and disadvantages of contracting out audits

SAIs identified significant advantages of contracting out financial audits, with the most common being improved timeliness of audits. As with the 2011 study, all of the US-affiliated countries and territories reported being up-to-date with their financial audits.

Other reported advantages of contracting out audits include that the practice:

- allows SAIs to undertake audits that they may not have otherwise been able to do, particularly of sophisticated financial institutions that the SAI may not have the technical skills to audit by itself
- allows audit clients to better understand the audit process and the obligations it places on the client, such as the obligation to produce timely accounts for audit, which suggests that government departments may be more responsive, and respectful, towards private sector audit firms than SAIs
- allows technical auditing skills and knowledge to be shared between the private and public sector
- provides timely information and completed audit reports for whole-of-government.

2.5 Summary and recommendations

Appendix 3 contains a table summarising the results for the SAIs that participated in the in-depth country studies.

Adequacy of resources

Most SAIs that responded to the questionnaire reported insufficient resources and funds, based on whether they have been able to put their work plans fully into effect for the past three years. The in-country visits confirmed this for some of the SAIs visited. Where SAIs have insufficient resources and funds, they cannot be regarded as being operationally independent by international standards.

SAIs identified a range of resourcing issues that adversely affect their ability to perform their work, including difficulty recruiting and retaining staff, a lack of technical accounting and auditing skills, poor facilities, and the geographical distance involved in undertaking their mandate. Recruitment issues are often country-wide issues, rather than specific to the SAI. But some SAIs considered they are at a competitive disadvantage when recruiting staff, due to the lower pay rates they can offer compared to other government ministries and, where applicable, private sector auditing firms.

How a SAI's budget is set

All SAIs reported that they take their annual work plans into account when determining their budget proposals. However, the prevailing approach to determining a SAI's budget is to treat the SAI as, in effect, an instrument of the executive government and treating the SAI's staff as members of the civil service. This means, in practice, that the SAI's annual work plan (on which the budget proposal is based) is open to executive scrutiny.

Although there are historical reasons for this approach, it effectively gives the executive control of the SAI's budget and, to an extent, its human resources. In this respect, the practice in the Pacific falls short of international standards.

Conversely, it is unusual in Pacific countries for the legislature to have any formal role in determining the SAI's budget. However, many SAIs do engage with the legislature in a number of ways, both in relation to the SAI's work plan intentions and during the legislature's scrutiny of the government's budget proposals.

Committees of the legislature play an important role in this engagement, as they do in other elements of the relationship between the SAI and the legislature. It is in the interests of both SAIs and committees that a strong relationship is developed, particularly given that the existing mechanisms for setting SAIs' budgets are open to executive control and do not always ensure that the SAI has sufficient financial resources to undertake its work plans.

It is clear that SAIs still have much to gain from engaging with the legislature on their work plans, and should do so as often as is practicable. This report identifies mechanisms used elsewhere in the Pacific to reduce or remove executive control over the budget setting process for the SAI.

In contrast to the process for setting budgets, most SAIs are operationally independent and can use their budgets as the SAI Head determines is appropriate. The study found no examples of SAIs being subject to recent political interference when undertaking audits.

However, it is common for SAIs' employment issues to be dealt with by a public service commission or similar body. These bodies are usually appointed by the executive and have responsibilities covering the entire civil service. This creates a loss of autonomy for the SAI Head, and the potential for interference in SAI staffing matters.

Some SAIs also experience difficulty with the public service commission's employment processes, such as recruitment delays and uncompetitive pay rates.

These difficulties suggest that it is important for SAIs to pursue ways of reducing their dependence on, and level of direction by, such commissions.

Accountability

There trend for SAIs to make themselves accountable through annual reports on their operations, which are now produced by a clear majority of SAIs in the region. However, not all SAIs are yet making their annual reports available to the public. This is an area for continued development.

Contracting out audits

More than half of the region's SAIs contract out some of their audits to third parties. There are different reasons for this practice, and a variety of contracting arrangements. Maintaining audit quality in contracted-out audits is a significant risk for SAIs and SAIs adopt different approaches to mitigate this risk.

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Recommendations

Support to achieve financial and operational independence

PASAI should:

a. support its member SAIs to engage with their governments and legislatures about options for increasing their financial and operational independence under their respective country systems

b. ensure the support includes information about the different means by which:

- a country's legislature could be involved in the process of developing and setting the SAI's budget, with the objective that the SAI has access to the resources that are necessary and reasonable to perform its mandate
- a SAI could engage with its legislature (and committees of the legislature) to obtain feedback about its annual work plan, and support for its funding proposals
- the SAI Head can become more responsible for SAI employment matters, including the terms and conditions of staff employment, salaries paid and staffing levels.

Moving towards independence in practice

SAIs should:

c. continue to develop ways of achieving more within their current funding levels by, for example, adopting 'risk-based' approaches to their audit work and re-organising team structures to ensure they work efficiently

d. ensure that they have appropriate quality control processes in place to ensure that contracted out audits meet auditing standards

e. continue their efforts to make themselves accountable for their use of the resources entrusted to them, including through published annual reports to the legislature on their operations and financial management.

f. continue their efforts to make themselves accountable for their use of the resources entrusted to them, including through published annual reports to the legislature on their operations and financial management.

3. SAIS' CONTRIBUTION TO NATIONAL BUDGETS

A government's budget is a key document. It lays out the government's policy decisions and spending priorities and informs citizens of them. It is also a fundamental principle of most democracies that the legislature retains control over public expenditure. This control includes enacting budget laws, the power to scrutinize the executive's budget proposals before approving them through enactment of appropriations, and the power to hold the executive to account for its implementation of the budget.

The budgetary process is also a centrally important aspect of transparency and accountability, which is the subject of this report. For citizens, the process is an opportunity for participation in setting the government's expenditure priorities and being able to understand how they are translated into budget appropriations.

SAIs can enhance the quality of the national budgeting process by providing information to the executive and citizens, and assistance to the legislature, enabling the budget to be appropriately developed and scrutinized. That, in turn, can enhance respect for the budget and its integrity.

This section of the study examined the role of SAIs in relation to both the development of the government's budget and its scrutiny by the legislature. Experience in other jurisdictions shows that a SAI can:

- provide information that enhances the integrity of the budget setting process, which often lacks formal structure
- assist the legislature with its budget scrutiny role, which is often weak due to a lack of capacity and resources.

3.1 Setting national budgets and legislature scrutiny

3.1.1 How budgets are set in Pacific Island countries

Each Pacific Island country has its own rules for setting the national budget. The approach varies depending on the system of government and the constitutional relationship between the executive and legislative branches of government. However, in most jurisdictions the approach follows that described in the OECD's Journal on Budgeting: The Legal Framework of Budget Systems: An International Comparison.[a] The process is described in section 2.2.2 in relation to the SAI's own budget process where it forms part of the executive's budget.

3.1.2 Types of budget scrutiny by the legislature

The most common form of budget scrutiny in Pacific Island countries involves referral of the government's budget proposals to a committee of the legislature, which may hold hearings on the budget before making a report to the full legislature. The budget, with any amendments recommended by the committee, is then debated in the legislature before being formally enacted in the form of appropriations.

a. OECD Journal on Budgeting: *The Legal Framework of Budget Systems: An international Comparison*: Vol 4. No 3, 2004, pages 25–26.

In countries using the congressional system of government, there is typically a committee with specific responsibility for budget scrutiny, often known as the Appropriations Committee. In parliamentary systems, the committee that scrutinizes the budget proposal may be the same committee that has later responsibility for reviewing budget implementation (typically, known as the Public Accounts Committee). This approach is demonstrated by the following examples:

- Guam: the Committee on Appropriations conducts budget hearings for government departments to review and discuss their respective budgets
- Republic of the Marshall Islands: the Appropriations Committee holds public hearings on each budget allocation, which are broadcast on radio with web streaming and there are also plans to televise hearings
- Samoa: the Finance and Expenditure Committee reviews and scrutinizes individual budgets and questions government department chief executives before the budget is reported back to the full Parliament
- In Tuvalu, the Public Accounts Committee endorsed the formation of a standing Budget Committee to scrutinize the proposed national budget. The Budget Committee will also undertake a review of prior-year spending by government departments, to ensure that the objectives of the funding have been met. The intention is for the Budget Committee to meet annually, prior to the Parliament's budget sitting.

In New Caledonia, the High Commissioner (the representative of the French state) scrutinizes the budget using a number of legal tests (whether the budget is on time, is balanced, discloses compulsory expenses, and is 'sincere', meaning the revenues and expenses are properly defined).

The study also found two examples where the role of the legislature in relation to budget oversight is set in legislation.

In the Cook Islands, the Public Expenditure Review Committee and Audit Act establishes the Public Expenditure Review Committee (the PERCA).[a] The PERCA has a wide mandate that includes both pre-adoption and post-implementation scrutiny functions. The pre-adoption functions include reviewing and commenting on government economic updates, confirming that required economic and financial statements are produced and are subject to appropriate review, providing mechanisms for public consultation and input into budget and expenditure proposals and pursuing legitimate issues of public concern that affect the management of public funds.

In Vanuatu, the Public Accounts Committee also has a legislated mandate, which includes responsibilities in relation to the budget in addition to reviewing the whole-of government accounts.

The committee can:

1. review economic and financial statements to confirm adherence to fiscal disciplines is explicit
2. review and comment on the content of the various other economic statements and economic updates and reports required under the relevant Acts
3. ensure that all obligations of the heads of government ministries are met
4. provide for a mechanism for public consultation about budget and expenditure matters
5. undertake or supervize all audits in order to ensure the reliability of systems and procedures and the integrity of information produced
6. review the efficiency and effectiveness of the financial performance of those persons, organisations or entities managing, collecting and expending
7. note compliance by the Minister for Finance in terms of the provision of relevant financial statements under the Act.

a. It is usual for members of public accounts committees to also be members of the legislature. However, the Cook Islands is an exception. The PERCA's Chairperson is prohibited from being a Member of Parliament. Other committee members are appointed by the Cabinet and, although not prohibited from being a member of the Cabinet, in practice are not members.

3.1.3 Effectiveness of the budget setting and scrutiny processes

Various factors can have an impact on the effectiveness of a country's budget development and scrutiny. These include a lack of capability, resources, or support for the budget scrutiny process and variable practices around public hearings.

