

SAI PERFORMANCE REPORT

OFFICE OF THE PUBLIC AUDITOR (OPA)
POHNPEI STATE

30 NOVEMBER 2018

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Acronyms & Abbreviations

| | |
|----------|--|
| AICPA | American Institute of Certified Public Accountants |
| APIPA | Association of Pacific Islands Public Auditors |
| APM | Audit Planning Matrix |
| APPM | Audit Policies and Procedures Manual |
| ACFE | Association of Certified Fraud Examiners |
| CHC | Community Health Clinic |
| CID | Compliance Investigation Division |
| CPA | Certified Public Accountant |
| DOI-OIG | Department of Interior-Office of Inspector General |
| DPLMD | Department of Personnel, Labour and Manpower Development |
| FSM | Federated States of Micronesia |
| FSM ONPA | Federated States of Micronesia Office of the National Public Auditor |
| GAO | Government Accountability Office |
| GAS | Government Auditing Standards |
| GAGAS | Generally Accepted Government Auditing Standards |
| GF | General Fund |
| HRM | Human Resource Manual |
| IT | Information Technology |
| ICT | Information and Communication Technology |
| IDI | INTOSAI Development Initiative |
| INTOSAI | International Organization of Supreme Audit Institutions |
| ISSAI | International Standards of Supreme Audit Institutions |
| JEMCO | US-FSM Joint Economic Management Committee |
| KTG | Kolonial Town Government |
| MOP | Manual of Operating Procedures |
| NA | Not Applicable |

| | |
|---------|---|
| PA | Public Auditor |
| PAM | Performance Audit Manual |
| PASAI | Pacific Association of Supreme Audit Institutions |
| PC | Pohnpei Code |
| PFM | Public Financial Management |
| PMF | Performance Management Framework |
| POL | Petroleum, Oil, and Lubricants |
| POPA | Pohnpei Office of the Public Auditor |
| PSSA | Pohnpei Public Service System Act of 1981 |
| QA | Quality Assurance |
| QC | Quality Control |
| SAI | Supreme Audit Institution |
| SAI PMF | Supreme Audit Institution Performance Measurement Framework |
| SAI-PR | Supreme Audit Institution Performance Report |
| SDP | Strategic Development Plan |
| SMOP | Strategic Management and Operational Plan |
| TTPI | Trust Territory of the Pacific Islands |
| USA | United States of America |
| WGVBS | INTOSAI Working Group on the Value and Benefits of SAIs |

Foreword

The Supreme Audit Institutions (SAI) Performance Measurement Framework (PMF) assessment of the Pohnpei State Office of the Public Auditor (OPA) was prepared based on the SAI PMF Version 3.1, dated January 22, 2016. The assessment fieldwork was conducted on 17-21 April 2017. This report was completed in November 2018.

a. Executive Summary

The SAI PMF assessment of the Pohnpei State Office of the Public Auditor was initiated by request of the Public Auditor to participate in the regional initiative facilitated by IDI and PASAI. The SAI PMF aims to provide a comprehensive and integrated, evidence-based assessment of the SAI Pohnpei performance and assess the extent to which the SAI contributes to better public financial management, improved governance and accountability, and efforts to tackle corruption. It also looks at the SAI's existing reform process as well as the long-term prospects for reform.

The three main purposes of the PMF assessment for SAI Pohnpei are:

1. To determine necessary improvements in SAI legal framework;
2. To support financial and technical assistance proposals to the donor community (DOI, ADB, PASAI, etc); and,
3. To identify internal control and management weaknesses for improvement.

The authority, functions, and operations of OPA is determined by Article 11, Section 8 of the Pohnpei State Constitution, together with a collective of legislations in place to govern the public financial management of the State. The Public Auditor is appointed by the Governor and approved by the affirmative vote of the majority of the members of the Legislature, without regard to vacancies to serve for a term of four years and until his successor is appointed and confirmed. Pohnpei State Law Nos. 1L-34-85 and 5L-08-00 prescribes the powers and duties of the Auditor which include conducting post audits, examining and inspecting all books and financial records of all state departments, offices, agencies, programs, and organizations receiving public funds, and conducting follow-ups to ensure corrective actions are taken on deficiencies cited. The Public Auditor also has subpoena power, and the power to employ his own staff and contract for professional services as he deems necessary. The office comprises of three divisions (Administration, Audit, and Compliance Investigation Division) with 11 staff members.

Although the legal framework defines the various authorities and functions of the Public Auditor, it does not clearly specify its independence. It provides the authority to independently assess the financial statements and records of the Pohnpei State Government, report discovery of illegal or improper practice of financial administration, render opinions as to the fairness of financial statements, determine the validity of expenditures, conduct follow-ups to confirm corrective actions, and summon persons to appear before the Public Auditor. However, it does not provide for the SAI's financial independence from the Executive or complete authority over its human resources management. These functions are subject to the same limitations and restrictions imposed across the Pohnpei Government.

Much of OPA's budget comes from Compact Sector Grant. Its budget proposal goes through the same process and procedures as with all other agencies and departments of the State Government. Although the legislation provides that the OPA's proposed budget cannot be altered by the Governor, expenditure for the approved budget is subject to the State's Financial Management Regulations. The Director of Treasury and Administration (Finance) has the authority to deny certification for any transaction if, in his opinion, the transaction represents misappropriation of public funds, exceeds appropriation, or if there is unavailability of cash in the Treasury.

Overall, OPA performs very well in meeting its core mandate which is to conduct audits of all the financial transactions and accounts kept by or for the primary and local governments of Pohnpei, focusing mostly on Financial Audits and Performance Audits. Timely submission and publication of the reports of such audits are available to the Legislative and Executive branches of the government as well as its citizens through media. The Policies and Procedures Manual which includes an entire section dedicated to Audit Activities provides a strong guide for the auditors in terms of the planning, implementation and reporting phases of each audit. The manual also provides the standards and requirements for quality control and quality assurance. To provide assurance that the OPA operates at a high professional level, it adheres to the Government Auditing Standards, promulgated by the Comptroller General of the United States. These standards, referred to as Generally Accepted Government Auditing Standards or GAGAS, pertain to auditors' professional qualifications, the quality and performance of their audit work, and meaningful reporting. Though the SAI does conduct follow-ups with the audited entities, materiality is not established as a deciding factor to require additional investigations or audits. The SAI also does not have policies or procedures relating to materiality for follow-ups.

Pohnpei SAI has a strong leadership, and in practice, the leadership has constant communication with the staff. Staff responsibilities are clearly defined and communicated with the staff. However, the SAI does not have an established system for monitoring progress against their strategic and annual plans. The office adheres to the Pohnpei Ethics Act, which sets a tone for the staff to exercise honesty, objectivity, and diligence in the performance of their duties. However, there is no tool that assesses the office vulnerability and resilience to integrity violations.

In lieu of a communication strategy, OPA currently follows procedures set forth in its Strategic Management and Operations Plan (SMOP), pertaining to communicating information to stakeholders, including the Legislature, Executive branch, media and the citizens. In the absence of a communication plan, there is no established communication strategy aligned with the objectives in their strategic plan. This poses a challenge for effectively communicating the value and benefits the SAI provides, obtaining support from decision-makers, media and citizens, and clarifying its role where there is confusion. Although OPA conducts public awareness to promote education, and encourage feedback from the citizens on SAI's functions, it currently does not have a system in place to ensure they receive the valuable feedback from the stakeholders. The relationships between OPA and its stakeholders are neither defined in its legal framework nor addressed in the SMOP.

The human resources function of the SAI is with the Pohnpei State Government Personnel Office. The Pohnpei SAI has established and implemented in the SMOP and the Policies and Procedures Manual guidelines to ensure its staff have the competency and skills to perform their roles and enable the SAI to achieve its objectives. These plans are linked particularly to

the recruitment and promotion aspect of the human resources strategy adopted and implemented by the Pohnpei State Government. The plans reflect the required skills and competency development needs for the different staff levels. However, the SAI does not have in place a detailed training plan specific to different audit related technical certifications.

Pohnpei SAI faces some challenges both internally and externally. With its vision to be a model of good governance in the country and provide assurance that accountability and transparency is in place, its plan includes strengthening public relations and promoting awareness of its roles and functions, and actively soliciting and welcoming reports of allegations of waste, fraud, and abuse. Its plan also includes allocating resources for the planned financial and performance audits together with considerations to expect an average of 2 - 3 Investigations, Inspections and Reviews.

b. Quality Assurance Statement

TO BE PROVIDED BY IDI

c. Observations on the SAI Performance and Impact

i. Integrated Assessments of SAI Performance

The functions and operations of SAI Pohnpei are determined and by the Constitution together with a collective of legislations in place in order to govern the public financial management of the Pohnpei State. Constitution has Auditor appointed by the Governor with the approval of the Legislature by affirmative vote of the majority of the members, without regard to vacancies to serve for a term of four years and until his successor is appointed and confirmed. The Auditor may be removed by affirmative vote of two-thirds of the members of the Legislature

The mandate for the SAI establishes the Office of the Pohnpei State Auditor, it prescribes its powers and duties and authorizes appropriations. The mandate also requires the office to conduct audits of all the financial transactions and of all accounts kept by or for all departments, offices, and instrumentalities of the Government of Pohnpei and of the local governments. Yet, the SAI conducts both Financial Audits and Performance Audits together with other activities including Investigations, Inspections and Reviews.

However, the existing legislative framework does not provide Financial and Personnel autonomy for the SAI. The budget for the SAI is to an extent limited to a certain amount allowed, it is also treated the same under the budget restrictions across all government departments. Donor funding from overseas to assist with capacity building and local trainings for staff capacity development and knowledge is limited and therefore also affects the quality of the SAIs work. Acquiring of any additional asset for assisting functions of the office has to be approved by the Government. Therefore, the SAI is expected to properly plan to work within the financial limitations and restrictions provide in order to perform its functions.

Hiring Personnel for the State of Pohnpei including the SAI is the main prerogative of the Public Service Commission (PSC). Public Auditor provides information to the PSC on the position qualification needs for the office and lastly makes a decision on a report issued from

the PSC regarding the recruitment and selection process conducted. This PSC process involves 15 days advertisement period and a 15 days period for screening, interviews and notification. With the limited amount of resources available (only 11 staff) for the SAI and the substantial amount of audits/activities planned to be implemented, timely recruiting of staff is essential to the performance of the SAI.

All the activities performed by the SAI are addressed and outlined within the Strategic Management and Operational Plan 2013-2017 (5 years), however annual plans to implement the long-term strategic plan have not been consistently prepared. The absence of an annual planning indicates that resources are not properly utilized effectively throughout the year in achieving the strategic and annual goals in place. Audit reports submitted to the Legislature even though they are quality controlled by the SAI, the need for measurement and monitoring of progress against targets will remain a difficult task.

The same goes with management of its assets wherein it is the primary government that books all capitalized assets of the SAI as well as acquisition of new assets that goes through its state finance. Because of this process, the SAI has limited control over its assets which if the primary government alters will alter the activities of the SAI and ultimately altering the SAI in carrying out its mandates. Administrative and support services are also limited for Pohnpei SAI as they don't have any management information system in place to help them implement, coordinate, and monitor its activities. Consequently, its value and benefits are minimized as the SAI is not operating at an optimal level.

ii. The value and benefits of Supreme Audit Institutions – Making a difference to the lives of citizens

Pohnpei SAI undertakes awareness activities to promote itself to its citizens to educate them on the functions and services it provides. Through its investigative arm, its Compliance Investigation Division, it conducts investigations that hold those involved in wrongdoing in the government accountable and take responsibility for their actions.

With a 24 hours hotline, the fact that walk-ins are encouraged to report wrongdoing, and a mailing system in place with its Compliance Investigation Division, the public, including the citizens of the State of Pohnpei, can freely and anonymously report wrongdoing within their government. Having these systems in place gives the citizens some control over how their government is operating especially in relation to fraud and corruption.

Pohnpei SAI also conducts financial and performance audits and makes timely reports of such audits available to its Legislative and Executive branch of the government as well as its citizens through media such as newspaper and radio stations. It has the freedom to choose its own topics for audit and decide on the audit approaches to be taken. It also makes available copies of its audit to its citizens publicly on the website and upon request.

Pohnpei SAI also serves as a reliable source of information through its audit reports. With the audit reports, citizens can get an idea of how their tax money are utilized as well as be aware if the different agencies audited, of their government are performing up to expectations and are utilizing their resources effectively and efficiently. These actions are to make sure that all citizens are kept well informed on the activities and programs implemented by the Government for the development and welfare of the country.

Pohnpei SAI does have some controls over its financial management, assets, and support services. However, its autonomy in these areas are limited by the fact that it shares the

controls of its financial management, assets, and support services with the primary government which in turn limits its value and benefits to its citizens. All finances of the SAI go through the state finance of the primary government; thus, the state finance can alter such finances of the SAI, altering its plans and activities.

iii. Analysis of SAI capacity development efforts and prospects for further improvement

Pohnpei SAI, like any other SAI has its weaknesses. Pohnpei SAI is currently not independent of their own recruitment, and what can be done with their budget. This is as it is in the inherent legal framework. All processes of hiring and dealing with SAI's budget must go through another office for allocation of funding and approval purposes. In some cases, the time period for all the processing takes too long which effect the SAI's internal functions. The SAI in return has been trying to seek their independence. The result of this assessment will then be a support in the event where the SAI seeks independence from the central Government. This independence will not only assist with more personnel needed but also be able to send staff for capacity building programs and trainings.

It is one of the main needs for SAI Pohnpei to improve the level of capacity for staff to conduct all its required legislated functions. Therefore, with the assistance of donors mainly of the PASAI and the Graduate School of the US, these are only most of the trainings in which staffs attend to pursue more capacity.

SAI Management Use of Results

The assessment results will be used in various efforts moving forward. Recalling the purpose of the need for this assessment, Pohnpei OPA will focus on the identified opportunities to lobby for changes to improve its legal framework and push to more strengthen the financial and administrative independence of the SAI.

Opportunities presented in the results will be used to strengthen internal controls and management practices in carrying out its mandate. Furthermore, OPA will use the results to support financial and technical assistance proposals to the donor communities, highlighting the areas from which it draws its strengths to address areas where it needs improvement.

Weaknesses noted in the results will also provide an outline for the SAI to consider within its future plans the need to strategically allocate resources available to address and acknowledge the processes as required in order to compliant with the International Best Practice standards for SAIs (ISSAIs).

These future plans will also need to be properly monitored and evaluated by management on a regular basis so that the results are properly informed and updated.

Chapter 1: Introduction

This is an assessment of the Performance Measurement Framework (PMF) of the Pohnpei State Office of the Public Auditor (POPA or OPA), also referred to throughout this report as Pohnpei SAI or SAI Pohnpei. The assessment was initiated as a request and agreement to participate in the regional initiative by IDI and PASAI to conduct a PMF assessment on his Office. The owner of the assessment results is the Public Auditor and his office.

The PMF assessment aims to provide a comprehensive and integrated, evidence-based

assessment of the POPA performance. It is informed by an indicator-led analysis of performance domains covering the OPA's operating environment, internal capability and OPA's external performance. This evidence, an understanding of the linkages between the performance domains, is used to assess the extent to which POPA contributes to effective public financial management, good governance and proper accountability to safeguard public resources and prevent corruption. The PMF program also looks at POPA's existing legal framework, the internal control reform process requirement and the long-term prospects for reform to improve services.

The three main purposes of the PMF assessment identified include:

1. Improvement in POPA legal framework;
2. To support financial and technical assistance proposals to the donor community (DOI, ADB, PASAI, etc); and,
3. To identify internal control and management weaknesses for improvement.

The assessment was carried out as a peer review by a team of three, led by Mr. Achilles Defngin, the Public Auditor of State Yap of the Federated States of Micronesia. Supporting members included Mr. Bryan Dabugsiy, a senior auditor from the Yap State Office of the Public Auditor, and Mr. Marshall Maua from SAI Samoa. Defngin and Dabugsiy have learnt and gained a good understanding of the SAI PMF methodology and assessment process through participating in the planning workshop for implementing SAI PMF in the North Pacific SAIs, which prepared them to conduct this assessment. Maua, who provided support to the assessment team as the resource person had adequate training and experience on SAI PMF through the implementation of SAI PMF in the South Pacific SAIs. He was a member of an assessment team who conducted the assessment of SAI Tuvalu in October 2016.

The assessment covered all six broad areas of the SAI's operations categorized as Domains A, B, C, D, E, & F in the framework. The assessment covered the whole audit mandate of POPA—financial and performance audits—and non-audit related services that were completed and issued in Fiscal Year 2016. POPA does not conduct compliance audits, therefore the related indicators under Domain C (SAIs 15, 16, 17) were not assessed. In addition, the indicators for jurisdictional control (SAIs 18, 19, 20) are not-applicable to POPA and were therefore not included in the assessment.

Chapter 2: Methodology

The assessment is evidence-based and consists of document analysis and interviews with relevant staff in the Pohnpei SAI. Document analysis was the main source of evidence and information, while interviews were used for clarifications and for acquiring information and context not provided in written documents.

The main important documents that required analysis included the Constitution, the audit and finance legislations, the Compact Agreement is another main document that drives and guides the overall financial legislative framework for the state of Pohnpei. Also important for review were minutes for meetings conducted, annual plans in place and strategic plans prepared for both State audit office and government as a whole.

The assessment team freely selected the sample of audit files to be reviewed for the purpose of the assessment. The two financial audit files selected, Transportation Authority & Small

Business and Finance Corporation, were the only financial audits conducted by the SAI Pohnpei. All other financial audits were outsourced. Only one performance audit was selected - the performance audit on the Cash Disbursements of Kolonia Town Government (KTG), which was the sole performance audit conducted and reported in the Annual Report 2016.

The SAI PMF assessment team was allowed access to all documents and working papers that were required to be able to conduct and finalise the assessment.

The assessment team, SAI Pohnpei, PASAI and IDI played separate roles to ensure the quality of the assessment. The draft report was shared with POPA to confirm the facts of the report and provide any further comments before the report was finalized by the assessment team. PASAI and IDI also provided support and clarifications to the assessment when in doubt.

Chapter 3: Country & SAI Background

3.1 Description of country governance arrangements and wider environment in which the SAI operates

Country and Governance Background

Pohnpei State is one of the four states comprising the Federated States of Micronesia (FSM). It is the Capital of the FSM with a population of 36,000. FSM is an independent country in Free Association with the United States of America with a population of over 110,000. The other three states are Chuuk, Yap, and Kosrae.

The FSM has the following three (3) levels of governments.

- a) National government,
- b) Four state governments, and
- c) Local or municipal governments.