The study revealed some good practices that enhance the transparency of the national budget setting and scrutiny process.

The use of committees of the legislature is an obvious advantage in the scrutiny process. Public hearings on the budget, where they occur, contribute to the transparency of the process. It was positive to see the use of broadcasting, including live web streaming, of committee hearings in countries such as in the Republic of Marshall Islands.
However, the study also revealed a number of areas where improvements could be made. For example:

- The level of consultation by the executive with the legislature during the budget formation stage is limited. This, combined with the limited timeframes available for legislature scrutiny, potentially reduces the effectiveness of the scrutiny function.
- The level of detail and the variety of information contained in budget documents is variable and often quite limited, including a lack of broader fiscal information. The budget also often lacks supporting documents to support the budget estimations, assumptions, and calculations.
- The legislature often has insufficient capability, resources and support staff to allow it to effectively undertake the research needed into proposed budget proposals.
- It can be difficult to find budget documents on, for example, government websites.
- The practice of holding public hearings on budgets is variable, with some committees not being able to meet or suffering from frequent changes in membership.

PASAI's *2011 Accountability and Transparency Report* examined the development of citizens budget initiatives, which have been piloted in a number of Pacific Island countries as a means of enabling civil society organisations to contribute directly to the setting of budget priorities. Although this was not an area of focus for the 2015 study, no further development of this approach was reported.[a]

3.2 The potential for SAIs to contribute to the national budget setting and scrutiny processes

The study found a need to enhance the integrity of the national budget process and, consequently, respect for the budget during its implementation. This is a key element in reducing or preventing unlawful or corrupt use of appropriations. For example, a report of the public accounts committee of the legislature of one jurisdiction noted that the country:

a. See chapter 5 for comments about the interaction between SAIs and civil society organizations.

> …has a budgetary system, which is the primary means by which [the legislature] approves the Government ministries and agencies to use public resources in accordance with what was appropriated. It is the practice however that after few weeks or months of appropriations, funds either be transferred or is spent beyond what is appropriated — this defeats the purposes of budgeting process.

3.2.1 International practices

The XXI INCOSAI Beijing Declaration on promotion of good governance by SAIs states that there is potential for SAIs to play a broader role in national budget setting and scrutiny. Paragraph 28 of the Beijing Declaration states that, recognising the mandate of each individual INTOSAI member to determine its own approach consistent with its national legislation, aspects to consider when addressing the issues of financial stability may include:

- strengthening government financial statement audits
- improving public finances performance audits
- reinforcing public debt audits
- building the ability to audit the stages of planning public finances
- assessing government's planning assumptions related to economy, public finances and public debt
- enhancing the audit of compliance with fiscal rules, financial regulation and accepted standards of oversight, as well as adherence to the whole government budgetary process
- fostering the evaluation of public financial policies.

Strengthening the effectiveness of the budgetary cycle can be as simple as the SAI providing information to those responsible for formulating the budget, about the results of the SAI's previous year's audit of public expenditures and revenues; the resulting reports of the legislature (for example through the public accounts committee); and their implications for the government's financial position.

Each of the systems of governments found in the Pacific provide examples of how a SAI can then assist the legislature with its budget scrutiny function:

- The SAI of New Zealand (which operates under the parliamentary model of government) does not have any statutory role in respect of the national budget, but it plays an important support role for the legislature by providing briefings to the committees of the legislature that are responsible for scrutinising budget proposals. SAI staff attend the committees' public hearings and provide advice to committee members on possible lines of questioning of officials.
- The congressional model of government also typically involves the SAI (in the case of the United States, the General Accountability Office) providing a range of support services to the legislature and its committees during the budget review and approval process.
- Under a new financial law recently adopted in France (although not yet applied in the Pacific territories), the Court of Accounts prepares a budgetary perspective report leading into the budget preparations. The report is an opportunity for a thorough analysis of income dynamics, changes in expenditure and the contributing factors, budget management and forecasting systems and ways of exercising better deficit control. The report is designed to enlighten the budget debate in the legislature, and more generally to inform public debate.

Significantly, none of the SAIs that responded to the questionnaire reported any formal involvement in either the process for developing the national budget or the legislature's scrutiny of the government's budget proposals.

3.2.2 Potential contributions by SAIs

SAIs are well placed to help strengthen the national budget process:

- the traditional strengths of a SAI — independence and objectivity — provide the basis for respected inputs of information and other forms of assistance
- legislative oversight in some Pacific Island countries is weak, and the SAI has a legitimate role in ensuring that government resources are budgeted for appropriately.

The findings from the in-depth country studies support an increased level of contribution. For example, discussions with the Ministry of Finance in one country revealed that the committee of officials responsible for co-ordinating budget preparation does not formally receive, or review, the SAI's report of its audit of the previous financial year's government accounts or the Public Accounts Committee's report to the legislature in respect of the audit. The officials indicated they would welcome a briefing from the SAI on the state of the government accounts at the start of the preparation process.

Interviews with members of committees of the legislatures also confirmed that SAIs can make significant contributions to the committees' scrutiny of the national budget proposals.

The study asked SAIs what role they could potentially have in this area that would increase public confidence in the budget process. Suggestions included:

- undertaking a performance audit of the budget process
- reviewing government departmental planning documents and auditing whether appropriations have been spent for the purposes appropriated
- auditing the cost effectiveness of individual programs
- ensuring, through audit activity, that in respect of asset purchases funded through the budget, depreciation and maintenance expenses have been provided for
- providing training to members of appropriations committees.

A performance audit of the budget process would could potentially examine matters such as:

- the effectiveness of the national framework for identifying, evaluating and prioritizing capital investment projects
- whether the budget documents provide a comprehensive, accurate and reliable position of the public finances
- whether the budgetary information conforms to relevant accounting standards.

The nature of a performance audit means that it would not examine, or comment on, the executive's budget allocation decisions or any other matter of government policy. An audit should also not extend into any involvement in the preparation of the budget that could create an unacceptable conflict for the SAI.
Before extending the SAI's role in budget scrutiny, SAIs would need to consider a number of other factors such as:

- changes to a SAI's work should only be in areas in which the SAI is likely to have, or should be, in a position to develop relevant expertise, consistent with its mandate
- the SAI should avoid an overlap of functions and should not exercise functions that are already being undertaken by another body
- a SAI's role should support, but should not displace, the proper role of other public sector bodies
- SAIs have limited resources, and should only exercise new functions when it has the resources to do so.

3.3 Summary and recommendations

Appendix 4 contains a table summarising the results for the SAIs that participated in the in-depth country studies.

The process of preparing the national budget, or the legislature's effectiveness in scrutinising a government's budget proposals, may be adversely affected by a range of matters including limited resources, lack of knowledge of accounting and auditing matters, and the political environment. This can make the budget scrutiny process less effective than it otherwise would be.

No SAIs reported any formal involvement in the budget setting or scrutiny process. However, those that participated in the study were generally supportive of how the SAIs can contribute more effectively, and there were many constructive suggestions about what form that might take. The in-country studies also revealed support for SAI involvement from government officials and members of legislatures.

In relation to the budget setting process, SAI involvement could start with providing information, for example, about matters arising from previous years' audits. There is also the potential for SAIs to undertake performance auditing activity about the efficiency and effectiveness of the process (avoiding matters of government policy).

In relation to the legislature's budget scrutiny role, there is potential for SAIs to assist by providing information and briefings about the budget and previous audit findings.

These contributions would not be without their challenges. Many SAIs already face challenges in completing their core year-end auditing work. A 'front end' role in relation to national budgets would not be possible for some.

Before considering developing such a role, SAIs would need to ensure they have the skills to undertake the work, and that the work does not conflict with their other responsibilities or overlap the responsibilities of government officials.

However, as they develop capacity and capability and clear their financial auditing backlogs, SAIs are capable of a broader role in the 'front end' of the budgeting and reporting cycle. The inherent strengths of SAIs, in particular their independence, makes them well placed to do so and there is much to be gained in terms of strengthened integrity in the budgeting process.

Recommendations

Promoting SAI involvement in the national budget process

a. encourage governments to provide a role for the SAI in strengthening the budget process by, for example, providing information about previous years' financial audit results or undertaking performance audits of the budget process, where the SAI's capacity and resources allow

b. assist legislatures and their committees with their scrutiny of the government's budget proposals by, for example, providing briefings on budget proposals and their links to the SAI's previous audit reports and recommendations

c. offer assistance in the training of members of the legislature, and its appropriations committee, in respect of the budget scrutiny process.

4. PROMOTING ETHICAL GOVERNANCE IN THE PUBLIC SECTOR

ISSAI 12 encourages SAIs to be model institutions, setting an example from which others in the public service and the auditing profession can learn.

SAIs are important pillars of their national systems and, through various audit activities, play a pivotal role in enhancing government and public sector accountability.

SAIs form part of an overall legal and constitutional system within their respective countries, and are accountable to various parties, including legislative bodies and the public. SAIs are also responsible for planning and conducting the scope of their work and using proper methodologies and standards to ensure that they promote accountability and transparency over public activities, meet their legal mandate, and fulfil their responsibilities in a complete and objective manner.

A major challenge facing all SAIs is to promote a better understanding of their different roles and tasks among the public and with the government and legislature. Consistent with their mandates and governing legal frameworks, information about SAIs should therefore be readily accessible and pertinent. Their work processes, activities and products should be transparent. They should also communicate openly with the media and other interested parties and be visible in the public arena.[a]

4.1 SAI ethics, good governance and accountability against ISSAI 12

The study used ISSAI 20 Principles of Transparency and Accountability and ISSAI 12 (see Appendix 1) as the benchmark to assess ethics and good governance in Pacific SAIs.

4.1.1 SAI codes of ethics

SAIs must be trustworthy and adhere to the highest standards of integrity and ethical conduct when undertaking their activities. Their credibility depends on being seen as independent, competent and publicly accountable for their operations. SAIs need to lead by example and adopt ethical behaviour while undertaking audits.

Principle 10 of ISSAI 12 is 'Complying with the SAI's Code of Ethics'. It states that:

i. SAIs should apply a code of ethics that is consistent with their mandate and appropriate for their circumstances, for example the INTOSAI Code of Ethics

ii. SAIs should apply high standards of integrity and ethics as expressed in a code of conduct.