Each governmental level operates and conducts official business in accordance with the mandates and support of their respective constitutions and laws. There are eleven (11) local governments operating in the Pohnpei State.

The Pohnpei political institution is built upon the U.S. Government's model. The primary government is composed of the executive branch, the legislative branch, the judiciary branch and the Office of the Public Auditor (OPA), each operating independently of each other. Pohnpei receives most of its funding pursuant to the economic assistance provisions under the Compact of Free Association between the United States and the FSM. The FSM uses the U.S. dollar as its currency.

Article 4, Section 1 of the Pohnpei State Constitution affords its citizens their fundamental right to freedom of speech, which states in part, "No government action may deny or impair the right of every person to speak, write, and publish freely on any subject and the right to receive information on all subjects." The Kaselehlie Press, a Pohnpei-based newspaper covers stories throughout the FSM and is published every two weeks. An online version of the newspaper is available at www.kpress.info.

To ensure that all schools provide an environment for students that is conducive to learning, all public and private educational institutions within the FSM are required to meet minimum set of academic standards and undergo a process of accreditation, according to Title 40 of the FSM code. Education is afforded to Pohnpei State citizens at the Early Childhood Education,

Elementary, and Secondary levels. In addition, the College of Micronesia's national campus located in Pohnpei also avails recent high school graduates the opportunity to enter in any of four programs offered—General Education Program, Degree Programs, Certificate Programs, or Vocational Programs.

3.2 SAI's public sector budgetary environment and impact on SAI performance

The majority of the budget for Pohnpei SAI comes from Compact Sector Grant while they can also request from the Pohnpei State General Fund. The SAI submits its budget proposal during the annual budget call which goes through the same process and procedures as with all other agencies and departments of the primary Pohnpei State Government. The budget for the whole State Government, including the budget for Pohnpei SAI, is compiled by the Executive branch and submitted to the Legislative branch of the Government for review and appropriation. The budget for Pohnpei SAI according to its enabling legislation and unlike the other departments and agencies of the State Government cannot be altered.

However, the current budgetary and finance major constraint or challenge relate to the appropriation law, which apportioned POPA's annual approved budget into five major expense categories:

- a) Personnel
- b) Travel
- c) Fixed Assets
- d) Contractual Services
- e) All Others

The budget law also restricts reprogramming up to 15% to and from each category, whichever is less. Given the small amount appropriated for each expense category, this is not significant. Therefore, the legal framework allows reprogramming of funds between the expense classes in excess of the 15% allowable by law but must be considered and approved by the legislature.

The negative impact of the current budget environment, its processes and restrictions, is not so much evidenced on the proposal and appropriation of the budget but rather on the expenditures of the budget. The budget proposal and appropriation of Pohnpei SAI has some independence as it is protected by its enabling legislation wherein the budget of the SAI can't be altered. Independence and authority for its expenditures on the other hand, is limited as the SAI's expenditures goes through and is subject to the State's Financial Management Regulations as is with the rest of the Pohnpei State Government departments and agencies.

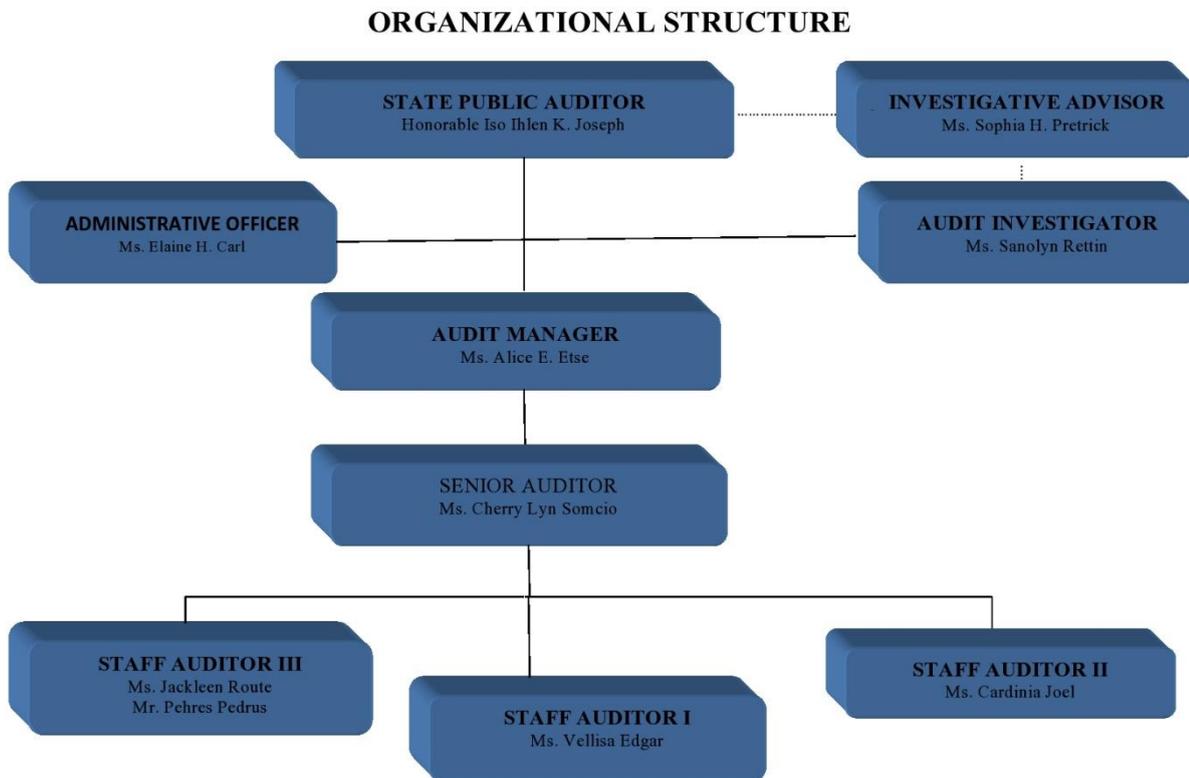
Therefore, the SAI has authority to spend its approved budget as the allottee. The Finance Department also cannot spend money allotted without Public Auditor's authorization. However, the Director of Treasury and Administration (Finance) is given power to deny certification for any transaction if, in his opinion, the transaction represents misappropriation of public funds or in excess of appropriation or availability of cash in the Treasury. His/her power in this regard applies to all branches and agencies of the Pohnpei Government, including the Governor, Speaker, Chief Justice and all allottees of Pohnpei Government funds, regardless of the source.

A total of \$295,289.00 was appropriated to support OPA operations during the reporting fiscal year. Of this total, \$277,601.00 was made available from the FY-2016 Compact Sector grant and \$17,688.00 was sourced under the Pohnpei General Fund (GF). The table below presents a summary of the OPA's operating budgets and expenses for the fiscal years 2015

and 2016.

| Revenue Source | Fiscal Year 2016 | Fiscal Year 2015 |
|---------------------------|-------------------------|-------------------------|
| Representation (GF) | \$7,000 | \$2,000 |
| Personnel (GF) | \$10,688 | \$10,945 |
| Compact Sector Grant | \$277,601 | \$224,326 |
| Total Revenues | \$295,289 | \$237,271 |
| | | |
| Expenditures | | |
| Personnel | \$211,985 | \$177,160 |
| Travel | \$17,511 | \$14,560 |
| Contractual Services | \$2,020 | \$2,080 |
| Other Current Expenses | \$41,804 | \$32,540 |
| Representation Fund (GF) | \$3,100 | \$1,960 |
| Total Expenditures | \$276,420 | \$228,300 |

3.3 SAI’s legal and institutional framework, organizational structure and resources and impact of country environment on SAI performance



Establishment

The Office of the Auditor was established in 1979 under the provisions of Section 8 of Article 11 of the Pohnpei State Constitution, which states that there shall be an Auditor appointed by the Governor and approved by the affirmative vote of the majority of the members of the Legislature, without regard to vacancies to serve for a term of four years and until his successor is appointed and confirmed. Within thirty days before the end of each four-year term, the Auditor may be removed by affirmative vote of two-thirds of the members of the Legislature, without regard to vacancies. The Pohnpei State Constitution Article 11, Section 8 (2) requires the office to conduct audits of all the financial transactions and of all accounts kept by or for all departments, offices, and instrumentalities of the Government of Pohnpei and of the local governments.

Understanding the SAI

Primary Duties and Responsibilities

The Auditor shall have the following primary duties and responsibilities:

The Office of the Pohnpei State Auditor shall conduct all audits required for or sought by Pohnpei State Agencies in accordance with generally accepted auditing standards. All audits

shall be performed with the highest degree of professionalism and with strict avoidance of any degree of partisanship or bias. The Office of the Pohnpei State Auditor shall follow the Standards for Audit of Government Operations, Program, Activities, and Functions published from time to time by the United States General Accounting Office, including those standards issued by the American Institute of Certified Public Account.

OPA's stakeholders consist of the Pohnpei State Legislature, INTOSAI, PASAI, the general public, and the media.

Pohnpei State Law no. 1L-10-79 further prescribes the powers and duties of the State Auditor and authorizes appropriations for the support of the Office of the Auditor. The law was amended by State Law No. 1L-34-85 and 5L-08-00, to enhance the powers and duties of the Auditor. Generally, the powers and duties of the Pohnpei State Auditor include:

- Conduct post-audits and examinations of all transactions, books, and accounts of the departments, offices, and agencies of the state and its political subdivisions and all projects, programs, activities or organizations within the state receiving public funds, to:
 - i. Report discovery of any unauthorized, illegal, irregular, improper or unsafe handling or expenditure of state funds or other improper practice of financial administration,
 - i. Render an opinion as to the fairness of the financial statements presented by the respective accounting officers, and
 - ii. Determine the validity of expenditures of state or public funds.
- Examine and inspect all books, records, files, papers, and documents, and all financial affairs of every department, office, agency, political subdivision, non-profit organization.
- Conduct follow-ups to confirm corrective action is taken on deficiencies cited.

The State Auditor has the authority to summon persons to appear personally before him at any time and place, to give testimony or to produce any books, accounts, records, files, papers, and documents as necessary for the examination, and to administer oaths to such persons summoned to appear before him.

The State Auditor is required to report annually to the Governor and the Legislature the findings and recommendations and at other times as may be requested by the Legislature or the Governor. The SAI's reports are reviewed by the Governor and the members of the Legislature for information and decision-making.

The Office of the Pohnpei State Auditor exists only in one physical location, with no additional responsibilities over any regional offices. The office has a total of twelve (12) staff members, consisting of the Public Auditor, six (6) auditors whose purpose is to be able to assist in and be able to conduct all types of audits, three (3) investigators and two (2) administrative assistants that provide support to all units.

Chapter 4: Assessment of SAI Performance

DOMAIN A: INDEPENDENCE AND LEGAL FRAMEWORK

Domain A covers the independence and legal framework of the SAI. Although the legal framework is outside the control of the SAI, it can influence the ability of the SAI to deliver its mandate significantly, and also relevant to the assessment to provide a holistic view of the SAI's performance.

The underlying principles for independence of the SAI are prescribed in ISSAI 1: *The Lima Declaration* and ISSAI 10: *Mexico Declaration on SAI Independence*. ISSAI 1 establishes the importance of having an independent SAI, and ISSAI 10 elaborates the key principles and their practicalities. These principles included the need for SAIs to have financial and organizational independence necessary to enable it to accomplish its mandated responsibilities. Furthermore the independence of the Head of the SAI should be assured, including security of tenure and legal immunity in the normal discharge of his/her duties.

The SAI staff must not be influenced by the audited organizations and must not be dependent on such organizations. Furthermore, the SAI should be free from the direction or interference from the Legislature or the Executive in the discharge of its functions, including obtaining information and reporting on its work. These are important prerequisites for an effective functioning SAI.

Performance Indicators:

The following indicators are included in this domain:

- SAI-1: Independence of the SAI
- SAI-2: Mandate of the SAI

SAI-1: Independence of the SAI

The degree of independence measures the effectiveness of a Supreme Audit Institution's operation. To operate objectively and effectively, the SAI must be independent of the audited entity and is protected against outside influence. SAI-1 measures the degree of SAI independence by assessing the SAI's legal framework against the key aspects of independence prescribed in ISSAI 1 and ISSAI 10.

The foundation for the SAI's existence and its independence need to be guaranteed and established in the Constitution and/or in the legal framework. The legal framework should provide for the SAI's independence, without the real or perceived risk of being influenced by the Executive or other entities. SAI-1 assesses the Constitution and the more detailed legal framework of the SAI.

Dimensions that were assessed:

- (i) Appropriate and Effective Constitutional Framework
- (ii) Financial Independence / Autonomy
- (iii) Organizational Independence / Autonomy
- (iv) Independence of the Head of SAI and its Officials

| SAI-1 Independence of the SAI | Criteria Met | Criteria Not Met | Assessor Score |
|---|---------------------|-------------------------|-----------------------|
| <i>Dimension (i) – Appropriate and Effective Constitutional Framework</i> | a, f, g | b, c, d, e | 1 |
| Constitution and SAI enabling legislation does not specify nor provide for the independence of POPA. | | | |
| <i>Dimension (ii) – Financial Independence/ Autonomy</i> | b, c, d, f, g | a, e | 1 |
| Financial Independence for the SAI is not fully entrenched in the legislative and constitutional framework. | | | |
| <i>Dimension (iii) – Organizational Independence/ Autonomy</i> | a, c, e, f, g | b, d | 2 |
| Human resources independence is not specified in the SAI's enabling legislation and constitutional framework. The Head of SAI is not totally free to independently decide on all HR matters. | | | |
| <i>Dimension (iv) – Independence of the Head of the SAI and its members</i> | a, b, d, e, f, g | c | 3 |
| There is a proper process that ensures the independence of removal and appointment of the Head of SAI. However, the law does not specify immunity from prosecution of Head of POPA for any act in the normal discharge of his duties. | | | |
| SAI-1 overall score | | | 2 |

Dimension (i) Appropriate and Effective Constitutional Framework

This dimension measures how the SAI is defined in the country's constitution. The establishment of the SAI's independence and its mandate should be entrenched in the Constitution to ensure sufficient protection against such independence and power from being easily repealed or amended.

Pohnpei Office of the Public Auditor (POPA) is established in the Pohnpei State Constitution. Article 11 Section 8, subsection 1 of the Constitution states, "There shall be an Auditor appointed by the Governor with the approval of the Legislature with affirmative vote of the majority of the member without regard to vacancies, to serve for a term of four years and until his successor is appointed and confirmed

However, the Pohnpei State Constitution, in particular Article 11, section 8 does not make specific reference to the independence of the SAI. Furthermore, the SAI's enabling legislation (Division I, Title 5 of the Pohnpei Code) enacted in 1979 as State Law No. 1L-10-79, does not establish nor provide clarity to the independence of the POPA. Article 11, Section 8 (1) of the Constitution guarantees the appointment, term, cessation of functions of the Head of SAI but is silent on the independence of his decision-making powers.

Furthermore, the Constitution does not provide adequate legal protection by a supreme court against any interference with the Pohnpei SAI's independence. The Office of the Public Auditor Act does not protect the independence of Pohnpei SAI but empowers the Public Auditor to summon persons to appear before him to produce all accounts, books, records, files, papers, and documents and may cause search and extract any book, paper, or record in the custody of any public officer as necessary for the examination.

Although Pohnpei SAI's independence is not laid down in the Constitution nor specified in the

enabling legislation, the SAI manages to secure its independence (ISSAI 12:1) through regular reports on matters that affect its ability to perform its work in accordance with its mandates and/or its legislative framework. The SAI is required by the Constitution, Article 11 Section 8 (3), to report annually the audit findings and recommendations to the Governor and the Legislature and provides additional reports and information as appropriate and as required by law.

Furthermore, the SAI's enabling legislation (Title 5 PC 1-107: Discovery of irregularities) requires the Head of SAI to report the discovery of any unauthorized, illegal, irregular, improper or unsafe handling or expenditure of Pohnpei funds, or other improper practice of financial administration to the office being audited, the Speaker of the Legislature, the Governor, the Attorney General, the Chief Executive of the local government, and the presiding officer of the local council of the political subdivision concerned.

Besides the audit reports, the SAI submits quarterly performance budget reports and annual reports to the Governor and the Legislature. Among other things, the activities performed by the SAI, challenges and issues, and matters affecting the ability of the SAI to perform its work are reported in these reports.

Pohnpei SAI strives to promote, secure and maintain an appropriate and effective constitutional, statutory or legal framework (ISSAI 12:1). This is evident in the draft amendment to the Constitution which proposes needed changes in the constitution and the enabling legislation to address the legislative shortcomings regarding SAI independence. Additionally, the SAI reiterates these shortcomings in the Quarterly Performance Budget Reports and the Annual Reports.

Dimension (ii) Financial Independence / Autonomy

This section examines the SAI's financial independence. One of the independence principles prescribed in ISSAI 10 is that SAIs should have available, necessary, and reasonable resources, and should manage their own budgets without interference or control from the Executive. This independence should encompass the whole budget process where the Executive should not unduly interfere with the SAI's budget proposal, and after the budget has been adopted by the Legislature, it should not control the allocated means, for example by hindering the disbursement of resources.

Article 11 section 8, subsection 6 of the Constitution requires the SAI to prepare and submit the budget to the Legislature through the Governor; it states, "The Auditor shall annually prepare the budget which will be submitted to the Legislature through the Governor. The Governor may submit his comments, but he may not revise or reduce it." Accordingly, the SAI's budget is approved by "the public body deciding on the national budget" (ISSAI 1:7), and the SAI is free to propose its budget to the public body deciding on the budget without interference from the executive (ISSAI 10:8). The SAI is also entitled to use the funds allotted under its own separate budget heading (ISSAI 1:7).

Notwithstanding the provisions of Article 11 section 8, the Constitution is silent on the disbursements of the funds.

Disbursements of funds are restricted by appropriation laws, Pohnpei Budget Act, Pohnpei State Financial Management Act, and US-FSM Joint Economic Management Committee (JEMCO) resolution and Amended Compact of Free Association Fiscal Procedures Agreement. For example, the Pohnpei Budget Transmission Act restricts the government's budget including the SAI's budget; no reprogramming shall be made to or from any sum specified for

the personnel account, nor to any sum specified for the travel account, nor to any sum specified for representation funds, nor to any sum specified for the POL account, nor to budgetary items not authorized by law under each activity identified in this act. International travels funded by Compact Sector Grant is another example of these restrictions, even if these travels are necessary for the SAI.

Furthermore, ISSAI 10:8 requires that SAIs have available the necessary and reasonable human, material, and monetary resources which the Executive should not control or direct the access to these resources. However, the Executive, through the Department of Treasury and Administration controls the SAI's access to the funds/resources, after the SAI's budget has been approved by the Legislature. The Pohnpei Budget Act, appropriation laws, and the Pohnpei State Financial Management Regulations regulate expenditures of all State agencies, including the expenditures of the SAI, and gives the Department of Treasury and Administration and the Division of Budget controls over the access to the resources/funds.

If the resources provided are insufficient to allow the SAI to fulfill its mandates, POPA has the right to request supplementary funds from the Legislature through the Governor. For the past three years, there have been no cases of undue interference from the Executive regarding the SAI's budget proposal or access to financial resources. For the years under review, the SAI's budget proposals have all been approved by the Legislature. In fact, the SAI's approved budget has increased from \$237,016 in fiscal year 2015 to \$281,011 in fiscal year 2017.

Dimension (iii) Organizational Independence/Autonomy

To fulfill its mandate effectively, the SAI needs to have autonomy in the organization and management of the office. The SAI should be able to manage, organize and plan its activities without interference from the executive bodies, including managing human resources. ISSAI 1:5 recognizes that as state institutions, SAIs cannot be absolutely independent because they are part of the state as a whole. However, the legal framework shall ensure that the SAI has the functional and organizational independence required to deliver its mandate and core functions. An independent SAI, protected against outside influence, can accomplish their tasks effectively and objectively.

Pohnpei's legal framework (Constitution and legislation) does not specify the functional and organizational independence of POPA. In practice, the SAI is not totally free from the direction or interference from the Executive in the organization and management of its office. POPA staff is subject to the Pohnpei State Public Service System (PSS) Act of 1981. The PSS Act governs the human resources of POPA, in spite of the constitutional authority vested in the Public Auditor to employ his own staff as he deemed necessary. The PSS Act of 1981 is administered by the Chief of the Division of Personnel, Labor and Manpower Development (DPLMD). Title 5 of Pohnpei Code, Section 1-109 (5 PC 1-109) requires the Public Auditor to consult with the Division of Personnel, Labor and Manpower Development in the establishment of the employees' salaries and follow the recommendations provided by the division. 5 PC 1-109 further limits POPA's ability to recruit to the budget appropriated by law.

The Public Auditor is constitutionally empowered and legislatively enabled to conduct audits, employ his own staff as he may deemed necessary, and prepare a budget for the operations of his office for fulfilling his mandate. POPA's Strategic Management and Operational Plan (SMOP) Fiscal Year 2013-2017 is a concrete example of the Public Auditor's authority to determine his own rules and procedures consistent with existing laws and standards.

The Head of SAI's freedom to independently decide on all human resource matters, is constrained by staffing and/or budgetary frameworks approved by the Legislature. Because human resources are subjected to the PSS Act of 1981, administered by the Chief of the Division of Personnel, Labor and Manpower Development, POPA decides on human resources matters, including appointments of staff and establishment of their terms and conditions, but subject to the PSS Act and recommendations from the Chief of the DPLMD.

The relationship between the SAI and the Legislature and the Executive is clearly defined in the legal framework. The Constitution requires the Public Auditor to report annually to the Governor and the Legislature and submits to the Legislature through the Governor a budget for the operation of the SAI. The Public Auditor is appointed by the Governor and approved by the Legislature. Additionally, POPA's enabling legislation requires the Public Auditor to report quarterly the performance budget to the Governor.

The SAI has the authority to call on and pay for external expertise as necessary, as stipulated in the Constitution - Article 11 Section 8 (5) and Title 5 of Pohnpei Code (5 PC 1-109 Employees and independent contractors) which states that the Public Auditor may contract for professional accounting services and other services as he determines necessary.

Dimension (iv) Independence of the Head of the SAI and its members

International auditing standards prescribed that the conditions for appointments of the Heads of SAIs should be specified in the SAIs' enabling legislations. It states that the independence of the Heads of SAIs can only be ensured if they are appointed with sufficiently long and fixed terms and if the processes of their appointments and cessations of functions ensure their independence. This allows them to carry-out their mandate without fear of retaliation. Any re-appointment where this is applicable and in accordance with the law, should take place in the same independent and transparent manner. Furthermore the applicable legislation should specify the conditions for appointments, reappointments, and removal of the Head of the SAI by a process that ensures their independence.

The Pohnpei State Constitution Article 11, Section 8 and the SAI's enabling legislations stipulates that the appointment of the Public Auditor shall require the approval of the Legislature by affirmative vote of the majority of the members, without regard to vacancies, to serve for a term of four years and until his successor is appointed and confirmed. Within thirty days before the end of each four-year term, the Public Auditor may be removed by affirmative vote of two-thirds of the members of the Legislature.

In-line with POPA's enabling legislations and State Constitution, the current Public Auditor has completed his first four-year term and recently reappointed for a second term for a combined total of 8 years. This has ensured the Public Auditor's independence to carry-out his mandate without fear of retaliation.

The Public Auditor is constitutionally mandated to conduct audits and present findings and recommendations to the Governor and the Legislature. To carry-out his functions prescribed by law, the Public Auditor cannot be under the direction or control of any other authority. However, it is not specified in the law whether or not the Head of POPA is immune to any prosecution for any act, past or present, that results from the normal discharge of his duties.

For the past 3 years, there have been no periods longer than 3 months during which there was no properly appointed Head with tenure. The Public Auditor has been in office since his appointment in 2012. The Public Auditor's contract expired in 2016 and renewed for another 4 years.

ISSAI 1:6 requires that the legal framework ensures that the audit staff of Supreme Audit Institutions are not influenced by, nor dependent on the audited organizations. Title 5 PC 1-109 stipulates that the Public Auditor may employ the services of accountants, firms, assistants, and clerical workers who are entirely independent of the departments, offices, and agencies of the state and its political subdivisions whose affairs are subject to audit by the Auditor.

SAI-2: Mandate of the SAI

The indicator aims to assess the operational powers vested in the SAI through the audit mandate of the SAI, as well as its right of access and obtain information and documentation necessary for its activities and the right to report on its activities. The SAI should be sufficiently empowered by a legal framework establishing its role and clearly defining its responsibilities. The legal framework should ensure these rights, allowing the SAI to freely prepare, submit and publish its audit reports.

Dimensions that were assessed:

- (i) Sufficiently Broad Mandate
- (ii) Access to Information
- (iii) Right and Obligation to Report

| SAI-2 Mandate of the SAI | Criteria Met | Criteria Not Met | Assessor Score |
|---|------------------------|------------------|----------------|
| <i>Dimension (i) – Sufficiently broad mandate</i> | a, b, c, d, e, f, g, h | i | 3 |
| The mandate requires the office to conduct audits of all financial transactions and accounts of all departments, offices, and instrumentalities of the Government of Pohnpei and of the local governments but does not specify conduct of performance audits. | | | |
| <i>Dimension (ii) – Access to information</i> | a, b, c, d, e | | 4 |
| The mandate also gives power to the SAI for access to information on all public bodies, there are also powers of summons within the SAI head as well. | | | |
| <i>Dimension (iii) – Right and Obligation to report</i> | a, b, c, d, e, f, g | | 4 |
| These Audits conducted after further review and comments from auditee are then all compiled together and reported annually to the legislature in the SAIs annual report. | | | |
| SAI-2 overall score | | | 4 |

Dimension (i) Sufficiently Broad Mandate

This dimension assesses the SAI’s mandate or legal rights to carry out audits and its oversight of public funds. The mandate should be broad enough to cover all public financial operations. In fulfilling their mandates, SAIs should have the independence to choose the audit issues, in planning and in conducting the audits.

The Pohnpei State Constitution Article 11, Section 8(2) stipulates the authority of the Public Auditor to conduct audits of all financial transactions and accounts of all departments, offices, agencies, and instrumentalities of the Government of Pohnpei and of the local governments,

and to audit such accounts at least once every two years. Furthermore, Article 11 of the Constitution provides for the power of the Public Auditor to certify for accuracy, all financial statements issued by Government accounting officers and to require the establishment of accounting systems to ensure strict financial accountability.

Additionally, Title 5 PC 1-104 provides for the authority of the Public Auditor to conduct post-audits of all transactions, books, and accounts of all departments, offices, and agencies of the state and its political subdivisions and all projects, programs, activities or organizations within the state receiving public funds. The Pohnpei State Public Auditor is granted the legal authority under the Constitution Article 11, Section 8, among other things, to:

- a) conduct audits of all financial transactions and accounts of all departments, offices, agencies, and instrumentalities of the Government of Pohnpei and of the local governments;
- b) require the establishment of accounting systems that will ensure strict financial accountability;
- c) employ his own staff and contract for professional accounting services and other services that he may deem necessary;
- d) prepare an annual budget and submits to the Legislature through the Governor for the operations of his office.

The Head of SAI has the constitutional authority to select audit issues, plan, conduct, follow-up, and report as he deems appropriate and as required by law. The Pohnpei State Constitution, Article 11 Section 8(3) requires the Head of POPA to make additional reports as he may deem appropriate and as required by law, in addition to the annual reports to the Governor and the Legislature.

During the past 3 years, there has been no case of interference in POPA's selection of audit clients or subjects. POPA has not been given nor taken any tasks which influence the independence of its mandate. According to senior management staff, POPA conducts non-audit services, including inspections and evaluations, but does not perform accounting services or services that may impair the SAI's independence.

The Public Auditor is generally empowered to conduct audits. The Pohnpei State Constitution Article 11, Section 8(2) and Division 1, Title 5 of Pohnpei Code generally provides for the authority of the Auditor to audit all financial transactions and accounts of all departments, offices, agencies, and instrumentalities of the Government of Pohnpei and of the local governments. This broad mandate given to the POPA allows it to audit the legality and regularity of government or public entities' accounts and the quality of financial management and reporting. However, the law does not specify conducting performance audits nor makes references to the aspects of economy, efficiency and effectiveness. POPA conducts performance audits at the discretion of the Public Auditor and the authority vested in the Public Auditor to conduct audits.

Dimension (ii) Access to Information

This dimension assesses the SAI's rights to free, timely and unrestricted access to all documents and information they might need for the proper discharge of their responsibilities and the right to decide which information it needs for its audits.

The Pohnpei State Code Title 5, Sections 1-105 and 1-106 empower the Auditor to free, timely and unrestricted access to all documents and information he needs to discharge his responsibilities. Specifically,

1. Examine and inspect all books, records, files, papers, and documents, and all financial affairs of every department, office, agency, political subdivision, non-profit organization.
2. Require all persons to appear personally before him, and to produce all such accounts, books, records, files, papers, and documents in the possession or control of such persons as necessary for the examination.
3. Search or extract any book, paper or record in the custody of any public officer or request the officer who has the custody of the books, records, files, papers, and documents to make the search and furnish the extracts.
4. Summon persons to appear before him and administer oaths and question such persons, under oath, concerning receipts and expenditures of money and concerning all other things and matters necessary to perform his duties as required by law.

In the event where POPA is restricted or denied access to information required for an audit, POPA has the liberty to work with the Office of the Attorney General to resolve such matters, including taking the matter to court. If access to information considered necessary is hindered, POPA has specific powers to sanction those responsible for such hindrance. For example, Title 5 PC 1-111 (Violation and False Evidence) stipulates that in addition to all other criminal and civil penalties, any person summoned to give testimony or to produce any books, papers or other documents related to any matter under inquiry, who willfully refuses to appear or produce such materials, or who appears but refuses to answer any question pertaining to the matter under inquiry, shall be fined or imprisoned, or both. In the course of his examination before the Public Auditor, a person who willfully gives false evidence, shall be charged the same penalties as a person convicted of perjury.

Title 5 Section 1-105 of Pohnpei Code provides the staff of the SAI assisting the Public Auditor in the discharge of his duties and responsibilities, the right of access to the premises of audited bodies in order to do the fieldwork the SAI deems necessary.

Dimension (iii) Right and Obligation to Report

This dimension assesses the SAI's right and obligation to report its audit findings. In general, SAIs should be able to report the results of their audit work at least once a year. The Mexico Declaration on Independence emphasizes that SAIs should be free to decide on the content of their audit reports, and to publish and disseminate their reports once they have been formally tabled or submitted to the appropriate authority. The Supreme Audit Institution shall be empowered and required by the Constitution to report its findings annually and independently to Parliament.

Pohnpei Constitution Article 11, Section 8(3) requires the Auditor to report annually his findings and recommendations to the Governor and the Legislature. The SAI has the right to publish its annual audit reports as stipulated in the Pohnpei Code, Title 5 Section 1-110 which requires that all reports, including the annual reports, submitted to the Governor and the Legislature shall be available for public inspection.

In addition to the annual reports of findings and recommendations, Pohnpei State

Constitution authorizes the Public Auditor to provide additional reports and information, particularly important and significant findings, as he deemed appropriate and as required by law. The Constitution gives the Public Auditor the authority to decide the content of his reports and the timing of his reports.

The SAI is free to decide on the timing of its reports, except where specific requirements are prescribed in law. Pohnpei State Code, Title 5 Section 1-104 empowers the Public Auditor to conduct audits, once at least every two years, after the close of a fiscal year, and at such other times during the fiscal year as the Public Auditor deems necessary, or as required by the Legislature or Governor, in accordance with generally accepted auditing standards.

During the past 3 years, there has been no interference with POPA's efforts to publish and disseminate its audit reports.

DOMAIN B: INTERNAL GOVERNANCE AND ETHICS

ISSAI 12 prescribes the value and benefits of a SAI which requires the SAI to lead by example and be a model organization. An SAI needs to have robust governance structures to ensure the SAI is transparent and accountable and fulfil its mandate in an ethical manner. Furthermore, ISSAI 20 principle 4 states that SAIs must apply high standards of integrity and ethics for staff of all levels.

An SAI ensures good governance by being 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. This is an important responsibility which SAI management should consider carefully ensuring that governance arrangements and internal control systems are in place and are implemented consistently throughout the organization.

An SAI also needs to clearly communicate what is expected from staff and facilitate an environment with functioning internal control systems and ethical behaviour among staff. SAI management should promote these standards by demonstrating appropriate tone-at-the top and taking initiatives to strengthen high-quality work and ensure a practice of high integrity throughout the SAI's operations.

This domain measures the SAI's overall performance in the area of internal governance and ethics.

Performance indicators

The following indicators are included in this domain:

- SAI 3: Strategic Planning Cycle
- SAI 4: Organizational Control Environment
- SAI 5: Outsourced audits
- SAI 6: Leadership and Internal Communication
- SAI 7: Overall Audit Planning and Follow-Up

SAI 3: Strategic Planning Cycle

Planning is an essential and vital process in any organization and therefore it is important that the SAIs have appropriate resources to facilitate the planning process. Comprehensive and thorough planning will exert positive impact on the SAIs performance. Such plans can

contribute to improving public financial management and making a difference in the lives of citizens if properly executed.

The following table summarized the results for each dimension and the overall indicator.

| SAI-3 Strategic Planning Cycle | Criteria Met | Criteria not Met | Score |
|--|---------------------|-------------------------|--------------|
| <i>Dimension (i) – Content of the Strategic Plan</i> | a, b, c, d, | e, f, g | 2 |
| POPA has in place a Strategy Management and Operational Plan (SMOP) 2013-2017 that describes its strategic goals and how it will contribute to the overall vision of the Pohnpei State and strengthening good governance at the national level. The SMOP also identifies audits to be conducted. | | | |
| <i>Dimension (ii) – Content of the Annual Plan/Operational Plan</i> | a | b, c, d, e, f, g | 1 |
| The Annual Plan is not linked to the strategic plan. Although resources are allocated for all activities, a budget for implementing the plan is not included. | | | |
| <i>Dimension (iii) – Organizational Planning process</i> | a, d, e | b, c, f, g, h, i | 1 |
| The responsibilities, actions and a timetable for developing the organizational plans are not clearly defined. | | | |
| <i>Dimension (iv) – Monitoring and Performance Reporting</i> | a, f | b, c, d, e, g | 1 |
| Quarterly reports are the products of the monitoring process taking place with the audits conducted. However, it does not seek feedback from its stakeholders on how it is performing. | | | |
| SAI-3 overall score | | | 1 |

Dimension (i) Content of the Strategic Plan

The Strategic Management Operation Plan (SMOP) FY 2013-2017, outlines the overall strategy and direction the SAI will undertake in order to achieve its vision of Pohnpei becoming the model for good governance in the Federated States of Micronesia (FSM). It also identifies in general the important elements of the OPA auditing functions and sets key strategic goals and objectives over a five-year period in order to fulfill its audit mandates and achieve its vision. The plan incorporates a logical framework that has a hierarchy of purpose (e.g. mission-vision-goals-objectives) and addresses the overall vision for the FSM Nation's development aspirations during the Amended Compact years and beyond. The FSM Strategic Development Plan (SDP) identified four (4) major nationwide development goals and these include:

- Goal 1: Responsible to Support Financial Stability and Economic Growth; Produce High Quality and Timely Audits
- Goal 2: Adoption of Best Practices in the Transparency of Fiscal Management;
- Goal 3: Enhance Accountability and Transparency; and
- Goal4: Improved Public Sector Management and Resource Allocation.

The POPA's SMOP FY 2013-2017 has a Strategic Goal Matrix that identifies the objectives for each goal, the activities to be implemented and the expected outputs that will address the goals identified. The responsible personnel for implementing each activity and monitoring the status of these milestones from time to time are also identified in the matrix. However,

the Strategic Plan should incorporate stakeholders' expectations and emerging risks as appropriate, in order for the SAI to remain relevant and respond and deliver value and benefits for stakeholders and citizens in general.

Dimension (ii) Content of the Annual Plan / Operational Plan

The annual plan for the year under review (2015-2016) was not properly compiled and incomplete because the SAI was involved in preparations for hosting back to back regional meetings - the APIPA Conference and the PASAI Congress in 2016, and other international commitments. Therefore the most current annual plan, which was for the year 2017 was used as the basis for this assessment and assessing the risks connected to achieving the objectives of the plan together with identifying measurable indicators at the outcome and output level.

The plan generally covers the main audits and program areas to target for examination and investigations. It clearly defines the annual activities, the responsible staff allocations and the timelines needed to complete these activities.

Although human resources are allocated for each activity in the annual plan, the cost of delivering these activities are not identified and linked to the budget. The annual plan does not reflect activities relating to the SAI's support services such as professional development and training of staff, IT and infrastructure to support its core functions. There is no clear link to the strategic plan and no evidence of an assessment of risks connected to achieving the objectives of the plan. Measurable indicators and baselines of current performance and milestones for major indicators are not described in the annual plan.

Dimension (iii) Organizational Planning Process

The strategic plan for 2013-2017 was approved by the Head of SAI signifying ownership taken for the SAI's organizational planning process. The strategic plan is communicated effectively to all staff and available to the public on the website so that they can understand the Office's strategic goals and plans for the next couple of years.