INTOSAI's Code of Ethics is set out in ISSAI 30.[b] The code is directed at the individual auditor, the head of the SAI, executive officers and all individuals working for or on behalf of the SAI who are involved in audit work and is founded on principles of trust, confidence, and credibility. It contains specific guidance under the following headings:

a. ISSAI 20, page 3.
b. The code can be found at www.issai.org.media/12926issai_30_e.pdf.

- integrity
- independence, objectivity, and impartiality
- political neutrality, including conflicts of interest
- professional secrecy
- competence, including professional development.

The study investigated whether SAIs have a code of ethics to guide their behavior. All seventeen SAIs that responded to the questionnaire reported that they do. Some have developed their own code; some use a government code (for example one produced by the public service commission); others use codes set out in legislation or in the constitution.

The in-depth country studies reviewed the codes of ethics used by each SAI. The results were variable. While some codes contain clear requirements for the SAI and its staff, others were more vague and provided little or no meaningful guidance on ethical behaviour. SAI staff should have an awareness of the code of ethics, and act consistently with it. SAIs should have systems to ensure that staff are acting consistently with the code.

All of the SAIs also said that their staff are made aware of the code of ethics when they start their employment. Some SAIs require new employees to acknowledge they have received a copy of the code before they begin work.

However, an observation from both the in-country visits and the survey results is that there is a drop-off of training on ethical issues after the initial training has occurred. The in-depth country studies saw some good examples of SAIs making their code of ethics visible in the office, for example, by posting it in the main working area or lunch room. One SAI with a less detailed code of ethics nevertheless gives it a high profile in the office, with robust ethical discussions on issues taking place in the office. Another SAI has a monthly meeting that provides staff with the opportunity to raise any ethical issues. This shows the SAI is conscious of the ethical environment in which it operates.

Fourteen SAIs reported that they have internal processes to ensure that staff comply with the code of ethics, for example, by including the code in the SAI's employment policy manual or the standard public service policy manual. The same number of SAIs reported that they have processes in place for addressing breaches of the code of ethics. Four SAIs reported that the public service commission or another central government agency is responsible for disciplinary matters, including ethical breaches.

The Cook Islands SAI has developed its own code of ethics. The code is as a good example of what a SAI's code of ethics should contain.

The SAI in New Caledonia is subject to a common code of ethics instituted by the French Court of Accounts (the national SAI), which applies to all employees in the Court and in the regional and territorial chambers (including those of the Pacific territories). The code sets out the fundamental principles of conduct by public officials and government employees. It was updated in 2006 to align with the INTOSAI Code. The code is available on the intranet, and regular training on it takes place when staff members return to Paris for other types of training.

Cook Islands — Code of ethics and conduct

The following Code of Ethics for the conduct of audits and inquiries into the operations of Government departments and agencies must be read and signed by all officers undertaking such duties.

1. Officers must be impartial and free of conflict of interest in the performance of their duties.

2. Officers must treat all information as confidential and must not disclose any information to those not authorised to receive it as this is likely to damage the effectiveness of current and future audits, investigations and inquiries.

3. Officers must not participate in any conduct, action or activity that may tarnish the image and reputation of the audit group or the Public Expenditure Review Committee or otherwise act in an unprofessional manner.

4. All Offices who are members of a profession must follow the standard and principles of that profession.

5. No Officer shall commit them to become involved in a transaction or operation, which could be regarded as being in conflict with the duties and responsibilities of an audit officer.

6. No Officer shall allow themselves to become involved in a transaction or operation, which could be regarded as having a conflict of interest because of the relationship between the Officer and other party. This applies to situations where the Officer may have a relationship with a certain party, either through family, friendship or interest in the second party's organisation or company.

7. No Officer of the organisation shall accept a loan from an individual or body which is subject to review and examination except where it can be clearly stated that the loan negotiation was an arms-length in the ordinary course of that individual's or group's business.

8. No Officer shall accept a secret commission from an individual or group in the ordinary course of their duties.

9. No Officer shall accept goods or services or any other form of inducement in return for favours.

10. Officers must disclose to the Director any past or present relationship, association or other factor, which could affect or appear to affect their independence and objectivity in the performance of their duties.

4.1.2 SAIs communicating their work

SAIs must earn trust, and will only do that if they allow themselves to be transparent and accountable for their strategies, goals, the way they conduct their audits, and their audit findings and audit impacts. Accordingly, information about SAIs should be readily accessible and available.

The notion of transparency refers to the SAI's timely, reliable, clear and relevant public reporting on its status, mandate, strategy, activities, financial management, operations and performance. In addition, transparency includes the obligation of public reporting on audit findings and conclusions and public access to information about the SAI.

Principle 8 of ISSAI 12 is Ensuring appropriate transparency and accountability of SAIs. There are a number of ways SAIs can do this, as stipulated in Principle 8:

i. SAIs should perform their duties in a manner that provides for accountability, transparency and good public governance

ii. SAIs should make public their mandate, responsibilities, mission and strategy

iii. SAIs should use, as appropriate for their circumstances, auditing standards, processes and methods that are objective and transparent, and make known to stakeholders what standards and methods are used

iv. SAIs should manage their operations economically, efficiently, effectively and in accordance with applicable laws and regulations, and report publicly on these matters, as appropriate

v. SAIs should be subject to independent external scrutiny, including external audit of their operations, and make available these reports to stakeholders.

The results of the in-depth country studies suggest that, in some countries, citizens and sometimes even government ministries are unclear about the role of the SAI and what it does. Clarifying the role of the SAI is therefore an important element of the SAI's activities, contributing to enhanced accountability and transparency.

Communication between SAIs and the public is often even less developed. One of the key problems is that audit language is technical and inaccessible to people outside the accounting profession. The writing style of audit reports can play an important part in generating interest in the issues, from members of the legislature and others. Reports should be clear and concise, but with sufficient evidence to convince an objective reader of the validity of the audit findings.[a]

Given the growth in the use of online and social media, websites and social media platforms such as Twitter are a useful and inexpensive way for SAIs to communicate the SAI's mandate, responsibilities, mission and strategy to citizens. Audit reports can also be made public on a SAI's website.

Twelve of the region's SAIs have websites, which vary in the information they contain. Some websites are very good. For example, one website includes the SAI's strategic and organisation plans, as well as the latest audit reports, peer reviews, and useful information about the SAI's goals and strategies and what it has achieved. Another SAI's website provides a wide range of relevant information that includes the SAI's annual report (including information such as the SAI's mission, the number of audits scheduled and completed, staff structure, audited accounts), its annual corporate plan, audit reports, empowering legislation and the SAI's values and principles.

Providing such comprehensive information allows SAIs to further enhance their transparency and accountability in relation to citizens and civil society.
The overall finding of this part of the study is that Pacific Island SAIs could be more proactive in engaging with their citizens and providing better information about their activities, including making annual reports readily available, for example on websites.

a. van Zyl, A. et al. Responding to the Challenges of Supreme Audit Institutions: Can Legislatures and Civil Society Help? U4 Issue 2009: 1 Norway: Anti-Corruption Resource Center, 2009. Available at http://internationalbudge.org/wp-content/uploads/Responding-to-the-Challenges-of-Supreme-Audit-Institutions-Can-Legislatures-and-Civil-Society-Help.pdf.

However, it is also important to note that not all countries in the Pacific have fast, reliable or cheap internet access. In these countries, it is still important for SAIs to communicate the findings of their work, relying on other means such as media releases to newspapers and radio stations and also investigating ways to have two-way conversations with the public.

4.1.3 Independent reviews of SAIs

It is important that SAIs undertake regular reviews of their operations to ensure that their activities are undertaken as efficiently and effectively as possible. Reviews also allow SAIs to keep up-to-date with ongoing technical developments, for example new audit methodologies and audit reporting standards.

Principle 9 of ISSAI 12 states that independent reviews of SAIs are part of ensuring good governance of SAIs. Principle 9 states that SAIs should:

i. adopt and comply with good governance principles and report appropriately thereon

ii. periodically submit their performance to independent review, for example peer review

iii. have an appropriate organisational management and support structure that will give effect to good governance processes and support sound internal control and management practices.

Eleven SAIs reported that they have an independent peer review process. Peer reviews of audit activity are a legal requirement in the US-affiliated countries and territories.[a] The Cook Islands SAI is outside this group, but is also required by its governing legislation to review its work, offer advice and assistance in the discharge of the SAIs functions, and confirm the SAIs' adherence to relevant auditing and accounting standards.[b] Peer reviews are voluntary elsewhere, but have been widely used by SAIs as a means of reviewing their activities.

The study found that some peer reviews occur regularly, for example every three years. Others are on a one-off basis. The range of reviewers varies enormously, and includes partners in international audit firms, peer reviewers, and the Association of Pacific Island Public Auditors in the North Pacific. A lack of funding may be a constraint on voluntary use of the approach.

In practice, SAIs can use reviewers for other tasks, such as providing quality control on whole-of-government audits, expert advice on emerging issues with applying the ISSAI framework, and internal and external training.

It is important that SAIs continue to use independent reviewers. Where funding is a barrier to undertaking a review, SAIs could consider approaching other SAIs or umbrella organisations to conduct a review, which may reduce costs.

4.2 Ethics in the public sector

Public service involves public trust. Citizens expect civil servants to serve the public interest with fairness and to manage public resources properly on a daily basis. Fair and reliable public services inspire public trust, guard against the abuse of power, facilitate the efficient allocation of economic resources, and promote economic growth.[c]

a. See section 2.4.3.

b. Cook Islands: Public Expenditure Review Committee and Audit Act 1995–1996.

c. OECD, Trust in Government Ethics measures in OECD countries, 2000, p. 8.

As noted by the New Zealand State Services Commission:

> The ethical behaviour of all elected and appointed representatives of government is critical for democracy, particularly in an environment of greater choice and discretion in decision making.
>
> Public servants assist in the stewardship of public resources, perform policy making functions, and interact with citizens. Their ethical conduct helps to guard against the abuse of powers and the derogation of due process, and assists in maintaining confidence in government and its institutions.[a]

The study did not undertake a comprehensive review of each country's national integrity. However, the questionnaire did ask SAIs about their national integrity system, and this was also an area of emphasis for the in-depth country studies.