However, there is no evidence that all staff of the SAI were given the opportunity to provide input into the development of these organizational plans. Furthermore, what is lacking in the process is the opportunity to consult appropriate external stakeholders for their input in developing the SAI's organizational plans.

The review also could not confirm any documentation of a regular process for monitoring the SAI's progress towards achieving its annual/operational plan and strategic plan. The SAI however prepares quarterly reports that are provided to the Legislature on activities conducted and completed. These quarterly reports described audits and investigation assignments completed as planned for the year.

The responsibilities, actions and a timetable for developing the organizational plans are not clearly defined. The organizational planning process for the SAI has not been evaluated to provide input to the next planning process.

Dimension (iv) Monitoring and Performance Reporting

The OPA prepares quarterly performance reports and annual reports and submits them to the legislature. These quarterly reports provide an update on the SAI's progress on activities

conducted and completed. These quarterly reports are used by the OPA to monitor and measure achievement of activities set out in both the strategic and annual plans.

However, there is no documentation to confirm that OPA uses its reports to assess the value and impact of audit work for Parliament, citizens and other stakeholders. A follow up on outcomes and impact through external feedback from clients and stakeholders is not conducted. Additionally, the SAI has not conducted an overall assessment of the impact or implications of audit findings on government programs or resources and how it may affect Government, citizens and other stakeholders.

This is the first peer review of POPA’s performance using the SAI PMF framework, and the Head of SAI will decide on the publication of results of the review. However, as a member of the APIPA, POPA is subject to a tri-annual peer review in accordance with APIPA regulations. The last APIPA peer review for the Office of the Public Auditor for the Pohnpei State was conducted for the period October 1, 2014 through September 30, 2017. The Peer review report was dated April 17, 2018 and the report of this review was published on POPA’s website.

SAI 4: Organizational Control Environment

A SAI should have an internal control system in place to provide reasonable assurance that the SAI manages its operations economically, efficiently, effectively and in accordance with laws and regulations. Furthermore, a SAI should have a quality control system that ensures quality in all its work. This indicator covers the internal control environment, the system of internal control, quality control and quality assurance functions in the SAI.

The assessment of SAI 4 is mainly based on the office Policies and Procedures Manual, the Pohnpei Ethics Act, the Generally Accepted Government Auditing Standards, two financial audits from FY2015, and interviews with key personnel.

| SAI-4 Organizational Control Environment | Criteria Met | Criteria not Met | Assessor Score |
|--|------------------------|-------------------------|-----------------------|
| <i>Dimension (i)– Internal Control Environment- Ethics, Integrity, and Organizational structure</i> | a, b, d, e, f, h, i, j | c, g, k, l | 0 |
| Pohnpei SAI adheres to the ethical principles set forth in the Pohnpei Ethics Act and the Generally Accepted Government Auditing Standards (GAGAS) in the performance of their duties. However, there is no system to identify and mitigate ethical risks, address breaches in ethical values, including protection of those reporting suspected wrongdoing, nor is there evidence that the principles are reviewed regularly to ensure alignment with principles of ISSAI 30. | | | |
| <i>Dimension (ii) – System of Internal Control</i> | a, b | c, d, e f, g, h, i, j | 1 |
| Pohnpei SAI has a clearly defined system in place that addresses internal controls and identifying, mitigating, and monitoring major operational risks. However, there is no evidence of an annual process which assures that the heads of the various units of the SAI carry out their risk management responsibilities. There is also no evidence that internal control reviews conducted by the SAI are published, whether through the annual report or otherwise. | | | |

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|--|------------|------------------------|----------|
| <i>Dimension (iii) – Quality Control System</i> | a, b, c, e | d | 3 |
| SAIs quality control system for all its audit work is in place as evidenced in their Audit Policies and Procedures Manual, including delegation of authority, and considerations of risks to quality, all of which is in line with ISSAI 40. However, there was no indication that Pohnpei SAI has an established system to consider risks to quality. | | | |
| <i>Dimension (iv) – Quality Assurance System</i> | h | a, b, c, d, e, f, g | 0 |
| Although the OPA’s Policies and Procedures Manual describes the quality assurance process, there was no evidence of consistent QA review for audits issued. However, the OPA undergoes regular peer reviews of its operations and audit work as evidenced by the Reports issued by APIPA independent reviewers. | | | |
| SAI-4 overall score | | | 1 |

Dimension (i) Internal Control Environment – Ethics, Integrity and Organizational Structure

POPA, as one of the government departments, does not have its own Code of Ethics but is subject to the ethical principles set forth in the Pohnpei Ethics Act and the Generally Accepted Government Auditing Standards (GAGAS). It is POPA’s policy that all staff shall adhere to the appropriate and applicable standards such as the Generally Accepted Government Auditing Standards (GAGAS) or Yellow Book issued by the Comptroller of the United States, in conducting audits, engagements and attestations. GAGAS provides the principles that guide the work of auditors, including public interest, integrity, objectivity, proper use of government resources, and professional behavior. POPA’s policy as specified in its Office Policy and Procedures Manual requires all staff to adhere to the publicly available Pohnpei Ethics Act (SL 5L-11-00) which obligates members to exercise honesty, objectivity, and diligence in the performance of their duties.

Although there is no evidence that the code of ethics is reviewed every ten years to ensure it is aligned with principles of ISSAI 30, the audit projects include a signed statement of independence in alignment with the Yellow Book standards that recognize the three classes of impairment to independence: personal, external, and organizational.

The POPA’s organizational chart included in its Policies and Procedures Manual lays out the positions and the reporting lines for each staff. The manual also provides the job descriptions which clearly defines each position’s areas of responsibility throughout the organization.

The Policies and Procedures Manual has a section on contracting out for professional services which generally requires that "The OPA shall ensure that contractors strictly comply with the Request for Proposals and the stipulations of the contract." However, under Audit Activities section of the manual, it states that audits performed, and the reports generated by external firms for the State are subject to the same standards as audits performed by the OPA, which is GAGAS.

There is no system to identify and mitigate ethical risks, nor is there a system to address breaches in ethical values, including protection of those reporting suspected wrongdoing. The SAI has not assessed its vulnerability and resilience to integrity violations and it does not have an integrity policy.

Dimension (ii) System of Internal Control

To promote effective internal control within the SAI, POPA included in its Policies and Procedures Manual a system for identifying, mitigating and monitoring major operational risks (Part 1 Administration and Management, Chapter 4.6: Internal Control Systems, and Chapter 5: Quality Assurance). Their internal control policies and procedures are clearly documented. However, there is no evidence of an annual process which assures that the heads of the various units of the SAI carry out their risk management responsibilities. There is also no evidence that internal control reviews conducted by the SAI are published, whether through the annual report or otherwise. However, a peer review conducted by the Association of Pacific Islands Public Auditors every three years looks at internal controls for conducting financial and performance audits, and the results are published.

The Policies and Procedures manual described two types of internal quality assurance reviews: the first one is a routine review which contains legal interpretations is performed by the SAI Head, along with the audit manager and legal counsel; the second one is a special review of selected completed audits performed by a staff assigned by the SAI Head. The reviewer reports directly to the SAI Head, citing any deficiencies and their causes, and make recommendations. The responsibility of ensuring that those recommendations are addressed rests with the head of the SAI. Although the manual outlines what the internal audit report should contain, it does not elaborate on a process for monitoring the implementation of the recommendations made by the internal reviewers. There was also no indication of any requirement for a selected internal auditor to be independent.

The manual provides a checklist for internal quality control, and although it can be surmised that the staff tasked with performing the routine review have the appropriate skill set and experience to the job, it does not provide the same assurance for the staff tasked to conduct the special review process.

Policies and procedures are in place for reporting suspected violations uncovered during an audit. However, it does not provide a process for whistle blowing within the organization. To avoid and mitigate conflicts of interest, the staff is required to sign a statement of independence, however there is no system in place for job rotation to manage possible conflicts of interest.

Dimension (iii) Quality Control System

The system of quality control is outlined in the Office Policies and Procedures Manual under Chapter 4.6 Internal Control Systems of the Administration and Management section. The components of the quality control for Pohnpei SAI consists of four parts: adherence to policies and procedures which is the responsibility of all staff members; supervision of the audit staff; independent internal review of report; external quality control reviews. The Head of the SAI retains the overall responsibility of the quality control system, but in the case of his absence, he may delegate authority in line with the office policy, which befalls to the Audit Manager, who has the sufficient and appropriate experience to manage the SAI's system of quality control.

There was no indication that Pohnpei SAI has an established system to consider risks to quality, however, the processes already in place may serve as a guidance. The manual requires the audit planning process to consider the audit universe, identifying the most critical, significant and vulnerable areas, along with legislatively required audits, taking into consideration the office's resources, including the number of audit staff, audit days, and resources needed to conduct quality audits. Examination of the office's business/annual plan

for FY2017 confirmed the implementation of this planning process.

Dimension (iv) Quality Assurance System

The OPA’s written policy for quality assurance, according to the its Policies and Procedures Manual, states that the OPA must adhere to the Government Auditing Standards issued by the Comptroller General of the United States (the Yellow Book) for its financial and performance audits. Furthermore, it states that periodic quality assurance reviews are to be conducted to ensure OPA's operations are in compliance with these standards.

The manual describes two types of quality assurance reviews conducted of OPA’s audits: routine and special. The routine reviews are conducted on audits that are considered sensitive and confidential, and having legal interpretations. These reviews are carried out by the legal counsel of the OPA or the Pohnpei State Attorney General alongside an independent reviewer assigned by the Public Auditor.

Special reviews are conducted by a selected and scheduled OPA staff member to perform an independent review of the completed audit report. The independent reviewer utilizes the OPA’s “Checklist for Review of Internal Control System” which provides the Public Auditor with the assurance that the internal control standards are being applied. The reviewer must prepare a written report to the Public Auditor, drawing attention to any deficiencies and identify their causes, and making recommendations for corrective action.

The manual further describes the process for handling conclusions and any recommendations, which are to be discussed with the Audit Manager and the Public Auditor. The Public Auditor signs the final report after all the necessary changes have been made.

The SAI’s overall system of quality control is subject to the tri-annual APIPA peer review with the recent review conducted in 2014 by independent reviewers of the APIPA members. These peer reviews are conducted every three years. Peer review results have been satisfactory for the past 18 years, which include the organization’s internal quality control system and policies.

Although the manual describes the steps for quality assurance, we did not find any evidence that quality assurance was carried out according to the frequency specified in the manual, based on our review of the work papers for the audit reports.

SAI 5: Outsourced Audits

SAIs quite often faced the challenge of having limited resources to complete their audits in a timely manner. Therefore, outsourcing some audit work is an option for SAIs to fulfil their mandate. The SAI’s enabling legislation provide the authority to appoint appropriately qualified individual or firm external to the SAI to conduct audit work on its behalf. However, the SAI has not exercised this authority.

This indicator assesses the SAI’s procedures and practices in place to ensure the quality of audit work outsourced.

| SAI-5 Outsourced Audits | Criteria Met | Criteria not Met | Assessor Score |
|--|---------------------|-------------------------|-----------------------|
| <i>Dimension (i) - Process for Selection of Contracted Auditor</i> | a, c, d | b, e, f, g | 2 |
| The SAI Pohnpei has the power in the mandate to outsource, the manual provides guidelines to the process. However the SAI has not outsourced any | | | |

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| audits. This function is inherently exercised by the National Audit Office FSM due to requirements of the Compact Funding Agreements. | | | |
| <i>Dimension (ii) - Quality Control of Outsourced Audits</i> | | | NA |
| The SAI has not outsourced any audits during the period under review. Therefore this dimension is not applicable. | | | |
| <i>Dimension (iii) – Quality Assurance of Outsourced Audits</i> | | | NA |
| SAI Pohnpei does not play a role in the quality assurance process for outsourced audits. Therefore this dimension is not applicable. | | | |
| SAI-5 overall score | | | NA |

Dimension (i) Process for Selection of Contracted Auditor

The SAI has an Audit Policy and Procedures Manual that outlines requirements for Outsourced Audits. It outlines that parties contracted to carry out work for the SAI have an appropriate understanding of the public sector environment in which the SAI operates, and a good understanding of the work they are required to carry out. It also requires that contracted auditors be made aware of the internal control system policies that are used within the office.

However, the SAI has not outsourced any audits for over 10 years now. This function of outsourcing inherently rests with the FSM National Office of the Public Auditor because of the binding Compact Funding Agreement between the FSM and the USA. The agreement is an external factor that cannot be controlled by the SAI but impacts the mandated functions of the SAI in conducting and certification of audits.

Dimension (ii) Quality Control of Outsourced Audits

The Audit Policies and Procedures Manual prescribes the quality control procedures for outsourced audits and ensures that the contracted firm implements quality control procedures during the audit aimed at ensuring the quality of the audit and compliance with applicable standards. Given the current situation where audits are outsourced by the FSM National OPA as required under the compact agreement, quality control of outsourced audits is not carried out by POPA.

Dimension (iii) Quality Assurance of Outsourced Audits

The responsibility for outsourcing audits rests with the FSM National Office of the Public Auditor and so is the responsibility for quality assurance of these audits. Therefore POPA does not outsource any audits nor has the responsibility to conduct quality assurance review of such audits.

SAI 6: Leadership and Internal Communication

Effective leadership in the SAI is crucial to ensuring that the appropriate tone is “set at the top” to promote integrity and establish an organizational culture that promotes effectiveness, transparency and accountability. In order for the SAI to effectively fulfill its mandate, strong leadership and good communication with staff is essential.

This indicator measures two aspects of leadership within the organisation. Dimension (i) assesses how effective SAI leadership is, in implementing the values of the organisation through conduct and initiatives. Dimension (ii) assesses whether internal communication is

at an appropriate level for the organisation, allowing information and concern to flow freely between management and staff, and thus enabling staff to do their job.

The overall score for this indicator is 2. The SAI has some very good practices but the lack of documentary evidence to confirm that such practices are consistently carried out is to be considered very important for the future.

| SAI-6 Leadership & Internal Communication | Criteria Met | Criteria not Met | Assessor Score |
|--|---------------------|-------------------------|-----------------------|
| <i>Dimension (i) – Leadership</i> | a, b, c, e | d, f, g, h | 2 |
| SAI Leadership implements effective procedures that contribute to the achievements of the required roles and responsibilities of a Head of SAI. | | | |
| <i>Dimension (ii) – Internal Communication</i> | b, c, d, e, f | a | 3 |
| The SAI has strong internal communication practices that ensure all staff are well informed and consulted. Some examples of communication practices are staff meetings, electronic communication and social media. | | | |
| SAI-6 overall score | | | 2 |

Dimension (i) Leadership

Leadership plays a significant role within the organization. As such, the SAI should have in place certain mechanisms and practices to ensure that the SAI has an effective and strong working environment and leadership.

SAI Pohnpei’s leadership team comprised of the Public Auditor and the Audit Manager. Although the leadership team does not meet frequently, they do hold meetings periodically. Not all these meetings are documented. The decision on whether to document a meeting or not depends on the Public Auditor. If and when he feels that it is necessary for documentation, it is recorded in the form of staff meeting minutes. For other information that needs to be circulated or for staff awareness, reminders, and follow ups, internal communication in the form of memorandums are issued by the Public Auditor himself.

SAI Pohnpei’s leadership identifies and shares its values in their strategic plan and annual report. Other activities where SAI leadership is promoting their value is a Fraud Awareness Program, where the SAI makes a presentation to the public and at other times to particular groups of people, explaining the role of the SAI and its values, addressing the functions that the Office has towards minimizing fraud.

Delegation of authority is administered in the absence of the Public Auditor, in accordance to SAI’s Audit policies and Procedures Manual on Delegation and Line of Designation, where it states that, “During the periods when the State Public Auditor may be away from the Office, he/ she may delegate to any staff member of the OPA the duties, responsibilities, and authority necessary to the conduct of the operations of the office. The following line of designations when delegated, are authorized to assume these duties and responsibilities: Audit Manager, Senior Auditor, Administrative Officer.” In relations to this is the PN#15-01 Code of Ethics and Professionalism Policy section 2 which includes a set of appropriate actions to respond to any unethical and unprofessional action of any personnel.

For motivational purposes and better performance, the SAI leadership has in place its strategies (within its available powers), that works towards accomplishing its goals. In order

to incentivize better performance from staff, SAI leadership sends and encourages staff to participate in trainings both locally and internationally, for individual professional development to improve their performance and contribute to achieving the SAI's strategic goals. Staff promotions are also practiced within the SAI when the leadership sees appropriate and necessary, where it also serves as a motivation to staff to keep up with the excellent work performance, demonstrating strong culture of internal control, ethics, and quality.

Dimension (ii) Internal Communication

Internal communication is an essential means in keeping staff of a SAI together, well informed, motivated and in line with their objectives. Communication within a SAI keeps staff informed of what is going on in the SAI, their role in achieving the SAI's goals and establishes a sense of belonging and encourages staff engagement.

The SAI's audit manual established its principles for internal communication. However, there is insufficient documentation to confirm that these principles are being implemented and monitored. With a staff of 10, SAI leadership communicates effectively with the staff during staff meetings.

Staff meetings are not held frequently, but whenever there is an issue, or an event arises where deliberations between management and staff is needed, the Public Auditor calls a meeting to discuss and share ideas as well as responsibilities. These meetings inform all staff of every decision made or needs to be made, even though minutes of all meetings are not properly documented.

Furthermore, memorandums are circulated when information needs to be circulated. But the most common and convenient form of internal communication within the SAI is the electronic communication system. All staff within the SAI has a work email address where they share and circulate information pertaining office matters, decisions, announcements, and other work-related issues.

SAI 7: Overall Audit Planning and Follow-Up

The overall audit planning process defines the audits that the SAI plans to conduct in a set period. It could be either an annual plan or a multiple year rolling plan. The overall audit plan should demonstrate how the SAI plans to fulfil its mandate and achieve its strategic objectives efficiently and effectively. Therefore it is important that the overall audit planning process is feasible, reflecting actual circumstances and conditions that may affect the implementation of the SAI's planned activities.