To assess the current state of ethics in the civil service, the study used the 12 principles set out in the OECD's Recommendation of the Council on Improving Ethical Conduct in the Public Service Including Principles for Managing Ethics in the Public Service (OECD, 1998):[b]

OECD — 12 Principles for Managing Ethics in the Public Service

1. Ethical standards for public service should be clear
2. Ethical standards should be reflected in the legal framework
3. Ethical guidance should be available to public servants
4. Public servants should know their rights and obligations when exposing wrong doing
5. Political commitment to ethics should reinforce the ethical conduct of public servants
6. The decision-making process should be transparent and open to scrutiny
7. There should be clear guidelines for interaction between the public and private sectors
8. Managers should demonstrate and promote ethical conduct
9. Management policies, procedures and practices should promote ethical conduct
10. Public service conditions and management of human resources should promote ethical conduct
11. Adequate accountability mechanisms should be in place within the public service
12. Appropriate procedures and sanctions should exist to deal with misconduct

4.3 Ethical standards for the public sector

All SAIs surveyed reported that there is a national code of ethics in their respective countries. Eleven are provided for in either the country's constitution or in legislation.

In addition to a code of ethics, some countries have a broader statement of the values and principles applicable to the civil service. For example, the Constitution of the Republic of Fiji[c] states that the values and principles of state services include:

a. http://www.ssc.govt.nz/node/5741.
b. The 12 principles are not intended to be the decisive factors in determining the ethical position of a country, but are intended to help countries review the institutions, systems and mechanisms they have for promoting public service ethics, and be adapted to the conditions of a particular country.
c. Constitution of the Republic of Fiji, Article 123.

- prompt response to requests and questions from the public, and delivery of service to the public, in a manner that is respectful, effective, impartial, fair and equitable
- accountable for administrative conduct.

4.3.1 Political commitment to national codes of ethics

The study found a range of organisations are responsible for enforcing national codes of ethics. The most common is a country's public service commission. Other organisations responsible for enforcing national codes of ethics include an ethics commission, the office of the Attorney-General, and the ombudsman. In other cases, individual government ministries are responsible for enforcing national codes of ethics in their own ministries.

The in-depth country studies saw some good examples of government organisations taking the lead in providing ethical training and 'setting the tone from the top'. For example in Fiji, the Fiji Independent Commission Against Corruption delivers ethical training to government departments, including managers and public servants, as part of educating and informing staff and maintaining their obligations as public servants. Both the Kiribati and Cook Islands public service commissions are also currently looking to strengthen their roles in promoting ethical behaviour.

4.3.2 Ethical guidance available to public officials

Nine SAIs reported that their countries have leadership codes prescribing the ethical standards of behaviour for senior public officials (e.g. the President, Prime Minister and other Ministers, members of the legislature, and heads of government ministries). An example of a leadership code is provided under Vanuatu's Constitution.[a]

Conduct of leaders

1. Any person defined as a leader in Article 67 has a duty to conduct himself in such a way, both in his public and private life, so as not to:
   a. place himself in a position in which he has or could have a conflict of interests or in which the fair exercise of his public or official duties might be compromised
   b. demean his office or position
   c. allow his integrity to be called into question or
   d. endanger or diminish respect for and confidence in the integrity of the Government of the Republic of Vanuatu.
2. In particular, a leader shall not use his office for personal gain or enter into any transaction or engage in any enterprise or activity that might be expected to give rise to doubt in the public mind as to whether he is carrying out or has carried out the duty imposed by subarticle (1).

a Constitution of the Republic of Vanuatu, Article 66. See also the Vanuatu Leadership Code Act 1998 that gives effect to the provisions set out in the Constitution.

Leadership codes are a good practice if the institutions responsible for administering and enforcing them are well resourced, and if the code is understood by those to whom it applies and if the code readily available to citizens. However, the in-depth country studies highlighted some issues with the codes in practice, and the ability of those responsible for them, usually a country's ombudsman, to enforce them.

For example:

- In one country, the ombudsman is responsible for investigating all complaints under a code. There has been a significant lack of action in responses to the Ombudsman's reports. The lack of response is, in part, due to amendments made to the code legislation that removed the power of the ombudsman to apply to the courts if the prime minister failed to act on recommendations within a set timeframe. The study was informed that the ombudsman's reports are now largely ignored by the executive, and that there have been no prosecutions under the code for 17 years.

- In another country, a code prescribes the ethical standards of behavior for public officials and stipulates the ethical standards for 'leaders' (defined as any person who holds a leadership position, whether in government, public service, statutory corporations, traditional leader, local council or any person holding such a position). The code is administered by the ombudsman, who is responsible for investigating and reporting on any complaints. However, the office of has one staff member and is currently waiting for more resources. The study was informed that the budget of the ombudsman comes under the office of the prime minister, and that the code is not clearly understood or made known to all leaders. The role of the ombudsman is also not well understood. These factors make it difficult to enforce the code.

Another country has a requirement for a national code of ethics in its constitution and set out in a separate act. The code applies to 'public officials' (defined to mean persons holding elected office) and every 'government employee' (defined to include those holding commissions of appointment and consultants). The act sets out the 'fundamental principles of ethical conduct', and includes criminal penalties and civil and administrative remedies for breaches. These requirements are meant to be overseen and enforced by an ethics board. However, the study noted that the board has not met for some time, is effectively dormant, and does not appear to have any administrative or executive resources. Although the gap is filled to a significant extent by the public service commission, a bill has been before the legislature since 2011 to reform and expand the law relating to ethical government.

4.3.3 Unethical behaviour in the public sector

Eleven SAIs reported breaches, or cases under consideration for alleged breaches, of the national code of ethics by senior officials.

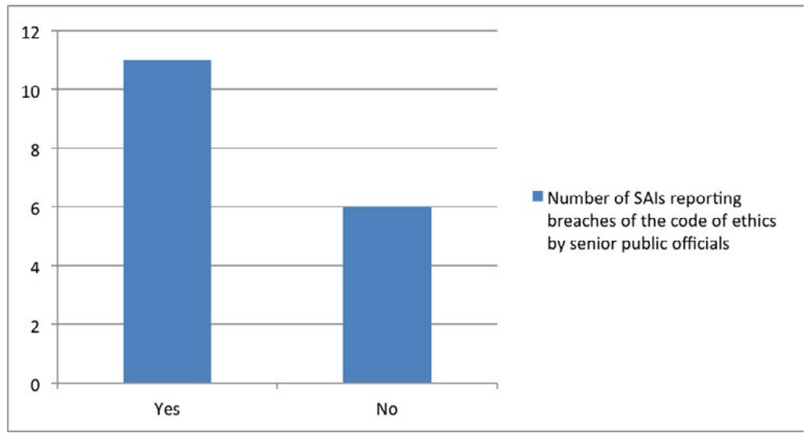


Figure 5 Number of SAIs reporting alleged breaches of the code of ethics by senior public officials

Alleged breaches included matters relating to false invoices, bribery, serious breaches of procurement standards, 'double dipping' of payments and allowances, conflicts of interest, and other abuses of power.

The in-depth country studies provided an opportunity to review a number of reports by committees of the countries' legislatures. In at least two instances, committees have raised concerns about unethical or unlawful behaviour by civil servants.

For example, one country has a procurement code that sets out the rules for contracting with the private sector to ensure that the process is undertaken in an open, fair and transparent way, and that no personnel gain from that contracting process arises.[a] The public accounts committee reviewed government compliance with the code in 2013, and found that most ministries and agencies that were audited failed to comply with the code. The committee listed instances of procurement failures that included:

- choosing a vendor and goods before the procurement process had begun
- artificially structuring the contract to avoid the code's requirements
- purchasing goods under 'emergency purchase' provisions when that was not the case
- exceeding purchasing limits.

The committee's report suggested that although an accountability framework exists, in some circumstances, public servants ignore the legal requirements. A similar picture emerged from a number of media reports.

In another country, the public accounts committee recently reported on the timeliness of government organisations preparing and completing their annual accounts. The committee produced a series of findings, and concluded that up to 34 government organisations had not produced financial reports on time. Two of the more critical findings were that:

- institutions do not comply with the public finance management legislation
- heads of government institutions do not worry about breaking the law.

a The questionnaire showed that 16 countries have clearly defined policies and processes for contracting out public services to the private sector.

4.4 Promoting ethics and good governance

Although there is an increasing focus and progress on ethics in the Pacific, more needs to be done to fill the gap. Although SAIs' core function is to undertake financial audits of government accounts, international practice now has SAIs playing a greater role in the promotion of ethical behaviour. The XXI INCOSAI Beijing Declaration states:

> SAIs play an important role in fighting corruption and preventing fraud at both the national and international levels. SAIs' audit-based knowledge and experience not only boosts accountability but can also provide valuable advice for future anticorruption initiatives, including the United Nation's Post-2015 Development Agenda.

As a basis for this involvement, the study used ISSAI 12, Principles 7, 3 and 5 (in order of relevance) to examine the extent to which SAIs:

- contribute to the debate on improvements in the public sector without compromising their independence (Principle 7)
- without compromising their independence, provide advice on how their audit findings and opinions might be used to the greatest effect, for example through the provision of good practice guidance (Principle 3)
- in developing their work programme, respond appropriately to the key issues affecting society (Principle 5).

4.4.1 Improving ethics in the public sector

The study showed that SAIs are taking a more proactive role in identifying and promoting ethics in the public sector.

Some of the SAIs in the in-depth country studies recognized that, because of their core role of auditing financial transactions, they are uniquely placed to identify corruption, so are building it into their audit planning and audit processes.

The questionnaire results also showed that SAIs, even within the context of their core mandates, are becoming increasingly active in taking a leadership role on ethics. For example, four SAIs reported they have actively promoted ethics in their jurisdiction, and seven have worked with other public sector organisations to promote ethical behaviour and good governance in the public sector. Examples of such initiatives include internal workshops and training sessions.

SAIs are also increasingly using the media to promote their audit findings and highlight ethical failings by government organisations. Most recently, for example, the Cook Islands Daily News reported on the SAI's audit report identifying excessive expenditure by a government organisation. Using the media provides SAIs with an opportunity to publicize their reports, make their findings more transparent, and improve the ethical climate.

4.4.2 Investigating breaches of ethical conduct

One significant issue that arose during the study was the extent to which SAIs should have power to investigate breaches of ethical conduct, and to take enforcement action in appropriate cases. Public service auditing is changing and its scope has grown. The modern public auditing mandate provides SAIs with opportunities to influence the ethical framework and behaviour in their country through performance audits, inquiries, and investigations.