The assessment of this indicator includes a review of the annual audit plan process, the content of the annual plan as well as existence of effective follow up mechanisms to ensure effective implementation of planned activities.

| SAI-7 Overall Audit Planning and Follow-up | Criteria Met | Criteria not Met | Assessor Score |
|--|---------------------|-------------------------|-----------------------|
| <i>Dimension (i) – Overall Audit Planning Process</i> | b, e, f | a, c, d, g | 1 |
| Overall Audit planning the SAI is addressed within the Strategic Management & Operational Plan 2013-2017 | | | |

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| <i>Dimension (ii) – Overall Audit Plan Content</i> | a, b, d | c, e | 2 |
| Overall Audit plan content needs to address the stakeholders’ expectations on the audit work conducted by the office. | | | |
| <i>Dimension (iii) – Existence of Effective Follow-up Mechanisms</i> | b, c, e, f | a, d | 2 |
| There is a mechanism to follow up with the auditee to officially confirm their compliance to issues raised by the audits. However, an evaluation on materiality to determine when a follow-up requires additional investigations or audits is not conducted. | | | |
| SAI-7 overall score | | | 2 |

Dimension (i) Overall Audit Planning Process

The SMOP is the guideline that leads the way for the respective annual plans as well.

The process for developing the SAI’s overall audit plan is not documented. However, when developing the SAI’s Annual/Business plans for the years 2016 and 2017, each team leader was required to identify a priority list of audits to be conducted according to their divisional plans, the SAI’s responsibilities from its mandate and the level of resources available to the office.

Because the overall planning process was not documented, there was no evidence that the process being practiced follows a risk-based approach, where a risk assessment is conducted as part of the basis for selecting audit entities to be audited during the year and the audit approach. Furthermore, the responsibilities for planning, implementing and monitoring the audit plan for the SAI are not clearly defined.

The SAI monitors the implementation of its audit plan through staff meetings.

Dimension (ii) Overall Audit Plan Content

The SAI’s audit plan is included in the SMOP 2013-2017 which identifies the SAI’s strategic goals as well as the audits to be conducted annually, throughout the strategic period. The financial and human resources required to implement each audit are also allocated and described in the annual plan.

Strategic Goal Matrix identifies the allocated personnel responsible for the achievement of the goals which should also be responsible for the planning and implementation and monitoring.

The SAI’s audit plan does not demonstrate that it is discharging its audit mandate. For instance, the SAI is required to audit, but the overall audit plan does not include such activities. There is also a need to conduct a risk assessment to identify any risks and constraints to the delivery of the overall audit plan.

Dimension (iii) Existence of Effective Follow-up Mechanisms

The OPA submits to the Governor quarterly reports on the activities completed. These quarterly reports described the audits that were initiated and completed by the office in accordance with its SMOP. It is a practice of the POPA as a follow up mechanism, to request the auditee to officially confirm whether matters raised in previous audits have been

adequately addressed. The follow up requests are independently conducted without any interference from executive. The follow up reports are included as part of the POPA's quarterly and annual reports submitted to Legislature.

Despite current follow up practices, these practices need to be documented and structured in a manner that facilitates systematic and regular activities to ensure audited entities properly address the audit recommendations. Furthermore, POPA needs to establish a practice for evaluating materiality in order to determine when a follow-up requires new additional investigations or audits.

DOMAIN C: AUDIT QUALITY AND REPORTING

This domain assesses the SAI's coverage of its mandate, in particular its core function of conducting audits and how the SAI carries out these functions. The assessment includes the following performance indicators:

- SAI-8: Audit Coverage
- SAI-9: Financial Audit Standards and Quality Management
- SAI-10: Financial Audit Process
- SAI-11: Financial Audit Results
- SAI-12: Performance Audit Standards and Quality Management
- SAI-13: Performance Audit Process
- SAI-14: Performance Audit Results

SAI-8: Audit Coverage

The indicator measures audit coverage in financial and performance audits. It provides information on the extent to which the SAI is able to audit the entities as required by its mandate.

| SAI-8 Audit Coverage | Criteria Met | Criteria not Met | Assessor Score |
|--|--------------|------------------|----------------|
| <i>Dimension (i) – Financial Audit Coverage</i> | | | 4 |
| Score = 4: In the year under review, 100% of financial statements received were audited; and the SAI reported publicly on any non-submission of financial statements due. | | | |
| <i>Dimension (ii) – Performance Audit Coverage</i> | e, f, g, h | a, b, c, d | 2 |
| The SAI's mandate does not explicitly require it to conduct performance audits nor make any reference to the aspects of economy, efficiency, and effectiveness. However, performance audits have always been conducted by the office over the years. | | | |
| <i>Dimension (iii) – Compliance Audit Coverage</i> | | | NA |
| POPA does not conduct separate compliance audits, instead, compliance audits are conducted as part of financial and performance audits, verifying and checking compliance of all departments with laws and regulations. | | | |

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| SAI-8 overall score | | 3 |
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Dimension (i) Financial Audit Coverage

The SAI is mandated to conduct post audits of all transactions and of all books and accounts kept by or for all departments, offices, and agencies of the State and its political subdivisions and all projects, programs, activities or organizations within the State receiving public funds. The post-audits and all examinations to discover evidence of any unauthorized, illegal, irregular, improper, or unsafe handling or expenditure of State funds, or other improper practice of financial administration shall be conducted at least once in every two years after the close of a fiscal year, and at such other time or times during the fiscal year as the Public Auditor shall deem necessary or as may be required by the Legislature or Governor for the purpose of certifying to the accuracy of all financial statements issued by the respective accounting officers and of determining the validity of expenditures of State or public funds.

The main source of funding for all the FSM states including Pohnpei is from the Compact Funding Agreement between the FSM and USA and this Agreement requires that the audit of funding under the agreement is handled by the FSM Office of the National Public Auditor (FSM ONPA). The FSM ONPA is responsible for outsourcing and administering the state’s financial statements audit as required under the Compact Agreement.

For the purpose of this assessment, audit coverage of financial audit is determined based on the number of financial statements received by POPA which are required to be audited under its mandate that were audited. The SAI received five financial statements to be audited during the period under review but have completed only two financial audits. The audits of the other three financial statements were included in the Single Audit conducted by an external auditor outsourced by the FSM ONPA.

Dimension (ii) Performance Audit Coverage

The audit coverage of performance audit focuses on whether the SAI’s processes for selecting audit topics enable it to focus on whether interventions, programs and institutions are performing in accordance with the principles of economy, efficiency and effectiveness.

The SAI’s mandate does not specifically require it to conduct performance audits nor make reference to the aspects of economy, efficiency and effectiveness. However, performance audits have always been conducted by the office over the years. The SMOP outlines that the office examining the performance of all departments, agencies and related projects and programs of Pohnpei Government and provide assurance as to whether implementing agencies are completing their responsibilities in accordance with Government policies and development strategies.

Performance audit topic selection is determined by the Public Auditor. The performance audits to be conducted are described in and allocated across the duration of the strategic plan. The audits are initiated and planned accordingly to the number of resources available, staff capacities and appropriate experiences with the aim to maximize the impact of the audits. The audits are also determined based on the importance and the risk associated with the program as it relates to the overall performance of the Pohnpei State Government.

Despite the SAI’s selection process of audit topics, there is no evidence that the SAI has set priorities for performance audits based on the notion that economy, efficiency and

effectiveness are important objectives as are legality and regularity of financial management and accounting. The audit topics are not selected through the SAI's strategic and operational planning process where potential topics were analyzed and researches were carried out to identify the risks and problems that will be the focus of any audit to be conducted.

The SMOP requires that the SAI conducts 3 financial, 4 performance and 2 investigation or attestation engagements annually for the next 5 years. The SMOP does not mention any stakeholder expectations to be considered or factored in, rather it highlights the importance of strengthening public relations and public awareness of the SAI and its functions. For the past five years, the OPA had conducted performance audits on topics relating to the six sectors listed below, two of which are (i) Performance Audit on Cash Receipts and Cash Disbursements System for Kolonial Town Government, and (ii) Performance Audit on the Information Technology (IT) Infrastructure for Small Business Guarantee and finance Corporation, conducted in FY 2015.

1. Environment
2. Revenue Collection
3. Health
4. Public Finance and Public Administration
5. Significant Public Sector Reforms: Procurement Procedures
6. National Economic Development

Dimension (iii) Compliance Audit Coverage

The POPA does not conduct separate compliance audits, but rather verifies and checks compliance of all state departments with laws and regulations when conducting financial and performance audits. Therefore this dimension is not applicable.

SAI-9: Financial Audits Standards and Quality Management

This indicator is specific to the fundamental principles of financial auditing. It assesses the SAI's overall standards and guidance, audit team management and skills and quality control for financial auditing at the audit engagement level. The table below summarizes the results for this domain.

| SAI-9 Financial Audit Standards and Quality Management | Criteria Met | Criteria Not Met | Assessor Score |
|--|---|-------------------------|-----------------------|
| <i>Dimension (i) – Financial Audit Standards and Policies</i> | a, b, c, d, e, f, g, h, i, j, k, l, m, n, o, p, q, u, v | s, t—not met r—NA | 3 |
| The SAI's Policies and Procedures Manual provides guidelines on conducting financial audits. The manual is not specific in addressing materiality, 2 criterions relating to materiality, procedures addressing material misstatements, and assembly of final audit file. | | | |
| <i>Dimension (ii) – Financial Audit Team Management and Skills</i> | a, b, d, e, f, g, h, i, j, k, l | c | 3 |

| | | | |
|--|------------|---|----------|
| POPA has in place an audit manual which provides guidelines on the required skills and competencies necessary to conduct and manage financial audits. | | | |
| <i>Dimension (iii) – Quality Control in Financial Audit</i> | a, b, d, e | c | 3 |
| The SAI has a financial audit manual in place which prescribes quality control procedures in financial. However, the manual does not provide guidance on how, if any, to address differences of opinions within the SAI. | | | |
| SAI-9 overall score | | | 3 |

Dimension (i) Financial Audit Standards and Policies:

This dimension examines whether the SAI’s adopted audit standards are in line with the fundamental principles of financial auditing as reflected in ISSAI 200. It assesses whether the SAI has put in place policies and procedures to guide and assist staff when conducting financial audits. Such policies and procedures may be found in different documents, such as audit manuals and should be clearly documented.

Pohnpei SAI follows the Generally Accepted Government Auditing Standards (GAGAS), also known as the Yellow Book issued by the Comptroller General of the Government Accountability Office (GAO) of the United States of America (USA) when conducting financial audits. The Yellow Book in its major parts is very similar to International Standards for Supreme Audit Institution (ISSAI). Pohnpei SAI developed and adopted its Policies and Procedures Manual on June 3, 2005 which is based on GAGAS. The authority and responsibility of Pohnpei SAI and the State Public Auditor is described in the manual as well as the policies and procedures for planning, performing, reporting and investigating on financial audits.

The Policies and Procedures Manual is very thorough, providing guidelines on General Standards, Rules of Evidence, Interviewing Techniques, Working Paper Preparation and Use, Performance Audit Field Work Standards, Performance Audit Reporting Standards, Financial Audit Field Work Standards, Financial Audit Reporting Standards, and Contracting Out for Professional Services.

POPA’s manual provides guidelines on the terms of the audit engagement ensuring that management of the audited entity is aware of their responsibilities to ensure the financial statements are ready for audit and that the audit can be performed. This understanding is documented through endorsement of an engagement letter which states the terms of the audit engagement between the auditor and auditee stating the specifics of the responsibilities and expectations of the auditor as well as the nature, timing and scope of the audit.

Section 7.6 : Planning the Audit of the manual describes the guidelines to ensure all financial audit engagements undertaken by the POPA has an acceptably low audit risk to ensure reasonable assurance when expressing a positive audit opinion. POPA also assesses inherent risks, control risks, fraud risks, risks due to direct and material non-compliance with laws and regulations as well as risks of material misstatements both at the financial statement level as well as the assertion levels.

In compliance with the procedures prescribed in its audit manual, the POPA prepares an audit plan for each financial audit to ensure it is conducted in an effective and efficient manner. The audit plan is supported by a checklist to ensure all planned procedures are followed-up

with, a questionnaire to ensure all procedures are completed, and a budget to ensure the proposed time budgeted for the audit is not exceeded. Materiality and documentation of audits are also addressed in the manual and evidenced throughout the audit working files.

Chapter 2: Rules of evidence of the manual ensures that auditors develop procedures that enable them to obtain sufficient and appropriate evidence to support the conclusions drawn and the audit opinion expressed in the audit reports.

The SAI's Policies and Procedures Manual does not specify guidelines on how materiality is considered throughout the audit process except at the planning phase. Furthermore, the manual lacks guidance in relation to the timely preparation of audit documentation, the form, content and extent of audit documentation as well as how the final audit file should be organized.

Dimension (ii) Financial Audit Team Management and Skills

The dimension examines whether the SAI has established a system for ensuring that the members of the audit team collectively possess the professional competence and skills necessary to carry out financial audits in accordance with international auditing standards (ISSAI 200: Fundamental Principles of Financial Auditing). It also assesses what support the SAI provides to its auditors in the audit process.

GAGAS General Standards sections 3.69-3.78, which covers competence, technical knowledge, and continuing professional education, requires that all staff assigned to perform an audit must collectively possess adequate professional competence needed to address the audit objectives and perform the work required. Chapter 7 Part 1 of POPA's Policies and Procedures Manual cover training and development.

The Policies and Procedures Manual requires that auditors responsible for planning, directing, conducting, or reporting on government audits should complete at least 80 hours of Continuing Professional Education (CPE) and training that contribute to their professional proficiency every two fiscal years. At least 20 of the 80 hours should be completed in any one year of the two-year period. At least 24 of the 80 hours should be directly related to a Government environment and/or to Government auditing. Staff of POPA are able to achieve these professional requirements by attending conferences, seminars and trainings provided through APIPA and PASAI as well as other regional and international trainings. POPA maintains records of these trainings by filing its staff's CPE certificates and ensuring that each staff is current on their required CPE hours.

To further ensure that auditors assigned to an audit collectively have the appropriate competencies and capabilities to conduct financial audits, the Audit Manager who is a certified public accountant (CPA), was part of the audit team conducting the financial audits. The audit manager serves as the technical expert on applicable accounting and auditing standards, who reviews the work performed during the audit to ensure the work is of high standards and in compliance with its policies and procedures as prescribed in the manual.

From a review of five staff personnel files from the audit division, most of the audit staff have five or more years of auditing experience, one of which has been with the office for more

than 20 years. Also, according to their personnel files, the audit staff undergo annual performance evaluations to ensure they meet adequate professional competence to perform their responsibilities in conducting financial audits. Additionally, a review of the financial audit files working papers and required forms, which were reviewed by the auditor-in-charge and the Audit Manager, revealed that the allocation of audit teams assigned to perform the audits followed the SAI's Policies and Procedures Manual which is aligned with GAGAS.

Although the SAI's manual is the main form of support that the SAI provides to its auditors, the manual does not cover requirements relating to technical expertise including expertise with relevant information technology and specialized areas of accounting and auditing.

Dimension (iii) Quality Control in Financial Audit

Quality control of the audit is carried out as an integrated part of the audit process to ensure a high quality audit product or audit report.

POPA's quality control process for financial audit is addressed in its Policies and Procedures Manual sections 6.9-6.13 of part 2, derived from GAGAS general standards section 3.82 to 3.87, covering quality control and assurance, system of quality control, and leadership responsibilities for quality within the audit organization.

Based on the manual and review of the financial audit working papers and required forms and templates used, POPA has in place a working system of quality control review and monitoring of audit the process for its financial audits. The audit working papers and other supporting documents in the audit files were reviewed, signed, and dated by the auditors in charge of the audit. At each phase of the audit, from planning to field work to report writing, the auditor in charge would review and approve the audit procedures before the procedures are implemented. The Audit Manager monitors the progress of the audit and revises audit procedures when needed as well as address any contentious matters.

Additionally, periodic meetings of the audit team throughout the audit process helps in monitoring the progress of the audit and addressing any contentious issues and concerns arising from the audit.

POPA has in place procedures for authorizing reports to be issued as detailed in section 6.9 of its Policies and Procedures Manual and evidence in the working papers. The auditor in charge prepares the referenced draft financial report and submits to the Audit Manager for supervisory review. The Audit Manager reviews the draft report based on POPA reporting standards, reasonableness and appropriateness of the audit conclusions taken and the recommendations made on the basis of the report content, clarity of the report presentation and consistency with report requirements and format and noting deviations from established OPA policy and procedures. Review notes are submitted back to the Auditor in Charge for clearance and follow the same process. The Public Auditor is the final reviewer and has the final authority to release the report.

POPA's audit manual however does not provide guidance on how auditors should deal if any differences of opinion within the SAI and requirements to clearly document what the differences in opinion were and how they were resolved, before the report is issued.

SAI-10: Financial Audit Process

The indicator looks at how financial audits are carried out in practice. It examines the planning phase, the implementation phase and the reporting phase.

| SAI-10 Financial Audit Process | Criteria Met | Criteria not Met | Assessor Score |
|---|------------------------------|-----------------------------|----------------|
| <i>Dimension (i) – Planning Financial Audits</i> | a, c, d, e, f, g, h, i, j, k | b | 2 |
| The audits were planned in accordance with the Policies and Procedures Manual in place. Audit team members have a very thorough understanding of the entities and their operations, enabling them to plan the audits more effectively. | | | |
| <i>Dimension (ii) – Implementing Financial Audits</i> | a, b, c, f, g | d, e—NA | 3 |
| Audit procedures were designed in response to risks identified and assessed. Sufficient appropriate evidence were gathered and documented. All planned audit procedures were performed. | | | |
| <i>Dimension (iii) – Evaluating Audit Evidence, Concluding and Reporting in Financial Audits</i> | c, d, e, f, h, i | a, b, g—Not Met; j, k—NA | 2 |
| Sufficient appropriate evidence were documented supporting the overall audit opinion. However, the working paper should be structured and compiled in a manner to facilitate understanding by an experienced auditor who had no prior knowledge of the audit being conducted. | | | |
| SAI-10 overall score | | | 2 |

Dimension (i) Planning Financial Audits

Like any other assignment, planning is a crucial phase of every audit in ensuring that the audit is performed in an effective and efficient manner. Planning involves developing the overall audit strategy and a detailed audit plan that provide direction and focus of the audit and how the audit should be conducted.

POPA's audit practices relating to planning financial audits were assessed based on a review of two financial audit files: the Pohnpei Transportation Authority, September 30, 2015 and Small Business Guarantee and Finance Corporation, September 30, 2015. Based on our review of the two files, an engagement letter signed by POPA and the audited entity described the agreed terms of the audit engagement and management responsibilities.

An overall audit strategy was developed for both audits, which describes the scope, timing and direction of the audit and the nature timing and extent of resources necessary to carry out the audit.

The audit teams conducted preliminary surveys in order to obtain a good understanding of the entity and its environment. Appropriate audit procedures are performed to evaluate the overall internal control environment of the audited entities. Using the information gathered through the preliminary surveys, the audit manager assessed the risks of material

misstatement at the financial statement level and identified misstatements due to material non-compliance with laws and regulations. Furthermore, the audit manager identified and assessed the risks of material misstatement due to fraud using a “Checklist for determining fraud risk factors”.

The Pohnpei SAI has established a system to ensure that, at the audit engagement level, its auditors comply with ethical requirements relating to integrity, independence and objectivity, competence, professional behavior, confidentiality and transparency. For every financial audit, all members of the audit team are required to read, understand and sign as proof of agreement the following documents:

1. Confidentiality Agreement Form
2. Individual Independence Statement Form
3. Team Independence Statement Form

Based on the review of the two audit files, there was no evidence that the audit teams determine whether the financial reporting framework is acceptable. There was also no evidence that materiality was determined for the financial statements as a whole, the materiality level to be applied to particular classes of transactions, account balances or disclosures. Additionally, there was no evidence of gaining an understanding of internal controls relevant to financial reporting.

Dimension (ii) Implementing Financial Audits

Based on the two financial audit files being reviewed, appropriate audit procedures such as substantive procedures and tests of controls were designed in response to the risks identified and assessed. The nature, timing and extent of audit procedures were based on the assessed risks including inherent and control risks.

Sufficient appropriate evidence regarding the assessed risks of material misstatement due to fraud and compliance with laws and regulations were gathered and documented in the audit files. To ensure compliance with relevant and applicable laws and regulations that would have a direct and material effect on determination of material amount and disclosures in the financial statements, substantive tests were performed on cash payments and receipts, travel and payroll related expenses, loans and capital assets.

All planned audit procedures were performed. The evidence gathered from these procedures enable the audit teams to form conclusions that will provide the basis of the auditor’s opinion. Audit evidence were not gathered from the work of internal audit functions or external experts. Audit evidence were not gathered using various sources and procedures such as external confirmations and analytical procedures.

Dimension (iii) Evaluating Audit Evidence, Concluding and Reporting in Financial Audits

A review of the audit working papers for the two financial audits conducted indicated that

documentation of evidence gathered is sufficient. Though all pertinent working papers are contained in the audit files, they are not in their respective sections as indicated in the working folders index. The working papers should be organized and placed in their respective sections to enable an experienced auditor, with no prior knowledge of the audit to understand the nature, timing and extent of the audit procedures performed.

The findings and conclusions were adequately supported by sufficient and appropriate audit evidence documented in the working papers. All audit findings were submitted to the audited entities for comments. Additionally, significant audit findings were communicated to the appropriate official within the audited entities. All misstatements discovered during the audit were evaluated and corrected. Misstatements were corrected through proposed audit adjustments concurred to by the auditee.

The two audit files reviewed have unmodified opinions which were based on an evaluation of the conclusions drawn from the audit evidence obtained. The form of audit opinion provided is appropriate considering the requirements of ISSAI 200: Fundamental Principles of Financial Auditing.

The format and content of the audit reports include a title indicating what the audit report relates to; an addressee as required by the terms of the engagement; an introductory paragraph identifying whose financial statements have been audited and the period which the financial statements being audited relate to. All appropriate details were included in the audit reports. However some sections do not have clear headings to facilitate readability and understanding. For instance, the auditing standards required that there should be clear section headings for “Management’s responsibility”, “Auditor’s responsibility” and “Opinion”.

SAI-11: Financial Audit Results

This indicator assesses the timely submission and publication of financial audit reports, and the SAI’s efforts to follow-up audit observations and recommendations.

| SAI-11 Financial Audit Results | Criteria Met | Criteria Not Met | Assessor Score |
|---|---------------------|-------------------------|-----------------------|
| <i>Dimension (i) – Timely Submission of Financial Audit Results</i> | | | 4 |
| The SAI is required to conduct five financial audits; two were conducted by the SAI while the other three audits were conducted by external auditors, as part of the Compact Funding Agreement requirements. The SAI was able to submit financial results of those 2 financial audits within the stipulated time. | | | |
| <i>Dimension (ii) – Timely Publication of Financial Audit Results</i> | | | 4 |
| The SAI was able to publish the financial audit reports within 15 days after submission to legislature. | | | |

| | | | |
|---|---------------|---|----------|
| <i>Dimension (iii) – SAI Follow-up on Implementation of Financial Audit Observations and Recommendations</i> | a, b, d, e, f | c | 3 |
| Pohnpei SAI has a follow-up system in place. The system does not include guidelines on evaluating materiality in order to determine if there is a need for additional investigation or new audit. | | | |
| SAI-11 overall score | | | 4 |

(i) Timely Submission of Financial Audit Results

The SAI received five financial statements to be audited; they audited two while the other three financial statements were outsourced to external auditors, as required under the Compact Funding Agreement. The audit reports of both financial statements audited by the SAI were submitted to legislature within six months from receipt of the financial statements by the SAI to be audited.

(ii) Timely Publication of Financial Audit Results

The two audit reports prepared by the SAI were made available to the public through appropriate means within 15 days after submission to the legislature

(iii) SAI Follow-up on Implementation of Financial Audit Observations and Recommendations

Pohnpei SAI has a follow-up system in place to ensure that the audited entities properly addressed their observations and recommendations. The follow up procedures are prescribed in the SAI’s manual. These procedures allow for the audited entity to provide information on corrective measures taken or why corrective actions were not taken.

Follow- up focuses on whether the audited entity has adequately addressed the matters raised in the management letter. The results and findings from follow-ups conducted by the SAI are communicated to relevant authorities.

Although the SAI’s follow up procedures are described in its audit manual, these procedures do not provide guidance or establish a practice for evaluating materiality in order to determine when a follow-up requires additional investigations or a new audit.

SAI-12: Performance Audit Standards and Quality Management

Performance audit focuses on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. This performance indicator looks at the foundations for performance audit practice, including audit standards as well as the SAI’s processes to ensure the quality of performance audits.

| SAI-12 Performance Audit Standards and Quality Management | Criteria met | Criteria not met | Assessor Score |
|--|--|-------------------------|-----------------------|
| <i>Dimension (i) - Performance Audit Standards and Policies</i> | b, d, e, f, g, h, i, k, l, m, n, o, p, q, s, u | a, c, j, r, t | 3 |
| The Office of the Public Auditor (OPA) has an Audit Policies and Procedures Manual (APPM) which is referenced to the Generally Accepted Government Auditing Standards for Performance Audits | | | |

| | | | |
|---|---------------------------------------|------|----------|
| <i>Dimension (ii) - Performance Audit Team Composition and Skills</i> | a, b, c, d, e, f, g, h, i, k, l, m, n | | 4 |
| The OPA Audit Policies and Procedures Manual (APPM) provides guidance for the staff when undertaking Audits Activities including Performance Audit specifically Performance Audit | | | |
| <i>Dimension (iii) - Quality Control in Performance Audits</i> | a, b, e, f | c, d | 2 |
| The OPA has established quality control procedures for processing draft reports to ensure that the reports meet all professional standards and in accordance with OPA policies. | | | |
| SAI 12- overall score | | | 3 |

Dimension (i) Performance Audit Standards and Policies

This dimension examines whether the SAI's performance audit standards are in line with the fundamental principles of performance auditing prescribed in ISSAI 300: *Fundamental Principles of Performance Auditing*. Such policies and procedures may be found in different documents, e.g. audit manuals, procedures and policies.

POPA, as a recipient of funding through the Compact Agreement between FSM and USA, is required to adhere to the GAGAS issued by the Comptroller General of the USA. Accordingly the SAI developed its Audit Policies & Procedures Manual (APPM) based on GAGAS. This Manual included guidance on planning, performing, reporting performance audits as well as managing and administering the SAI. Chapters 5 and 6 of GAGAS provide guidelines on audit field work standards and audit reporting standards respectively. The field work standards cover (i) planning the audit; (ii) supervising staff; (iii) obtaining sufficient, competent and relevant evidence; and (iv) preparing audit documentation.

The SAI's policies require the need to set clearly-defined audit objectives, to establish suitable audit criteria which correspond to the audit, and to actively manage audit risks. The SAI's policies also require the auditors to plan the audit and establish suitable criteria in a manner that contributes to a high-quality audit, to obtain sufficient appropriate evidence to establish findings and reach conclusions and to document the audit sufficiently to enable an experienced auditor having no previous experience with the audit to understand the audit findings, conclusions and recommendations.

Additionally, the manual requires auditors to maintain effective and proper communication with the audited entities and provide constructive and relevant recommendations. The auditors are required to ensure that the audit reports are comprehensive, convincing, timely and balanced and widely accessible, in accordance with the SAI's mandate. The auditors are also required to follow up previous audit findings and recommendations wherever appropriate.

Although the SAI's audit manual provide extensive policies and procedures, it does not require the auditors to identify what audit approach is taken to facilitate the reliability and completeness of the audit. Furthermore, it does not require the need for auditors to consider materiality at all stages of the audit process. Guidance on the selection of audit topics to be considered for a performance audit is not covered in the manual. This requires extensive analysis and research of potential topics taking into account the significance, auditability and impact of the planned audits. There is also no clear guidance on the format of the audit report and what the report should contain.

Dimension (ii) - Performance Audit Team Composition and Skills

The SAI's APPM is the main guidance for staff when they are undertaking financial and performance audits as well as fraud investigations. Chapter 7 of the APPM emphasizes the importance of training and development for all staff.

The training and development goals of the SAI require the need for all staff to understand the purpose of the State Government, its services and objectives; to understand the responsibilities and functions of the Public Auditor in the framework of Government operations; to be well versed in accounting and auditing principles, concepts and procedures applicable to the SAI's functions; to participate in professional development that will lead to professional certification; and to be well informed on the latest auditing information and advancement. The APPM requires the SAI to have auditors who are specialized in electronic data processing (EDP) or computing systems auditing. Allocation of responsibilities and clear reporting lines are described in the overall audit plan for any performance audit.

Similarly, for performance audits, the manual also assists auditors to identify criteria. Criteria represent the laws, regulations, contracts, grant agreements, standards, specific requirements, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. The manual goes on to assist the auditors with recommendations reported, such should cover the causative factors discussed in the finding and be specific to the actions needed to reduce the conditions.

Although the APPM prescribes the SAI's training and development goals, there is no clear guidance to ensure that those allocated to conduct performance audits have sound knowledge of research design and investigation or evaluation techniques. APPM does not require those staff who conduct performance audit to have other skills in addition to technical knowledge such as analytical, writing and communication skills; these skills are critical to performance audit.

Dimension (iii) - Quality Control in Performance Audits

This dimension examines the SAI's quality control measures in place to ensure high quality throughout the performance audit process resulting in a high quality product.

POPA's quality control policies and procedures include (1) adherence to policies and procedures, (2) supervision of the audit staff. (3) Independent review of report, (4) external quality control reviews

Staffs are to be properly supervised, especially those directly assigned to the audit. Supervisors should ensure that staff understands the work conducted and expected to accomplish. The auditor in charge should make sure, however the audit Manager is to review all audit work papers for work performed. In keeping with the GAGAS on quality control, the OPA has established quality control procedures for processing draft reports to ensure that the reports meet all professional standards and in accordance with OPA policies.

However, the manual does not address where difficult or contentious matters arise, SAIs should ensure that appropriate resources (such as technical experts) are used to deal with such matters. It also does not provide assist if any differences of opinions within the SAI to be clearly documented and resolved before a report is issued.

SAI-13: Performance Audit Process

The indicator looks at how the SAI carries out performance audits in practice. It examines the planning phase, the implementation phase and the reporting phase. The scoring of this indicator should be based on the review of a sample of performance audit files for audits conducted during the year under review. The Kolonial Town Government (KTG) Performance Audit Fiscal Year Ending September 30, 2014 002-15 was selected for the review.

| SAI-13 – Performance Audit Process | Criteria met | Criteria Not Met | Assessor Score |
|--|------------------------------|---------------------------|----------------|
| <i>Dimension (i) - Planning Performance Audits</i> | a, b, f, g, h, i, j, k, l, m | c, d, e—Not Met; | 3 |
| The audit plan also identified the responsible staffing and allocation of resources together with required timeframes needed to carry out the audit. | | | |
| <i>Dimension (ii) - Implementing Performance Audits</i> | c, j | a, b, d, e, h, k, f, g, i | 1 |
| Assessment could not follow through audit file on the evidence collected and verified in order to reached conclusions in response to the audit objectives and establish the findings as reported to auditee. | | | |
| <i>Dimension (iii) - Reporting in Performance Audits</i> | b, c, d, e, g, h, i, l, | a, f | 2 |
| Objectives and results of the audit were reflected within the audit report written. The audit criteria used for assessing the audit were also addressed together with its source in the audit report. | | | |
| SAI 13- overall score | | | 2 |

Dimension (i) Planning Performance Audits

The SAI's performance audit practices were assessed based on a review of the audit file for the audit of the Kolonial Town Government (KTG). This audit was reported in POPA's annual audit report for fiscal years 2012 and 2013.

A detailed audit plan was developed taking into consideration the risks relating to the audit topic and risk of fraud. The audit plan included guidance on financial materiality but lacks guidance on social and political aspects of materiality, with the aim of delivering as much added value as possible. Furthermore, the audit plan identified suitable criteria and explained the audit procedures to be used for gathering sufficient appropriate audit evidence. Audit criteria were discussed with and approved by the audited entity.

The main objectives of the audit were clearly defined in the audit plan. However the objectives were more of compliance in nature rather than relating to the principles of economy, efficiency and effectiveness.

The main objectives of the audit were:

1. To determine that KTG revenues were properly receipted, recorded, accounted for and banked on time; and
2. To determine that KTG expenditures were properly documented, authorized, disbursed, accounted for and reported in accordance with applicable laws.

A systems-oriented audit approach was adopted, to facilitate the soundness of audit procedures and to determine the nature of the audit design. The audit plan also identified members of the audit team responsible for conducting the audit, allocation of responsibilities together with required timeframes to carry out the audit.

An evaluation was conducted to determine whether external expertise was required in any area of the audit and as a result of such evaluation, it was described in the audit plan that external expertise is not required for this audit. The audit plan required all members of the audit team to sign a personal and external impairments on independence declaration as a mechanism to ensure all those involved in the audit comply with the SAIs' ethical requirements. These signed declarations were filed in the audit file.

Dimension (ii) Implementing Performance Audits

From our review of the KTG audit file, the data and evidence were gathered from various sources such as documentary reviews, and analysis of revenue data and bank information work papers. However, it was difficult to understand the evidence collected, how they relate to the audit objectives and how conclusions were reached in order to establish the findings that were reported to the audited entity. Although comparative analysis was conducted, the audit procedures conducted and objectives of audit work carried out were not properly explained.

Since only the financial aspect of materiality was considered during the planning phase, the implementation of the audit also fail to consider other aspects of materiality such as social and political issues where relevant. There was also no evidence that the issue of materiality was considered throughout the audit process. Proper procedures to ensure the risk of obtaining incorrect information were not properly documented. Additionally, documentation was not sufficient to enable an experienced auditor having no previous connection with the audit to subsequently determine what work was done in order to arrive at the audit findings, conclusions and recommendations.

Despite some limitations identified from the audit file being reviewed, effective and proper communication with the audited entity and relevant stakeholders were maintained throughout the audit process.

Dimension (iii) Reporting in Performance Audits

Although the SAI has considered the audit of the KTG to be a performance audit, the objectives of the audit did not relate to the principles of economy, efficiency and effectiveness as expected to be addressed in a performance audit. As such, the audit was conducted in accordance with the audit plan and therefore the conclusions were not related to these key principles for any performance audit. In spite of the fact that the audit of KTG is not a performance audit, the SAI prepared a comprehensive report including the audit objectives, criteria, audit findings and conclusions relating to the audit objectives.

The report was structured in a logical manner, presenting clear linkages between the audit objective, criteria, findings and conclusions and recommendations. The report is easy to understand – it was concise and specific; it included all evidence to support audit conclusions and the tone and unambiguous language used facilitated understanding. The report explicitly acknowledged that the audit was conducted in accordance with GAGAS.

Audit recommendations were provided to address the weaknesses identified by the audit. The audited entity, KTG, was given the opportunity to comment on the audit findings and

recommendations and their responses were conveyed in writing to the SAI. There were no disagreements to the audit findings presented.

SAI-14: Performance Audit Results

This indicator assessed the outputs of performance audits – the timely submission and publication of performance audit reports and the follow-up on audit results.

| SAI-14 Performance Audit Results | Criteria met | Not met | Assessor Score |
|---|--------------------------------|---------|----------------|
| <i>Dimension (i) - Timely Submission of Performance Audit Reports</i> | Timely submission of reports | | 4 |
| Performance audit report was submitted within 15 days of completion of the audit. | | | |
| <i>Dimension (ii) - Timely Publication of Performance Audit Reports</i> | Timely publications of reports | | 4 |
| Performance audit report was published on POPA's website within 15 days of completion of the audit. | | | |
| <i>Dimension (iii) - SAI follow-up on implementation of Performance Audit observations and recommendations</i> | a, b, c, d | e, f, g | 2 |
| The OPA follows up with the auditees for the status of management's implementation of the recommendations to ensure that they are complying with the provisions of the PSL No 5L-08-00 Section 3(2) | | | |
| SAI 14- overall score | | | 3 |

Dimension (i) Timely Submission of Performance Audit Reports

During the period under review, the SAI conducted only one performance audit, the audit of Kolonial Town Government Cash Receipts and Cash Disbursements for fiscal years 2012 and 2013. Therefore the scoring of this indicator is based on the audit report for this audit.

The audit was completed on 23 September 2015 and submitted to the Governor and Legislature on 24 September 2015. Therefore the audit report was submitted to the appropriate authorities in a timely manner and as required by good international practices.

Dimension (ii) Timely Publication of Performance Audit Reports

POPA's mandate gives it the authority to publish its audit reports after submitting them to the relevant authorities. The audit report for the Kolonial Town Government Cash Receipts and Cash Disbursements for fiscal years 2012 and 2013 audit was published and became available to the public on POPA's website on the next day after submitting the report to Legislature.

The process for submission of the Performance Audit Report for the Kolonia Town Government Performance Audit on Cash Receipts and Cash Disbursement System for fiscal years 2012 and 2013: audit report NO. 003-15 is provided below. The dates below refer to the correspondence letters noted within the audit file.

1. September 9, 2015 OPA transmitted draft report to the Auditee (KTG)

2. September 16, 2015 Exit Conference was conducted
3. September 23, 2015 Received Response from Auditee to Recommendations
4. September 24, 2015 Issued Audit report to Governor and Legislature.

Dimension (iii) - SAI follow-up on implementation of Performance Audit observations and recommendations

The audit report for the Performance audit sampled for Kolonial Town Government (KTG) highlights the status of the follow up report of actions taken by the entity on the recommendations of the audit conducted for KTG. However, follow up audits on previous performance audit findings are conducted as part of their internal follow system when conducting the audit. Follow up is not independently initiated and reported separately.