This trend was confirmed by the questionnaire, which asked whether SAIs have the facility to allow members of the public to report unethical behaviour. Five SAIs reported that they do. Some of this activity has a high profile. For example, the Republic of the Marshall Islands has an obligation under its mandate to 'act to prevent and detect fraud, waste and abuse in the expenditure and collection of all public funds'. As part of this activity it now runs a 'fraud, waste, and abuse hotline' that offers the opportunity for members of the public to voluntarily provide information on all instances of fraud, waste and breaches of ethics in the government, without fear of revealing their identity or suffering retaliation. Members of the public are encouraged to report any instances of:

- fraud and embezzlement
- thefts, kickbacks and bribery
- misuse or abuse of government property or time
- abuse of authority
- gross misconduct
- conflicts of interest
- insider dealings or trading
- manipulation of accounting
- money laundering
- contract and procurement irregularities.

In New Caledonia, the president of the chambre territoriale des comptes (CTC) is the auditor-general and is specifically required by law to act to prevent and detect fraud, waste and abuse in the collection and expenditure of all public funds. When fraud or corruption is identified during the course of an audit, under the French public accountability system there is a legal obligation to transfer this information to the financial prosecutor for investigation. The financial prosecutor is a dedicated position within the French financial and public accountability system, and the CTC of New Caledonia shares a financial prosecutor with the CTC of French Polynesia. The financial prosecutor decides on the course of action to be followed, for example further audit scrutiny or referral to the prosecutor for the republic for investigation.

The Kiribati National Audit Office has also set up an investigative function for fraud, and provides members of the public the opportunity to report instances of fraud, corruption and waste through its website.

There are inherent advantages in having a country's SAI responsible for these reporting and investigatory functions. SAIs are generally regarded as being independent, impartial and free of political interference, so are a logical organisation for the public to notify their concerns regarding government fraud, theft, waste and conflicts of interest.

However, the question of enforcement of SAIs' findings is a major issue in some jurisdictions. SAIs with investigative functions are often left in the position where their recommendations for enforcement or prosecution action remain unactioned by prosecution authorities, sometimes for many years.

There is also an area of uncertainty about whether a SAI should take on an enforcement role. This is not a feature of the SAI model under the parliamentary and congressional systems, where the focus is on investigation and reporting or referral to an enforcement body. In contrast, the judicial model of SAIs includes provision for enforcement directly by the SAI through prosecution.

There would be merit in PASAI facilitating exchanges of information about these approaches among its members, and possibly also commissioning research on how those SAIs with investigative functions can ensure their findings are appropriately acted on. One approach is for the SAI to develop closer working relationship with other agencies, for example through memorandums of understanding and establishing channels for referring cases of suspected fraud. Where SAIs liaise closely with officials in other government agencies, such as the police and anti-corruption agencies, the SAI's capacity to detect corruption can be enhanced.

However, for those SAIs with investigation functions under their mandates, consideration could also be given to establishing dedicated enforcement resources, for example special prosecutors responsible for taking action on SAIs' investigation findings.

4.4.3 Influencing the ethical environment of a country

Besides having specific investigation functions, there are other ways a SAI can influence the ethical environment of its country:

- Improving media relationships. The media plays a significant part in enhancing the role and public stature of SAIs. Effective SAIs establish good working relationships with the media, and use these relationships to promote their audit message to the public. In response to the questionnaire, three SAIs reported that they have a communication strategy and six have an active relationship with the media.
- Targeting financial audit work. Audit work can be planned in a way that emphasizes detection of fraud, waste and probity breaches.
- Engaging with the legislature. Developing a relationship with the legislature, in particular the public accounts committee or its equivalent, can improve the uptake and impact of the SAI's findings.
- Using civil society organisations to increase the SAI's reach. The in-depth country studies showed that citizens are often unaware of the SAI's role and how it can affect their lives. SAIs can develop strategies to inform citizens of their role, including any role the SAI may have as a fraud reporting entity. For example, one SAI reported that it had worked with schools to promote ethical awareness.[a]

Whether a SAI could undertake any or all of these activities depends on its mandate and resourcing.

a. *The Role of Supreme Audit Institutions*, U4 Anti-Corruption Resource Centre, June 2008.

4.5 Summary and recommendations

Appendix 5 contain a table summarising the results for the SAIs that participated in the in-depth country studies.

There is an increasing focus on ethical governance and leadership in the Pacific. However, more needs to be done and SAIs are increasingly looking to play a major part in promoting ethical behaviour.

To hold others to account it is important that SAIs are independent, are seen as independent, and hold themselves to the highest standards of integrity and ethical behaviour. SAIs can also be more effective if they make their mandates public and provide further information about their roles and responsibilities.

All SAIs reported that they have a code of ethics that they have either developed themselves (often from the INTOSAI code), is the standard civil service code of ethics, or is contained in legislation or the national constitution. But not all codes are as detailed as they could be. The quality of SAIs' codes of ethics is variable, as is the amount of activity in putting them into practice.

The extent of SAIs' communications with the public is also mixed, with not all SAIs effectively informing citizens of their role and how they hold the government to account. There is room for SAIs to do more to communicate with citizens about their activities.

Most Pacific Island countries have a national code of ethics that is applicable to the civil service, and to public officials. However, from published reports it is clear there is significant concern about the lack of respect for codes of ethics in a number of countries. It is also of concern that some countries' leadership codes, which have been widely regarded as positive and important initiatives to combat unethical or corrupt behaviour by public officials, are not working effectively. Therefore, as reported in the *2011 Accountability and Transparency Report*, ethical behaviour in the Pacific remains variable.

But this study shows that SAIs are taking a more proactive role in identifying ethical issues and promoting ethical behavior in the civil service. This includes activities such as increasing the focus on fraud and corruption during audits and creating fraud 'hotlines' to receive citizen complaints.

The question of enforcement of SAIs' findings is a major issue in some jurisdictions, and there would be merit in PASAI facilitating exchanges of information among its members, and possibly also commissioning research, on how those SAIs with investigative functions can ensure their findings are appropriately acted on. Options include developing closer working relationships with other agencies with enforcement or prosecution functions, or establishing special prosecution facilities.

There are ongoing opportunities for SAIs to further influence the ethical environment of their country. These opportunities include making better use of the media to report audit findings, developing additional reporting mechanisms to receive citizen complaints about unethical behaviour, and providing training on ethics to public sector organizations.

Recommendations

Promoting ethical governance in the public sector

PASAI should support its member SAIs, and SAIs should take their own steps, to:

a. ensure that each SAI's code of ethics covers all matters addressed by the INTOSAI Code of Ethics and is appropriately adapted to the needs of the SAI and its operating context, that staff understand their ethical obligations of working for a SAI, and that ongoing training is available on the code of ethics and other ethical matters that may arise for employees in the course of their work

b. explain effectively the SAI's role and what it does by, for example, making more use of websites and other forms of media (including print, radio, and social media) to communicate with citizens

c. have their activities and operations independently reviewed to ensure they are operating efficiently and effectively and making best use of the available methods of communication with citizens.

d. increase their activities in promoting ethical behaviour in the public sector by, for example, encouraging citizens to draw the SAI's attention to unethical behaviour in the public sector, targeting its audit work to include matters of fraud, waste and probity, and working with other government agencies to provide training on ethics to civil servants.

Follow up and enforcement of investigation findings

PASAI should facilitate exchanges of information between its members across the three systems of government represented in the Pacific, supported by its own research, about ways of following up and enforcing SAIs' investigation findings.

5 PROGRESS SINCE THE 2011 ACCOUNTABILITY AND TRANSPARENCY REPORT

5.1 The 2011 Accountability and Transparency Report

The 2011 Accountability and Transparency Report looked at nine focus areas. They were:

1. independence of SAIs
2. open budget preparation, execution and reporting
3. scrutiny role of the legislature and committees
4. legal and ethical framework of public management
5. control of corruption
6. public availability of information
7. corporate governance, principles and practices
8. community participation in civil society
9. media freedom and independence.

The 2015 study asked SAIs about the progress their countries had made in implementing the recommendations made in respect of six of the nine focus areas. The 2015 study investigated looked the remaining areas again (independence of SAIs (1 above); open budget preparation (2 above); and the legal and ethical framework in public management (4 above).

5.2 Follow up of findings

Scrutiny role of the legislature and committees

The 2011 Accountability and Transparency Report found that scrutiny by the legislature of the use of public funds varied across the twenty jurisdictions surveyed, including the six jurisdictions included in the in-depth country studies.

Some of the variance was due to the different nature of the legislature's role under the three systems of government in the Pacific. Of the twenty jurisdictions, thirteen had a specific committee of the legislature to review the public accounts and audit reports. Jurisdictions that operate under the parliamentary model of government (such as Samoa, Tonga, and the Solomon Islands) had a public accounts committee or similar committee that is responsible for the review and scrutiny of public accounts. In jurisdictions that operate under the congressional model of government (such as Guam and the Federated States of Micronesia), the public accounts are presented to the legislature and then debated if there are any areas of concern.

The French system of public accountability, as it applies to French territories such as New Caledonia and French Polynesia, does not use a committee of the legislature to scrutinize public accounts.

Recommendations made in the 2*011 Accountability and Transparency Report* were:

- SAIs should encourage their legislature and (where relevant) its committees to review existing audit legislation to make provision for the timely publication of audit reports, irrespective of whether there is a prior requirement to present to the legislature.
- PASAI should work with the United Nations Development Programme (UNDP) and related multi-lateral donors to offer professional training programs to legislatures and their committees, to enable committee members to effectively scrutinize and review public accounts and follow up on audit reports.
- SAIs should consider whether outsourcing of audit work, where possible and practicable, offers a means of improving the timeliness of audit reporting.

The 2015 study found that, since 2011, four countries have received training from the UNDP for members of their legislature on strengthening accountability and transparency. Also, fourteen SAIs now have enabling legislation for the timely publication of audit reports. Two SAIs have since reviewed its existing audit legislation adding amendments to enable the SAIs to more independent financially and operationally (i.e. Fiji and Samoa).