The follow up actions with the auditee agencies on the status of managements implementation of the auditors recommendations are conducted by the OPA as part of the performance audit process given it is also a requirement of the PSL No 5L-08-00 Section 3(2) which details that upon receipt of the examination report, the office being audited shall respond to the said report in writing, to the Auditor and each of the officials listed in sub section (1), by indicating the action or actions immediately taken to correct such deficiencies cited as well as stated actions to resolve the deficiencies.

Thereafter, the office shall file a monthly report with the Auditor indicating its progress in clearing deficiencies until such time as it can report that all deficiencies have been cleared which period shall not exceed six months. This is conducted by the OPA to ensure the compliance with the provisions of the legislation for audit PSL No 5L-08-00 Section 3(2) which relate to the Recommendation Follow up.

The follow up of actions to recommendations requires the entity to report on the recommendations addressed and actions taken. Results of follow up actions are not separately reported rather put together in the current report of the entity when submitting to legislature.

DOMAIN D: FINANCIAL MANAGEMENT, ASSETS & SUPPORT SERVICES

SAIs should manage their operations economically, efficiently, effectively and in accordance with laws and regulations. This requires SAIs to apply good management principles to ensure the best use of its resources and to ensure appropriate internal controls over its financial management and operations are in place and implemented effectively. This domain assessed POPA’s efforts on how it managed its finances, assets, and support services to help achieve the SAI’s overall objectives.

SAI-21: Financial Management, Assets and Support Services

| SAI-21 Financial Management, Assets and Support Services | Criteria Met | Criteria Not Met | Assessor Score |
|--|---------------------|-------------------------|-----------------------|
| <i>Dimension (i) – Financial Management</i> | a, b, c, d, e, h | f, g, i, j, k | 2 |
| Due to Pohnpei SAI’s lack of autonomy for its operational finances, they met 6 out of 11 criteria which gave them a score of 2 for SAI 21 Dimension I. | | | |

| | | | |
|--|---|------------|----------|
| <i>Dimension (ii) – Planning and Effective Use of Assets and Infrastructure</i> | d | a, b, c, e | 1 |
| Due to Pohnpei SAI’s lack of autonomy over its assets including capitalized assets, they met only 1 of 5 criteria which gave them a score of 1 for SAI 22 Dimension II. | | | |
| <i>Dimension (iii) – Administrative Support Services</i> | d | a, b, c | 1 |
| Although it is limited in the functions of IT and archiving, Pohnpei SAI has taken the initiative for the purpose of reviewing and improving its administrative support functions. | | | |
| SAI-21 overall score | | | 1 |

Dimension (i) Financial Management

SAIs require adequate financial resources, assets and well managed support services to function effectively. Management of financial resources must follow a system characterized by transparency and accountability, including internal control and documentation of costs. An SAI also needs to demonstrate effective planning and use of its assets, including offices and training centers, vehicles, archiving facilities, office equipment and IT hardware and software. To make the best use of infrastructure and equipment, the SAI needs well-functioning support services to manage, for example, IT, finance, archiving, and assets. The internal control environment should provide assurance that the SAI’s resources are safeguarded against loss due to waste, abuse, mismanagement, errors, fraud or other irregularities. It should also provide assurance that the SAI adheres to laws, regulations and management directives, and that the SAI develops and maintains reliable financial data.

Part I Chapter 2 of the SAI’s Policies and Procedures Manual clearly explains the financial management activities which the SAI is responsible for including the Administrative Officer’s and the Public Auditor’s responsibilities. Chapter 2 also provides guidance for delegation of authority to commit and approve expenditure on behalf of the SAI in the absence of the Public Auditor. Pohnpei SAI also utilizes the Pohnpei Financial Management Regulations (PFMR) which is used by all Pohnpei State government departments and agencies, as the guidelines for managing finances including contracts, payroll, travel, procurement, and property accountability and responsibility.

Pohnpei SAI does not have full autonomy over its finances and therefore does not have full control over its financial management activities. The SAI’s budget is prepared by the Administrative Officer, in consultation with and approval by the Public Auditor. The budget is submitted to the finance department and goes through the same process as other State departments and agencies. The finance department submits the consolidated annual budget of all State departments and agencies, including the SAI’s budget, to the Legislature through the Governor’s Office. Upon approval of the consolidated government budget which includes the SAI’s budget, the SAI’s budget is maintained under custody of the State finance department.

The Administrative Officer coordinates with the State finance and performs quarterly budget reconciliations to ensure expenditures remains within budget. Both the Administrative

Officer and the Public Auditor who are involved in managing the finances and budget for the SAI have the appropriate skill set, and resources to do the job.

Pohnpei SAI does not have a Management Information System in place. The SAI does not prepare its own annual financial statement. However, its financial activities are included in the financial statements of the whole Pohnpei State Government which is audited by external auditors as an annual Single Audit. Although the SAI's financial activities are reported as part of the overall public accounts, they are not disclosed as a separate note from the financial activities of the whole Pohnpei State Government.

Dimension (ii) Planning and Effective Use of Assets and Infrastructure

The SAI's assets normally include buildings, training and archiving facilities, vehicles, IT networks, hardware and software. To ensure these assets are well managed, SAIs should: develop short and long-term asset management plans based on current and future anticipated needs; review asset utilization regularly to ensure assets are used effectively; and report to the Legislature where it considers its current assets and infrastructure are insufficient.

Though Pohnpei SAI has in place a long-term strategic plan, the plan does not specifically address a plan for its physical infrastructure or IT needs, based on current and anticipated future staffing level. Most of the SAI's clients are within close proximity to its office, requiring in most cases, a drive of about 30 minutes or less. Accordingly, the SAI has not addressed the issue of its location in relation to the location of its clients.

The SAI does not have a network or a centralized server that stores its information and documents; each employee stores data on their own computers. Any proposal for improvement in this area has not been addressed. The SAI does not have access to any archiving facilities within its office or the primary government. The only storage facilities they have access to, is a warehouse maintained by the primary government with limited security. The SAI reported inadequacies relating to its assets and infrastructure through its quarterly and annual reports to the Legislature and the Governor.

Dimension (iii) Administrative Services

Administrative functions, IT support and archiving are vital parts of knowledge and information management, and as far as audits are concerned, administrative support enable the SAI to maintain an overview, monitor work progress and retrace audit trails, as well as manage documentation according to rules of confidentiality and storage.

Administrative Support Services is the 6th strategic goal for Pohnpei SAI specifically stated as "Effective and Efficient Administrative Support Services" in its Strategic Management and Operation Plan. However, the listed activities for this goal does not specifically address responsibility and qualification for IT support, file management and archiving, and management of major categories of assets and infrastructure. This is partially because the SAI operates within its approved budget which is not fully under its control. Additionally, the major assets including capitalized assets and the office building are capitalized and reported by the finance department of the Pohnpei State government.

Nevertheless, Pohnpei SAI through a written communication to the State Attorney General, also serving as the legal counsel for the SAI, is seeking assistance to improve the necessary facilities to strengthen its administrative support function.

DOMAIN E: HUMAN RESOURCES AND TRAINING

An effective SAI is dependent on its capacity to recruit, retain and effectively deploy highly skilled staff. The very nature of a SAI's core activities makes human resources capabilities crucial to achieve high-level performance. Sound human resource management is vital in achieving service excellence and quality. ISSAI 40: Quality Control for SAIs emphasizes that SAIs should have human resource policies and procedures that adequately deal with qualifications and ethics.

Where recruitment, remuneration, and promotion are decided by the Executive, the SAI should ensure that suitable systems are in place to protect the independence of the SAI's staff in its conduct of audit. The following performance indicators are considered in this domain.

Performance Indicators:

- SAI-22: Human Resource Management
- SAI-23: Professional Development and Training

SAI-22: Human Resources Management

This indicator assessed the SAI's human resource function, human resource strategy, recruitment processes as well as remuneration, promotion and staff-welfare issues. Results for this indicator are summarized in the table below.

| SAI-22 Human Resources Management | Criteria Met | Criteria Not Met | Assessor Score |
|---|--------------|--|----------------|
| <i>Dimension (i) – Human Resources Function</i> | a | b, c, d, e, f, g are not applicable. | N/A |
| The human resource management function for the Pohnpei State Government which includes the SAI, is administered by the Chief of the Division of Personnel, Labor and Manpower Development as required by the PSS Act. POPA decides on human resources matters, including appointments of staff and establishment of their terms and conditions but subject to the PSS Act and recommendations from the Chief. | | | |
| <i>Dimension (ii) – Human Resources Strategy</i> | | a, b, c, d, e, f, g | 0 |
| The SAI has not developed its own human resources strategy. It has adopted the Pohnpei State Government's comprehensive human resource policies. | | | |
| <i>Dimension (iii) – Human Resources Recruitment</i> | d, e, f, g | a, b, c are not applicable | N/A |
| POPA recruits human resources pursuant to Title 9 Chapter 2 of the Pohnpei Code, the Pohnpei Public Service System Act of 1981. | | | |
| <i>Dimension (iv) – Remuneration, Promotion and Staff Welfare</i> | d, e, f, g | b - not met. a, c, h - not applicable | NA |
| The Pohnpei SAI adopts practices effective remuneration, promotion, and staff-welfare. However, salary freeze had eventually voided requirement to | | | |

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| evaluate work performance. Except for CID, POPA has not conducted any recent performance appraisal because of the salary freeze. The PSS considers the welfare of employees through its merit principles and awarding of bonuses is not established in PSS. | |
| SAI-22 overall score | NA |

Dimension (i) Human Resource Function

The responsibility for the SAI’s human resource management function is shared with the Chief of the Division of Personnel, Labor and Manpower Development. Because human resources are subject to the Public Service System (PSS) Act administered by the Chief of the Division of Personnel, Labor and Manpower Development (DPLMD), the SAI decides on human resources matters, including appointments of staff and establishment of their terms and conditions in accordance with the PSS Act and recommendations from the Chief of DPLMD.

The Division of Personnel, Labor and Manpower Development has the primary responsibility for:

- a) Developing and maintaining a human resources strategy and policies,
- b) Developing and maintaining a competency framework,
- c) Providing guidance and consultation on human resource matters,
- d) Maintaining a performance evaluation appraisal system,
- e) Scheduling suitable professional development opportunities, and
- f) Maintaining personnel files (e.g. signed code of ethics and continuing professional development reports).

However, like all other state agencies, POPA has primary responsibility over managing its office and staffs. With no comprehensive Human Resource Management Strategic Plan, the SAI manages its office and staffs pursuant to the Public Service System Act and Regulations and appropriately develop its staff professionally to meet the Generally Accepted Government Auditing Standards requirements. Specifically, the Audit Manager manages the Audit section and the Investigative Advisor manages the Compliance Investigation Unit. The Public Auditor is ultimately responsible for managing the SAI with regards to human resources matters, including appointments of staff and establishment of their terms and conditions, but subject to the PSS Act and recommendations from the Chief.

Dimension (ii) Human Resource Strategy

A SAI should develop and implement a human resources strategy that aligns human resources with the intended direction of an organization. Such strategy should be integrated with the SAI’s strategic plan. The following aspects of human resources need to be emphasized in the strategy: recruitment, remuneration, performance management, training and development, retention, and staff welfare.

SAI Pohnpei has not developed its own human resources strategy. Although the SAI is subject to the PSS Act and human resource policies administered by the DPLMD, it is important that the SAI develops a strategy or plan to determine who to recruit, how many to recruit, when to recruit, and what competencies and skills are required for the SAI to execute its functions and deliver its mandate. The human resource strategy should guide how the SAI addresses its

recruitment and professional development needs and still be subject to the requirements of the PSS Act and recommendations of the Chief of DPLMD.

Dimension (iii) Human Resources Recruitment

A SAI should have transparent recruitment processes, which should be driven by assessments of its needs. A SAI's recruitment processes should have the following features:

- a) There are written procedures in place for recruitment and minimum qualification requirements for recruited staff;
- b) The procedures for recruitment are made public;
- c) The procedures for recruitment promote diversity;
- d) In recent recruitments, the decision-making process involved more than one person;
- e) Current overall recruitment plans are based on an analysis of organizational needs, considering matters such as vacancies, existing competencies and skills levels, and staff turnover rates;
- f) Advertisements of positions during the last year included a description of the skills and experiences needed, and were made public; and
- g) Internal human resources are supplemented by outside expertise as required, and the SAI has procedures in place to ensure the quality of the deliverables.

The Pohnpei Office of the Public Auditor does not have its own recruitment processes but follows the Pohnpei State government's recruitment processes stipulated in Title 9 Chapter 2 of the Pohnpei Code, the Pohnpei Public Service System Act of 1981. The Act promotes equal opportunity, no discrimination, impartial selection of the best person, just opportunity for promotion, reasonable job security, systematic classification of all positions, and fair and reasonable grievance procedures. POPA shares the responsibility of the human resource recruitment with the Chief of the Division of Personnel, Labor and Manpower Development, who administer the PSS. POPA decides on human resources matters, including final appointments of staff and establishment of their terms and conditions, but subject to the PSS Act of 1981 and recommendations from the Chief.

Recruitment pursuant to Sections 111 of the PSS Act of 1981 requires competitive examinations to test the relative fitness of candidates and ensure hiring the most qualified persons. Examinations may be in writing or oral and shall provide for ascertaining the physical and educational qualifications, experience, knowledge, and skills of applicants and their relative capacity and fitness for the duties of the position they seek. Section 110 of the PSS Act requires that all persons be recruited by advertisement through the appropriate media. The advertisement includes at least the position, title, salary, brief description of the class, location of the vacancy, qualification standards required, and the closing date for filing applications.

Recruitment at the POPA during the last year followed procedures promulgated in the PSS Act of 1981. Advertisements of positions during the last year included a description of the skills and experiences needed and were made public. All applications were initially screened

at the Division of Personnel, Labor and Manpower Development for those who meet the basic requirements for the vacant position before forwarded to POPA for review and final hiring decision. POPA has created a committee of four senior staff members to recruit new staffs. The committee has appropriate skill set and experience to do the job.

Internal human resources are supplemented by outside expertise as required, and the SAI has procedures in place to ensure the quality of the deliverables. Recently, POPA has hired an outside Certified Public Accountant (CPA) to supplement its internal human resources. Section 7.3 (b) of the SAI's Policies and Procedures Manual requires that the SAI's overall recruitment plans should be based on an analysis of organizational needs, considering vacancies, existing competencies and skills levels, and staff turnover rates. Specifically, when technical areas of work are in need of improvement or when staff training is required to enhance career development and advancement, the Audit Manager will initiate the following measures:

- Discuss the staff members' strengths and weaknesses as they apply to his or her performance and future job prospects.
- Discuss the staff members past training and current training needs, and
- Evaluate and recommend staff training needs.

Furthermore, the SAI has incorporated its recruitment processes in its newly drafted manual of operations, which the staff meets, at least, once a week to discuss and review for implementation.

Dimension (iv) Remuneration, Promotion and Staff Welfare

In order to keep staff motivated, a SAI needs to evaluate individual performance and use it as basis for promotion and remuneration decisions. Additionally, the SAI needs to create and maintain a safe work environment where staffs are free to voice their concerns. As one of the government agencies, POPA is required to follow the Government's policies and procedures regarding remuneration, promotion and staff welfare.

The Pohnpei State Government's Public Service System Regulations which takes into account the requirements of the Pohnpei Public Service System Act of 1981, require that all employees of government departments and agencies, including the SAI, should have individual performance appraisals at least once a year. Each employee's performance is evaluated on her/his employment anniversary date. The performance appraisal procedures require assessing the employee's performance against the job description or performance agreement.

Remuneration for employees of government departments and agencies, including the SAI, is regulated by the PSS Act of 1981 administered by the DPLMD. A salary freeze was imposed in 2007 on all State employees and consequently the requirement to evaluate work performance had not been enforced by the Division of Personnel, Labor and Manpower Development since then. POPA had also ceased the practice of evaluating its staff's work performance, except for those in the Compliance Investigation Division (CID). CID continues to be evaluated in accordance with its Manual of Operating Procedures (MOP) guidelines.

Moreover, awarding of bonuses is not established in the Public Service System. Section 118 of the PSS provides for a single base salary computation table for all employees and positions

of the State of Pohnpei. Accordingly, awarding of bonuses is not practiced at POPA.

Pursuant to the PSS, promotion procedures consider an assessment of performance and potential to perform at the higher level. Section 130 of the PSS requires the Director of the Department of Treasury and Administration to develop and maintain a system of performance evaluation for the purpose of appraising the productivity of employees in the public service. Interview with the Audit Manager confirmed the practice at POPA. Over the last two years, promotions at POPA followed the PSS procedures.

The PSS also considers the welfare of the employees through its merit principles, among other things, including equal job opportunity, no discrimination, impartial selection, just opportunity for promotion, reasonable job security, and fair and reasonable grievance procedures.

Employees have the opportunity to express their views on the work environment to management, and no issue was found arising from the views expressed. The Public Auditor has an open-door policy that promotes meaningful interaction with the staff for a safe and healthy working relationship. Staffs are given the chance and encouraged to express their views during bi-weekly staff meetings. To demonstrate a better working relationship, POPA had a retreat for the staff to get to know each other better. Support amongst the staff members for each other goes beyond their professional relationship. For example, POPA's staff gave a monetary donation for the funeral of a colleague's family member as part of its customs.

SAI-23: Professional Development and Training

This indicator assesses how the SAI as an organization can promote and ensure professional development to improve and maintain the competency of its staff. The table below summarized the results for each dimension assessed.

| SAI-23 Professional Development and Training | Criteria Met | Criteria Not Met | Assessor Score |
|--|---------------------|-------------------------|-----------------------|
| <i>Dimension (i) – Plans and Processes for Professional Development and Training</i> | a, b, c, d, e, f, g | | 4 |
| The Pohnpei SAI has established and implemented a Strategic Management and Operational Plan (SMOP) and a Policies and Procedures Manual to ensure its staff have the competency and skills to perform their roles and enable the SAI to achieve its objectives. These plans are linked to the human resources strategy adopted and implemented by the Pohnpei State Government and POPA's SMOP which reflect the required skills and competency development needs for the different staff levels and be monitored and evaluated. | | | |
| <i>Dimension (ii) – Financial Audit Professional Development and Training</i> | a, b, c, d | | 4 |
| POPA has established and implemented a general professional development and training plan for all its professions and monitor and evaluate the results to ensure effective operations of the SAI. | | | |

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|---|------------|--|----------|
| <i>Dimension (iii) – Performance Audit Professional Development and Training</i> | a, b, c, d | | 4 |
| POPA has established and implemented a general professional development and training plan for all its professions and monitor and evaluate the results to ensure effective operations of the SAI. | | | |
| <i>Dimension (iv) – Compliance Audit Professional Development and Training</i> | a, b, c, d | | 4 |
| POPA has established and implemented a general professional development and training plan for all its professions and monitor and evaluate the results to ensure effective operations of the SAI. | | | |
| SAI-23 overall score | | | 4 |

Dimension (i) Plans and Processes for Professional Development and Training

The SAI should establish and implement professional development and training plans to ensure its staff have the competency and skills to perform their roles and enable the SAI to achieve its objectives. These plans should link to the human resources strategy, particularly recruitment and promotion. They should address the skills required for all staff, such as soft skills, supervision and management. These plans should be aligned to development needs, reflect competency requirements for different staff levels, and be monitored and evaluated.