Control of corruption

The *2011 Accountability and Transparency Report* found that the United Nations Convention Against Corruption (UNCAC) was gaining increased recognition by Pacific Islands governments. Eight countries had acceded to UNCAC, and accession was under active consideration by three others. Promoting accession to UNCAC was seen as a useful point of advocacy for transparency and accountability. As well as promoting direct anti-corruption measures (such as law enforcement and asset recovery), it encourages other good practices which are of direct interest to SAIs (such as transparency and accountability in public financial management and procurement).

Recommendations made in the *2011 Accountability and Transparency Report* were that:

- SAIs should use UNCAC as an advocacy entry-point when promoting the adoption of new laws and practices on matters of direct significance to their functions, such as open budgeting and open procurement.
- SAIs should encourage co-operation with other key integrity agencies such as the police, office of the Attorney-General, and the ombudsman's office and/or the leadership code commission (if they exist), and professional bodies such as the Association of Certified Fraud Examiners, to develop measures against corruption, especially in countries that may have difficulty in operating a specialist anti-corruption agency on a sustainable basis.
- SAIs should hold fraud training and workshops for their staff and civil servants in order to understand the different aspects of fraud, how to detect fraud, how to prevent fraud and the implications of fraud.

The 2015 study found that, since 2011:

- one Pacific Island country (the Cook Islands) has ratified UNCAC
- three SAIs have formed a working group to combat corruption in their jurisdictions
- three SAIs have carried out workshops on anti-corruption
- nine SAIs have not made any progress on combating anti-corruption, nor have their countries acceded to or ratified UNCAC

Public availability of information

The 2011 Accountability and Transparency Report found that access to public information or public documents was fairly limited across the region. Of the six jurisdictions visited for the in-depth country studies, only Guam had an equivalent of freedom of information legislation (known as the Sunshine Act) in place, although Tonga was currently progressing a major freedom of information initiative. Freedom of information legislation existed in only one other Pacific Island country (the Cook Islands).

Recommendations made in the *2011 Accountability and Transparency Report* were that:

- SAIs should promote the interests of access to information, and enhance transparency and accountability, by adopting initiatives to improve the accessibility of their audit reports, for example by providing a simplified narrative of government accounts and activities for the public, (as in the citizen-centric reporting initiative in Guam and other US jurisdictions).
- SAIs should establish and/or maintain their own website, on which their audit reports are made available, as well as promoting the use of languages other than English and French to communicate key messages on accountability and transparency within their jurisdictions
- SAIs should have a working relationship with media organisations, to report and inform the public of the status of accountability and transparency within their jurisdiction, including through opinion pieces or the publication of their audit reports.

The 2015 study found that, since 2011:

- twelve SAIs' countries still have no freedom of information legislation and no progress has been made since 2011 in drafting such legislation
- one SAI (Fiji) now has a provision in its constitution providing for a freedom of information act (which is currently being drafted)
- seven SAIs now make their audit reports available online via their websites, and media organisations have access to them.

Corporate governance — principles and practices

The *2011 Accountability and Transparency Report* found that all SAIs surveyed identified the principles and practices of corporate governance to be of great importance to their work. More than half were able to provide comment on the corporate governance structure, processes and systems of public entities. However, of the standards used to assess public entities' compliance with the principles and practices of corporate governance, only one-quarter of SAIs had developed their own standards, guidelines and indicators. These results indicated that good corporate governance, while recognized as an essential element of public sector governance, was still in the developmental stage in many Pacific jurisdictions.

The recommendation made in the 2011 Accountability and Transparency Report was that:

- SAIs should continue to develop their understanding of corporate governance principles and practices, and seek to apply them in their auditing work.

The 2015 study found that, since 2011:

- four SAIs have now incorporated principles of corporate governance into their audit planning and strategic planning, in line with the ISSAIs

- thirteen SAIs have made no progress in developing their own understanding of corporate governance principles, and/or improved the quality of their own corporate governance

Community and civil society participation in government decision making

The *2011 Accountability and Transparency Report* found that the inclusion of civil society and non-governmental organizations (NGOs) in government decision making and public management was still an area under development in many jurisdictions. Some good practices were identified, including the establishment of umbrella NGOs such as the Samoa Umbrella Non-Government Organisation and the Civil Society Forum in Tonga, which strongly advocated for a better working relationship between government and NGOs. The umbrella NGOs also advocated for civil society to have input not only in the budget process but also in joint partnerships with government in the delivery of services to communities and the villages.

The recommendation made in the 2011 Accountability and Transparency Report was that:

- PASAI and individual SAIs should encourage the establishment of more Transparency International chapters in Pacific jurisdictions, along with umbrella organisations of NGOs which can advocate for closer ties with their respective governments as well as providing training and support to their members to help meet accountability requirements and standards.

The 2015 study found that, since 2011:

- seven SAIs have formed partnerships and working relationships with civil society organizations to improve government accountability within their jurisdictions
- ten SAIs have not made any progress in this area.

Media freedom and independence

The 2011 Accountability and Transparency Report found that the media play a very active role in the Pacific, including in the promotion of accountability and transparency relating to the use of public funds. There were recognized, affiliated chapters of Transparency International in four Pacific Island countries, namely Fiji, Papua New Guinea, the Solomon Islands, and Vanuatu. Most Pacific Island Constitutions (or other legislation) guaranteed freedom of expression or freedom of the media and the independence of media organisations. Citizens of Pacific jurisdictions read the newspaper and listen to the news regularly as their way of keeping informed about government actions, priorities and activities, in the absence of direct reporting from government entities themselves.

The recommendation made in the 2011 Accountability and Transparency Report was that:

- PASAI should encourage SAIs to develop communications strategies and relationships with media organisations and, where resources exist, provide media training for the Head of SAI and other staff who interact with the media.

The 2015 study found that, since 2011:

- three SAIs have developed a communication strategy, or have one in draft form
- six SAIs have developed a direct and active relationship with media organisations, and publish press releases
- six SAIs still have no direct engagement with the media or issue press releases.

Recommendations

Following up progress since 2011

PASAI should ensure that the findings of the *2011 Accountability and Transparency Report* (in particular, those in relation to the matters listed in this chapter) continue to be monitored and followed up through:

a. interactions with interested stakeholder bodies and development partners

b. future accountability and transparency reports.

6 CONCLUSION

The last Accountability and Transparency Report (2011), stated that the picture of accountability and transparency was mixed across the region. The report called for a concerted and a well-co-ordinated effort from PASAI and its member SAIs, and from other institutions with an interest in good governance including multi-lateral and bilateral aid donors and relevant NGOs and academic experts. These findings emphasized the value of a coherent and well-functioning 'accountability chain', involving not only SAIs and legislatures but through other accountability bodies and into the private sector, civil society, and the media.

The findings of the 2015 Accountability and Transparency Report suggest that not a lot has changed in the intervening four years. PASAI's members include the SAIs of some of the smallest and most remote nations on earth. Within this environment, it is vital that SAIs adhere to the highest standards of integrity, transparency, and accountability. This third *Accountability and Transparency Report* examined the state of ethical behaviour in the use of national resources in Pacific Island countries, and the role that independent SAIs play in strengthening ethical conduct and the scrutiny of national budgets.

The key message to come from this report, and subsequently chosen as the title of this report, is that the primary way for SAIs to have an impact on transprency and accountability in the Pacific—to make a shift, to make a change—is that SAIs must lead by example. The Pacific region's SAIs are at different stages of development. So, in reality, the extent of how much more SAIs can do in terms of accountability and transparency depends on the availability of time, money, and suitably qualified and capable human resources. Most of the region's SAIs are struggling to manage with what they have, and a lack of financial independence can make it harder to justify doing more.

But, as they develop capacity and capability and clear their financial auditing backlogs, SAIs are capable of taking a broader role in terms of promoting accountability and transparency. SAIs, and their respective governments and legislatures, should broaden their thinking about the contribution independent SAIs can make towards achieving national governance outcomes.

Auditing government and public sector entities has a positive impact on trust in societies because it focuses the custodians of public resources to think about how well they use those resources. Creating this awareness and focus underpins accountability, which in turn leads to improved decisions. When a SAI's audit results are made public, citizens can hold the custodians of public resources to account. In this way, SAIs promote the efficiency, accountability, effectiveness and transparency of public administration—ultimately making a difference to the lives of citizens. Independent, effective and credible SAIs are essential components democratic systems where accountability, transparency and integrity are indispensable parts of a stable democracy.

Accountability and transparency are two important elements of good governance and their principles are detailed in ISSAI 20. Accountability and transparency are not easily separated: they both encompass many of the same actions. Transparency is powerful and, when consistently applied, can help fight corruption, improve governance and promote accountability and engender the confidence of citizens. The concept of accountability refers to the legal and reporting framework, organisational structure, strategy, procedures and actions to help ensure that public funds are expended in a responsible, efficient and effective way.

PASAI's member SAIs should use the *2015 Accountability and Transparency Report* to:

- start a conversation with their governments and legislatures about their own status and independence, especially their independence in relation to their budgets and operations
- as a marketing tool to promote the role of SAIs as leaders in the accountable and transparent use of public resources.

APPENDIX 1: THE KEY ASPECTS OF ISSAI 12 — MAKING A DIFFERENCE TO THE LIVES OF CITIZENS

The diagram below is extracted from ISSAI 12, and sets out the 12 principles of the value and benefits of SAIs, under the three key objectives represented in each corner of the triangle.

The 12 principles of the value and benefits of SAIs under each of the three objectives are:

APPENDIX 2: BENCHMARKING

This Appendix sets out the benchmarks used to formulate the study questionnaire and to assess the practices found by the study against international standards and practices.

Promoting ethical governance in the public sector

Focus area	Benchmarks
SAI — Ethics and good governance	ISSAI 12 — The Values and Benefits of Supreme Audit Institutions — making a difference to the lives of citizens **PRINCIPLE 8: Ensuring appropriate transparency and accountability of SAIs** vi. SAIs should perform their duties in a manner that provides for accountability, transparency and good public governance. vii. SAIs should make public their mandate, responsibilities, mission and strategy. viii. SAIs should use, as appropriate for their circumstances, auditing standards, processes and methods that are objective and transparent, and make known to stakeholders what standards and methods are used. ix. SAIs should manage their operations economically, efficiently, effectively and in accordance with applicable laws and regulations, and report publicly on these matters, as appropriate. x. SAIs should be subject to independent external scrutiny, including external audit of their operations, and make available these reports to stakeholders. **PRINCIPLE 9: Ensuring good governance of SAIs** iv. SAIs should adopt and comply with good governance principles and report appropriately thereon. v. SAIs should periodically submit their performance to independent review, for example peer review. vi. SAIs should have an appropriate organisational management and support structure that will give effect to good governance processes and support sound internal control and management practices. vii. SAIs should assess organisational risk on a regular basis and supplement this with appropriately implemented and regularly monitored risk management initiatives, for example through an appropriately objective internal audit function. **PRINCIPLE 10: Complying with the SAI's Code of Ethics** iii. SAIs should apply a code of ethics15 that is consistent with their mandate and appropriate for their circumstances, for example the INTOSAI Code of Ethics. iv. SAIs should apply high standards of integrity and ethics as expressed in a code of conduct.

Focus area	Benchmarks
SAI — Ethics and good governance	v. SAIs should institute appropriate policies and processes to ensure awareness of and adherence to the requirements of the code of conduct within the SAI. vi. SAIs should publish their core values and commitment to professional ethics. vii. SAIs should apply their core values and commitment to professional ethics in all aspects of their work, in order to serve as an example PRINCIPLE 11: Striving for service excellence and quality i. SAIs should set policies and procedures designed to promote an internal culture that recognizes that quality is essential in performing all aspects of the SAI's work. ii. SAIs' policies and procedures should require all staff and all parties working on behalf of the SAI to comply with the relevant ethical requirements. iii. SAIs' policies and procedures should stipulate that the SAI will only undertake work that it is competent to perform. iv. SAIs should have sufficient and appropriate resources to perform their work in accordance with relevant standards and other requirements, including having timely access to external and independent advice where necessary. v. SAIs' policies and procedures should promote consistency in the quality of their work and should set out responsibilities for supervision and review. vi. SAIs should establish a monitoring process that ensures that the SAI's system of quality control, including its quality assurance process, is relevant, adequate and operating effectively.

Focus area	Benchmarks
SAI — Ethics and good governance	**SAI Performance Management Framework page 106. SAI 18: Ethics, Management and Internal Control** To promote ethical behaviour, the SAI should: i. Have '... a code of ethics' ISSAI 10:3 which sets out 'ethical rules or codes, policies and practices that are aligned with ISSAI 30.' ISSAI 20:4. As a minimum it should contain criteria which address the auditors' 'integrity, independence and objectivity, confidentiality and competence.' ISSAI 30:6 ii. Review the code of ethics at least every five years to ensure it in line with ISSAI 30. iii. 'Ensure that all its auditors acquaint themselves with the values and principles contained in the national Code of Ethics.' ISSAI 30:4 iv. Make the code of ethics publicly available. ISSAI 20:4 v. Establish a system to ensure annual monitoring of compliance with the code of ethics. vi. Have a system for taking corrective measures in cases of non-compliance with the Code of Ethics, which has been implemented where relevant. vii. 'Apply high standards of integrity ... for staff of all levels' by adopting an integrity policy in accordance with IntoSAINT or a similar tool. ISSAI 20:4 viii. Have assessed its vulnerability and resilience to integrity violations, through the use of tools such as IntoSAINT or similar, in the past five years.

Focus area	Benchmarking
Ethics in the public service	OECD's Recommendations of the Council on Improving Ethical Conduct in the Public Service Including Principles for Managing Ethics in the Public Service i. Ethical standards for public service should be clear. ii. Ethical standards should be reflected in the legal framework. iii. Ethical guidance should be available to public servants. iv. Public servants should know their rights and obligations when exposing wrongdoing. v. Political commitment to ethics should reinforce the ethical conduct of public servants. vi. The decision-making process should be transparent and open to scrutiny. vii. There should be clear guidelines for interaction between the public and private sectors. viii. Managers should demonstrate and promote ethical conduct. ix. Management policies, procedures and practices should promote ethical conduct. x. Public service conditions and management of human resources should promote ethical conduct. xi. Adequate accountability mechanisms should be in place within the public service. xii. Appropriate procedures and sanctions should exist to deal with misconduct.

Focus area	Benchmarking
SAI collaborating with other organisations to promote ethics and good governance	Communicating and Promoting the Value and Benefits of SAIs – An INTOSAI Guideline i. Building good relationships between SAIs and their stakeholders, thereby strengthening the bonds with citizen organisations and national authorities. ii. Promoting citizen participation by developing mechanisms to receive and monitor complaints about government programs and suggestions for improved public administration and services. iii. Informing citizens on the workings of the budget process and encouraging their engagement and participation in this process. iv. Using different channels and vehicles of communication to meet the needs of multiple users, such as citizens. v. CSOs have a proven track record of building citizen literacy on the basics of public expenditure.

SAI involvement in setting national budgets Financial independence and operational autonomy of SAIs

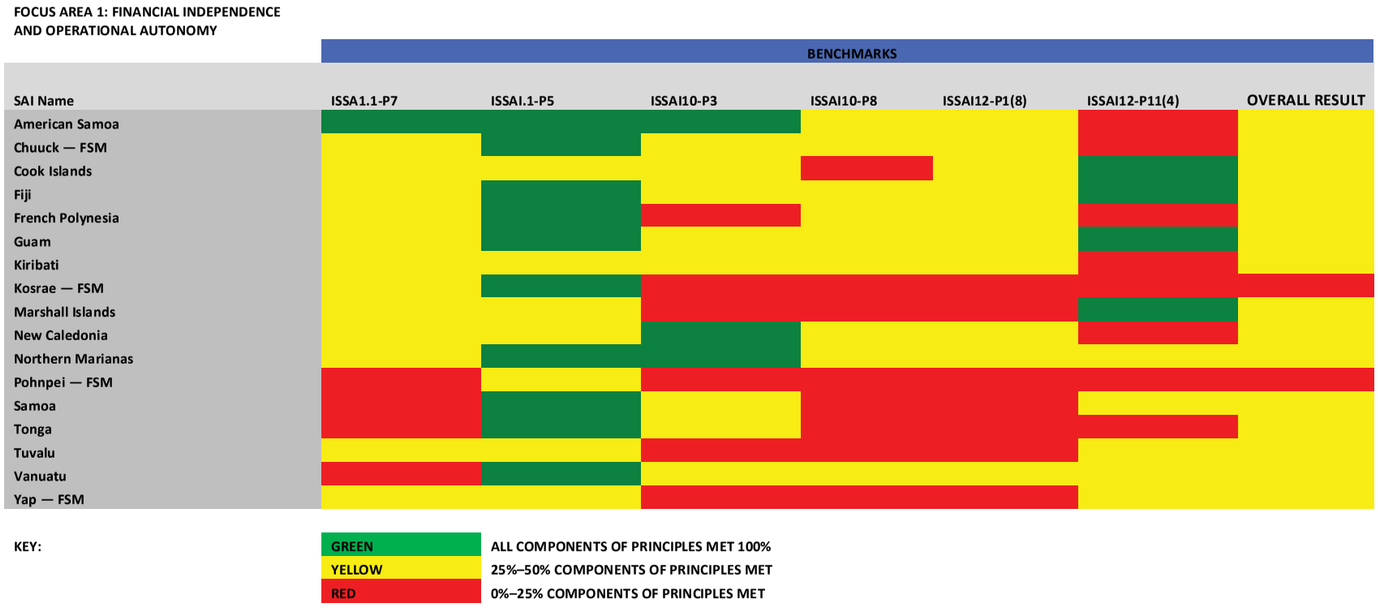
Focus area	Benchmarks
Describe government budget and accounting cycle	OECD's Journal on Budgeting: The Legal Framework for Budget Systems: An International Comparison: Vol 4. No. 3, 2004
Describe methods by legislatures (three systems of government) scrutinize budgets	PEFA D2 Public Expenditure and Financial Accountability Framework (www.pefa.org) Comprehensiveness and transparency; the budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public. Pacific Island Forum Principle 1 (www.forumsec.org) Budget process, including multi-year frameworks, to ensure parliament/congress is sufficiently informed to understand the longer term implications of appropriate decisions. IMF FTC3 International Monetary Fund Fiscal Transparency Code (www.imf.org) • Budget documentation should specify fiscal policy objectives and the macroeconomic framework. • Budget data should be presented in a way that promotes accountability. • Procedures for the execution and monitoring of approved expenditures should be clearly specified. • Fiscal reporting should be timely, comprehensive and reliable.
Current or future role of SAI in budget and budget and accounting cycle	INCOSAI. Beijing Declaration on promotion of good governance by SAIs. (Paragraph 28). Through independent and robust audits which encourage transparency about the use of public financial resources and sound approaches to fiscal management, SAIs contribute to attaining fiscal soundness, medium and long-term sustainability of financial policies, safeguarding public interest and enhancing national governance in each country. Recognizing the mandate of each individual INTOSAI member to determine its own approach consistent with its national legislation, aspects to consider when addressing the issues of financial stability may include: • Strengthening government financial statement audits. • Improving public finances performance audits. • Reinforcing public debt audits. • Building the ability to audit the stages of planning public finances. • Assessing government's planning assumptions related to economy, public finances and public debt. • Enhancing the audit of compliance with fiscal rules, financial regulation and accepted standards of oversight, as well as adherence to the whole government budgetary process. • Fostering the evaluation of public financial policies.

Financial independence and operational autonomy of SAIs

Focus area	Benchmarks
Financial independence of SAIs	ISSAI 1 — The Lima Declaration Principle 7. SAIs shall be provided with the financial means to enable them to accomplish their tasks. If required, SAIs shall be entitled to apply directly for the necessary financial means to the public body deciding on the national budget. SAIs shall be entitled to use the funds allotted to them under a separate budget heading as they see fit. ISSAI 10 — Mexico Declaration on SAI Independence Principle 8. The Executive should not control or direct the access to an SAI's reasonable human, material and monetary resources PEFA PI-27. Legislative scrutiny of the annual budget law. '(ii) The legislature's procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committees, and negotiation procedures.'
Organisational independence of SAIs	ISSAI 1 — The Lima Declaration Principle 5. Although state institutions cannot be absolutely independent because they are part of the state as a whole, Supreme Audit Institutions shall have the functional and organisational independence required to accomplish their tasks. ISSAI 10 — Mexico Declaration on SAI Independence Principle 3. While respecting the laws enacted by the Legislature that apply to them, SAIs are free from direction or interference from the Legislature or the Executive in the organisation and management of their office ISSAI 12 — The Values and Benefits of Supreme Audit Institutions – making a difference to the lives of citizens Principle 8. Ensuring appropriate transparency and accountability of SAIs. 1. SAIs should perform their duties in a manner that provides for accountability, transparency and good public governance. 2. SAIs should make public their mandate, responsibilities, mission and strategy. 3. SAIs should use, as appropriate for their circumstances, auditing standards processes and methods that are objective and transparent, and make known to stakeholders what standards and methods are used. 4. SAIs should manage their operations economically, efficiently, effectively and in accordance with applicable laws and regulations, and report publicly on these matters, as appropriate. 5. SAIs should be subject to independent external scrutiny, including external audit of their operations, and make available these reports to stakeholders.

Focus area	Benchmarking
Current resourcing	ISSAI 10 — Mexico Declaration on SAI Independence Principle 8. SAIs should have available necessary and reasonable human, material, and monetary resources ISSAI 12 — The Values and Benefits of Supreme Audit Institutions – making a difference to the lives of citizens Principle 1(8). SAIs should seek to maintain financial and managerial or administrative and appropriate human, material and financial resources Principle 11(4). SAIs should have sufficient and appropriate resources to perform their work in accordance with relevant standards and other requirements, including having timely access to external and independent advice where necessary Pacific Island Forum Principle 7. The Auditor-General and Ombudsman shall be provided with adequate resources and independent reporting rights to Parliament/congress INTOSAI — Building capacity in Supreme Audit Institutions - A guide. A high-performing SAI needs to have sufficient and appropriate resources, and use them well. Some SAIs may face constraints, for example over budget size and powers to appoint, reward and dismiss staff. In these cases, the SAI may seek to address them through discussions with the legislature and Ministry of Finance (page 45).
Use of external resources and experts	ISSAI 1 — The Lima Declaration Principle 14. If special skills are not available among the audit staff, the SAI may call on external experts as possible ISSAI 20 — Principles of transparency and accountability Principle 5. Outsourcing of expertise and audit activities to external entities, public or private, falls within the responsibility of the SAI

APPENDIX 3: SUMMARY OF RESULTS FOR FOCUS AREA 1: FINANCIAL INDEPENDENCE AND OPERATIONAL AUTONOMY OF SAIS



BENCHMARKS	EXPLANATION FOR SCORING
ISSAI.1-P7	SAIs were assessed in relation to their financial independence, in particular, the Lima Declaration SAIs should be provided with the financial means to carry out their tasks, including the means to apply for funding directly to the public body which decides the national budget, and to use the allocated funds as they see fit.
ISSAI.1-P5	SAIs were assessed in relation to their organisational independence, in particular, their ability to appoint and manage their own staff.
ISSAI10-P3	SAIs were assessed concerning their freedom from direction or interference by the Legislature or the Executive in the management and organization of their office.
ISSAI10-P8	SAIs were assessed in relation to having available to them the necessary and reasonable human, material and monetary resources.
ISSAI12-P1(8)	SAIs were assessed in relation to their ability to maintain financial and administrative control over their human, material and financial resources.
ISSAI12-P11(4)	SAIs were assessed concerning their ability to have sufficient and appropriate resources to perform their work in accordance with relevant standards, including having timely access to external and independent advice where necessary.

APPENDIX 4: SUMMARY OF RESULTS FOR FOCUS AREA 2: SAI INVOLVEMENTS WITH NATIONAL BUDGET PROCESSES

FOCUS AREA 2: SAI INVOLVEMENT WITH NATIONAL BUDGET PROCESSES

	BENCHMARKS				
SAI Name	**PEFA D2**	**PIF-P1**	**IMF-FTC3**	**INCOSAI-P28**	**OVERALL RESULT**
American Samoa					
Chuuck — FSM					
Cook Islands					
Fiji					
French Polynesia					
Guam					
Kiribati					
Kosrae — FSM					
Marshall Islands					
New Caledonia					
Northern Marianas					
Pohnpei — FSM					
Samoa					
Tonga					
Tuvalu					
Vanuatu					
Yap — FSM					

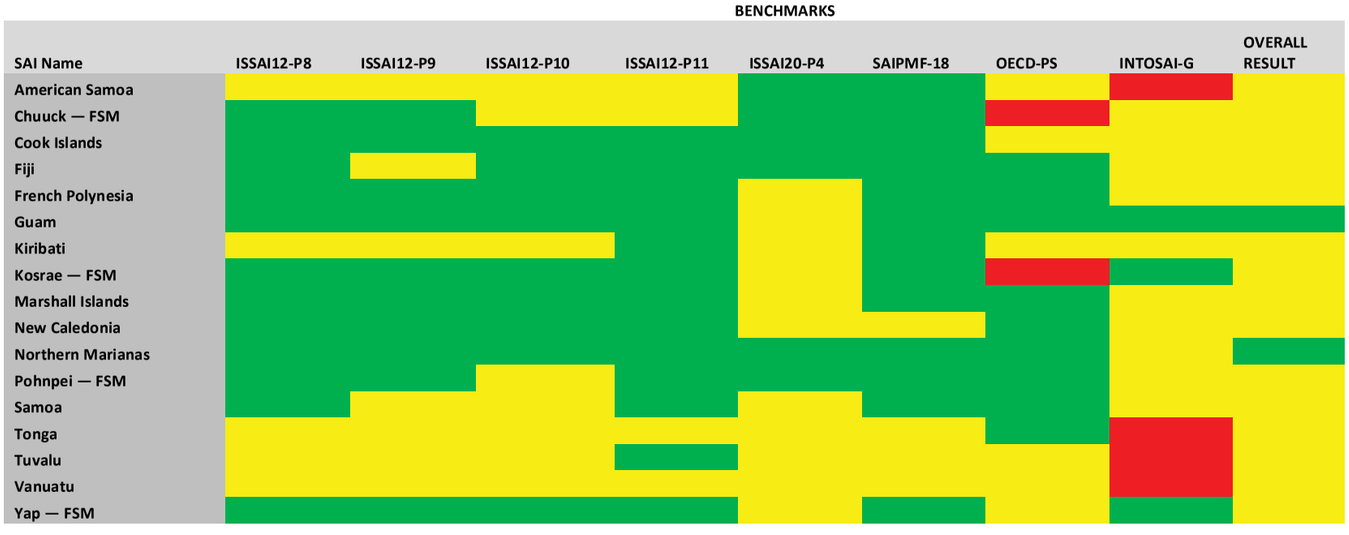
KEY:

GREEN	**ALL COMPONENTS OF PRINCIPLES MET 100%**
YELLOW	**25%–50% COMPONENTS OF PRINCIPLES MET**
RED	**0%–25% COMPONENTS OF PRINCIPLES MET**
WHITE	**No SAI had any role in relation to the development of the national budget. For this reason we have not scored the SAIs against these benchmarks.**

BENCHMARKS	EXPLANATION FOR SCORING
PEFA-D2	The budget process for the SAI jurisdiction was documented and assessed for comprehensiveness and transparency, the budget and fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public as per D2 of the Public Expenditure and Financial Accountability framework.
PIF-P1	The budget process for the SAI jurisdiction was assessed to ensure parliament/congress is sufficiently informed to understand the longer-term implications of appropriate decisions as per PIFS Principle 1.
IMF-FTC3	The International Monetary Fund Fiscal Transparency Code was used to assess budget data is presented in a way that promotes accountability, procedures for the execution and monitoring approved expenditures should be clearly specified.
INCOSAI-P28	The INCOSAI Beijing declaration on promotion of good governance by SAIs, and how SAIs contribute to attaining fiscal soundness, medium and long-term sustainability of financial policies, safeguarding public interest and enhancing national governance in each country, and if SAIs have any role in relation to the budget scrutiny process.

APPENDIX 5: SUMMARY OF RESULTS FOR FOCUS AREA 3: PROMOTING ETHICAL BEHAVIOR WITH THE PUBLIC SECTOR

FOCUS AREA 3: PROMOTING ETHICAL BEHAVIOUR IN THE PUBLIC SECTOR



KEY:

GREEN	ALL COMPONENTS OF PRINCIPLES MET 100%
YELLOW	25%–50% COMPONENTS OF PRINCIPLES MET
RED	0%–25% COMPONENTS OF PRINCIPLES MET

BENCHMARKS	EXPLANATION FOR SCORING
ISSAI12-P8	SAIs were assessed in terms of having appropriate transparency and accountability mechanisms in particular, P8(10) - SAIs should be subject to independent external scrutiny, including external operations audit of their operations, and make available these reports to stakeholders.
ISSAI12-P9	SAIs were assessed in terms of ensuring good governance practices, in particular, P9(5) — SAIs should periodically submit their performance to independent review, for example peer review.
ISSAI12-P10	SAIs were assessed in terms of complying with the SAIs Code of Ethics, in particular, P10(3-7), SAIs should apply a code of ethics that is consistent with their mandate and appropriate for their circumstances (i.e. INTOSAI Code of Ethics).
ISSAI12-P11	SAIs were assessed in terms of striving for service excellence and quality, in particular, P11(1-5), SAIs to ensure staff compliance with the code of ethics, quality control, quality assurance process and conflicts of interest register.
ISSAI20-P4	SAIs were assessed in how they promote ethical behaviour, in particular, SAI should make public the code of ethics.
SAIPFM-18	SAIs were assessed under the SAI PMF SAI-18 Ethics, Management and Internal control on how the SAIs promote ethical behaviour within the SAI (i.e. non-compliance with the code of ethics, conflicts of interest register, breaches on the code of ethics.
OECD-PS	The status of ethics in the public service for each SAI jurisdiction was assessed using the OECD principles for managing ethics in the public service. 12 principles were applied to each of the SAI jurisdiction (i.e. ethical standards for public service should be clear, standards should be reflected in the legal framework, ethical guidance should be available to public servants, etc.
INTOSAI-G	SAIs were assessed using the INTOSAI Guideline on communicating and promoting value and benefits of SAIs. In particular, building good relationships between the SAI and stakeholders, promoting citizen participation by developing mechanisms to receive and monitor complaints, use different channels and vehicles of communication to meet the needs of multiple users.

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