The SAI should identify the audit disciplines relevant to its mandate and audit approach, to develop cadres of staff with the appropriate skills to undertake the different types of audits performed by the SAI (financial audit, compliance audit, performance audit, or combination).

Accordingly, POPA's professional development practices should have the following features:

- a) The SAI has developed and implemented a plan for professional development and training which contains:
 - I. Introduction and familiarization for new staff;
 - II. Internal training on the SAI's policies, procedures and processes;
 - III. Personal skills training (e.g. communication and writing skills, analytical skills, presentation skills, interviewing skills, ethics, supervision, IT skills); and
 - IV. Management.

POPA has established and implemented a Strategic Management and Operational Plan and a Policies and Procedures Manual to ensure its staff have the necessary competency and skills to perform their roles and enable the SAI to achieve its goals.

The Strategic Management and Operational Plan – Strategic Goal 2 (Training and Development to Enhance Staff Competency) includes:

- 1) developing and conducting own in-house on-the-job orientation and training programs,
- 2) enrolling staff, on a part-time basis, at the College of Micronesia to enhance writing, accounting, and related skills, and
- 3) attending conferences, seminars and workshops for finance, audit and related areas.

Chapter 7 of the Policies and Procedures Manual addresses the training and development goals of the Pohnpei SAI, and identifies the basic training and development requirements of the staff:

- 1) All staff needs to understand the purposes of the State Government, its services, and its objectives;
- 2) Staff should understand the responsibility of the Office of the Public Auditor in the framework of government operations;
- 3) Auditors should be well versed in accounting and auditing concepts and procedures, accounting principles, and other related disciplines;
- 4) Auditors should consider participating in professional development programs which will lead to professional certification;
- 5) Auditors should be well informed on the latest auditing information and advancement; and
- 6) One auditor should be trained or specialized in EDP or Computer Systems Auditing.

Additionally, POPA has developed a checklist for introduction and familiarization to basic government operations and audit procedures for new staff.

For management, the professional staff selected for employment with POPA already has one or more years of experience in the areas of management analysis, accounting and auditing or investigations. Management participates in conferences, seminars, and workshops sponsored by USA Graduate School, DOI-OIG, AGA, APIPA, PASAI, online courses, and others in finance, audit and related areas for professional development and trainings.

- b) The SAI's learning strategy and/or annual plan for professional development and training is:
- I. Aligned with the human resource strategy;
 - II. Linked to the goals/objectives stated in the strategic and operational plans of the SAI; and
 - III. Based on results from a learning needs analysis.

Pursuant to the Policies and Procedures Manual, the comprehensive training plan for POPA includes the following criteria:

- 1) Supplement and improve staff members' knowledge, skills, educational attainment and help them achieve professional certification;
- 2) Prepare the staff to be more efficient in discharging their duties and responsibilities at POPA; and
- 3) Upgrade POPA's staff to a higher level of professional auditors, to improve performance in the audit assignments.

POPA's plan is in-line with the Strategic Management and Operational Plan for training and professional development to enhance staff competency.

POPA's Strategic Management and Operational Plan - Strategic Goal 2: Training and Development to Enhance Staff Competency requires the SAI to conduct in-house on-the-job orientation and enroll staffs in training programs and opportunities to enhance staff competency. In part, the staff development and training initiatives include:

- 1) Undertaking part-time enrollment at College of Micronesia courses to enhance writing skills, accountancy and related areas.
- 2) Participation in conferences, seminars, and workshops sponsored by USA Graduate School, DOI-OIG, AGA, APIPA, PASAI and others in finance, audit and related areas.
- 3) Enrolling two senior staff members at higher learning institutions or programs for professional certification.
- 4) Enrolling staff in internet courses in the fields of accountancy, finance, administration, and auditing.
- 5) Conducting in-house on-the-job orientation and training programs.
- 6) Conducting investigation training and establishment and operation of the Compliance Investigation Division.

POPA's Policies and Procedures Manual requires the staff to meet every year to discuss the training plans for the year. The Audit Manager gathers information on the training needs from the senior staffs who are responsible to include the training needs of the audit staff under their supervision. The Audit Manager compiles and review the training request and discuss the budget needs with the Public Auditor.

- c) The SAI has established procedures for selecting staff to participate in training and obtain professional qualifications. The selection is based on considerations of the competence needed.

POPA's Strategic Management and Operational Plan and Policies and Procedures Manual identify the staff development needs and competency requirements for the different staff levels and the procedures for selecting staff to participate in the training. For example, when technical areas of work need improvement or when staff training would enhance professional development and advancement, the Audit Manager initiates the following measures:

- 1) discuss the staff members' strengths and weaknesses in relation to his or her performance and future job prospects;
- 2) discuss the staff members' past training and current training needs, and
- 3) evaluate staff training needs and recommend appropriate and suitable trainings to address the needs identified.

POPA recognizes that staff with experience working in accounting or auditing fields learn at a faster pace than those with limited backgrounds in accounting and auditing. Each staff is encouraged to find out and apply for the training and development courses that enhance job performance and career development.

Pursuant to the Policies and Procedures Manual, when a training is recommended or

identified, the State Public Auditor shall meet with the Audit Manager to discuss the training. The Audit Manager shall discuss the training with the senior auditors and prepare a list of potential attendees. An evaluation of the training needs and the list of attendees shall be finalized and shall be recommended to the Public Auditor. The Public Auditor will determine the final selection and ensure that the training requirements are valid and necessary documents for the training are completed.

The following procedures are applied for group trainings:

- 1) identify the purpose and objectives of the training,
 - 2) discuss the training with the Public Auditor to obtain approval and establish an appropriate time for the training,
 - 3) identify the staff available to attend the training,
 - 4) determine whether the training can be conducted by in-house staff, another Government agency, or external consultants.
 - 5) arrange for all training materials and logistics, and
 - 6) inform attending staff of the arrangements.
- d) All professional employees (leaders, managers, auditors, control personnel etc.) have a development plan based on an annual appraisal, and the implementation of the plan is monitored.

The professional staff selected for employment at POPA already has a number of years of experience in the areas of management analysis, accounting and auditing and investigations.

The Policies and Procedures Manual requires that when technical areas of work need improvement or when staff training would enhance professional development and advancement, the Audit Manager evaluates the staff members' strengths and weaknesses based on their performance and future job prospects, determine the training needs, and recommend staff training needs to the Public Auditor.

- e) The SAI has identified the audit 'professions' or 'cadres' that it wishes to develop in order to discharge its mandate.

POPA is generally mandated to conduct audits of all financial transactions and accounts of all departments, offices, agencies, and instrumentalities of the Government of Pohnpei and of the local governments. The types of audits to conduct is not specified in the law. However, POPA conducts financial, performance, and compliance audits. The staff attends seminars, workshops, conferences to build capacity for the performance of their audits.

In general, the SAI training and development goals require sufficient knowledge in accounting principles and auditing concepts and procedures, and achievement of professional certification. Generally Accepted Government Auditing Standards (GAGAS) and the Association of Certified Fraud Examiner (ACFE) require auditors who perform audits in accordance with GAGAS and investigators who are members of the ACFE, to maintain competency through participation in relevant trainings for the required hours of continuing professional education. The SAI's staff have the necessary competency and skills to perform

their roles and enable the SAI to achieve its objectives.

A system for professional development of non-audit/control staff is developed, with clearly assigned responsibilities. Appropriately tailored competency requirements and a plan for professional development for non-audit/control staff is developed based on identified needs and implemented.

Furthermore, the Administrative Officer assigned responsibilities are identified in the job descriptions and made reference to in the Policies and Procedures Manual. The staff is developed to carry-out her duties and responsibilities. There are mechanisms in place to monitor and evaluate the result of professional development and training of staff.

Pursuant to the Policies and Procedures Manual, POPA's staff who participates in any training activity should possess a strong attitude for attentiveness and willingness to learn from the training. The staff shall therefore try his/her best to observe the following:

- participate in all assigned training designed to meet their needs and the needs of OPA,
- share knowledge, skills, and abilities with fellow staff members through on-the-job training, and information training and informal training or discussion sessions,
- plan how to actually implement what was learned from the training in his/her work at POPA,
- must be able to help justify the needs for training funds when budget requests are prepared.

Dimension (ii), (iii), (iv) Professional Development and Training for Financial, Performance and Compliance Audit

The SAI should establish and implement professional development and training plans for each of its professions or cadres and monitor and evaluate the results. These three dimensions set out criteria for training and development for the three audit disciplines; financial, performance and compliance audits.

POPA has established and implemented a general professional development and training plan for all its professions or cadres and monitor and evaluate the results to ensure effective operations of the SAI. POPA's Policies and Procedures Manual sets guidelines for its audits and training needs for staff development. Furthermore, the first General Standard of the Generally Accepted Government Auditing Standards (GAGAS) requires, "The staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required". The staff is encouraged to find-out and apply for the training and development courses that enhance their job performance and career development.

The SAI's Policies and Procedures Manual, Section 7.3(a) requires that the trainings shall supplement and improve the staff members' knowledge, skills, educational achievements and help attain professional certification; prepare the staff to be more efficient in discharging their duties and responsibilities; help attain effectively the realization of the SAI's work plans; and upgrade the staff to a high standard of professional auditors who can conduct improved audits and able to face new challenges as requested of them.

The SAI's Policies and Procedures Manual, Section 7.1 requires the professional staff selected for employment at the SAI already has one or more years of experience in the areas of management analysis, accounting and auditing and perhaps investigations. Particularly, the Audit Manager must possess a thorough knowledge of GAAP and GAAS as defined by the AICPA; Standards for Audit of Governmental Organizations, Program Activities and Functions by the Comptroller General of the United States of America; other applicable audit guides; and audit directives as required.

The Policies and Procedures Manual Section 7.3(b) requires the Audit Manager to: a) discuss the staff members strengths and weaknesses as they apply to his or her performance and future job prospects; b) discuss the staff members past and current training needs; and d) evaluate and recommend staff training needs when technical areas of work are in need of improvement or when staff training would enhance career development and advancement.

The Audit Manager is required to gather the training areas and schedules together with training costs from information available and from each Senior Auditor the training needs of the audit staff under their supervision. The auditors need to be well versed in accounting and auditing concepts and procedures, accounting principles, and other related disciplines and should be well informed on the latest auditing information and advancement. The Audit Manager compiles and reviews the training needs and requests and discusses the budget needs with the State Public Auditor.

Furthermore, the Strategic Management Operational Plan Strategic Goal 2, Training and Development to Enhance Staff Competency, requires the staff to conduct in-house on-the-job training and enroll staffs in training programs and opportunities to enhance staff competency. Pohnpei SAI conducts internal training on audit standards as part of its internal training. Staff members who attend trainings outside the office are required to present and share lessons learned with those who didn't attend.

Generally Accepted Government Auditing Standards (GAGAS) and the Association of Certified Fraud Examiner (ACFE) require auditors who perform audits in accordance with GAGAS and investigators who are members of the ACFE, to maintain competency through participation in relevant trainings for the required hours of continuing professional education. As an audit organization, the Pohnpei SAI has a continuing professional education and training program that monitors the education and training completed by each staff. Each staff should complete at least 80 hours of education (including 24 hours directly related to government) every two years - at least 20 hours in any one year and 24 hours directly related to government. Pohnpei SAI maintains its continuing professional education through online courses and participation in conferences, seminars, and workshops sponsored by USA Graduate School, DOI-OIG, AGA, APIPA, PASAI and other organizations in finance, audit and related fields.

DOMAIN F: COMMUNICATION & STAKEHOLDERS MANAGEMENT

This domains assesses the SAI's communication practices and communication strategy for its stakeholders. The following performance indicators were assessed.

Performance Indicators

- SAI-24: Communications with the Legislature, Executive and Judiciary
- SAI-25: Communications with the Media, Citizens and Civil Society Organizations

SAI-24: Communication with the Legislature, Executive and Judiciary

SAI-24 assesses the communication practices the SAI has established with institutional stakeholders. SAIs need to communicate effectively with these stakeholders (*ISSAI 12:6*). Regardless of SAI model, the SAI will through its work come in contact with these institutions to a greater or lesser degree. The SAI should take the initiative to communicate about its work and its mandate in a way that does not compromise its independence from these parties. Established good practices will allow the SAI to do so while reducing any risk. It will enable these stakeholders to see SAI reports as relevant input to their work, and the SAI to be more responsive to emerging risks and changing environment communicated by these parties. The results for each dimension are summarized in the table below.

| SAI-24 Communication with the Legislature, Executive and Judiciary | Criteria Met | Criteria not Met | Assessor Score |
|---|---------------------|-------------------------|-----------------------|
| <i>Dimension (i) – Communication Strategy</i> | | a, b, c, d, e, f, g | 0 |
| POPA does not have a communication strategy. However, OPA Audit Policies and Procedures Manual: Chapter 6 on External Communications, provides guidance on the importance of security and authority of information provided in response to requests. | | | |
| <i>Dimension (ii) – Good Practices Regarding Communication with the Legislature</i> | a, b, d, e, f, g | c, h | 2 |
| POPA reports annually to the Legislature on its activities conducted throughout the year. Workshops were also conducted for certain target groups including the legislature to advocate and raise awareness of these officials about the role of the SAI in strengthening transparency, accountability and good governance. | | | |
| <i>Dimension (iii) – Good practices Regarding communication with the Executive</i> | a, b | c, d | 2 |
| POPA not only has in place a good policy in communicating with the auditees it follows the policy when conducting the audits. All reports are forwarded to the clients and are required to submit and provide comments. | | | |
| <i>Dimension (iv) – Good practices Regarding communication with the Judiciary, Prosecuting and Investigating Agencies</i> | a, b | c, d, e | 2 |
| POPA conducts special investigations, and these investigations are also included in the Annual Reports provided to the Legislature. The POPA works very closely with Attorney General’s Office and other investigation agencies who assist in prosecuting the cases being investigated. | | | |
| SAI-24 overall score | | | 1 |

Dimension (i) Communications Strategy

The communications activity is not an end in itself. In order to properly communicate the value and benefits they have to society, SAIs should establish a communications strategy aligned with the objectives established in their strategic plan. Other purposes of a communications strategy may be to obtain support from decision-makers, media and citizens for the SAI’s important role, or to clarify the role of the SAI where there is confusion with other institutions. The communications strategy measured in this dimension is focused on

external communication.

POPA does not have a communication strategy as required. However, OPA Audit Policies and Procedures Manual: Chapter 6 on External Communications, provides guidance on the importance on security and authority of information provided to requests.

The State Public Auditor has the sole authority to grant or deny dissemination of information requested. Should there be request for sensitive or confidential information, the State Public Auditor will seek the advice of the Legal Counsel if there is a Legal Counsel. All questions regarding audit information where information has not been made public should be referred to the State Public Auditor. The audit reports officially become a public record after they have been distributed to the Governor, Legislature and other relevant entities. Such audit reports are also published in the OPA website.

Dimension (ii) Good Practices Regarding Communication with the Legislature

The Legislature is one of the most important stakeholders of an SAI, as it, also plays a role in holding the Executive to account for the use of public funds. It is important that the Legislature perceives the SAI as a relevant partner in the oversight of the Executive. In many contexts, the Legislature and the SAI are mutually dependent on each other when exercising the oversight function. The capacity of the Legislature to read and make use of the SAI's reports is essential for the SAI's effectiveness.

The POPA reports annually to the Legislature on its activities conducted throughout year. The audit reports are detailed with their findings and recommendations. The State Public Auditor is required to submit a report to the Legislature in January of each year of the audits and examinations conducted by him for the immediately preceding fiscal year, and at such other times as may be requested by the Legislature or the Governor.

The Public Auditor actively takes measures to strengthen relationships with and raise awareness of the Legislature on the SAI's roles and mandate. For the year under review, the POPA in collaboration with the PASAI hosted a five-day workshop in Pohnpei for the Speaker and members of the Pohnpei legislature, Governor and his cabinet, Chief of local governments and other stakeholders. The workshop was part of PASAI's strategic priorities to advocate on behalf of its members and to promote transparency, accountability and good governance in the Pacific region. A series of fraud and corruption workshops were also conducted by the POPA for certain target groups including the Legislature. Keeping records of activities and issues raised, including these discussions and meetings with legislature can improve further communication with legislature and assist in addressing issues raised.

Although POPA has not established policies and procedures regarding its communication with Legislature including defining who in the SAI is responsible for this communication, with a small SAI like POPA, it is general knowledge that such responsibility rests with the Public Auditor. In the absence of established policies and procedures, other important dialogues with Legislature can be overlooked; for instance, POPA does not seek feedback from the Legislature about the quality and relevance of its audit reports. Such feedback gives assurance to the SAI that its work is of quality and relevant, but may also raise specific issues that the SAI needs to address or focus on in future audits.

Dimension (iii) Good Practices Regarding Communication with the Executive

It is important that the SAI raises awareness among the Executive and the audited entities on

the importance of good governance in the public sector, including through meetings between staff of the SAI and of the audited entities and/or the Ministry of Finance.

The OPA not only has in place a good policy in communicating with the auditees it follows the policy when conducting the audits. Policy advises that all reports are forwarded to the clients and are required to submit and provide comments. POPA communicates with the audited entities throughout the engagement on any issues discovered during the audits. During the audit, planning and exit meetings were also conducted where senior officials from the Executive were invited to discuss and agree on the scope of the audit, criteria used in the audit together with the audit findings before closing off an audit. However, the POPA does not seek feedback from the audited entities about the quality and relevance of audit reports and the audit process so that improvements can be made.

Dimension (iv) Good Practices Regarding Communication with the Judiciary, Prosecuting and Investigating Agencies

Communication with the Judiciary and/or prosecuting and investigating agencies, including anti-corruption agencies, is important so that audit findings may be investigated further and taken up by the legal institutions for prosecution where relevant. Some SAIs have the mandate to impose sanctions directly, others do not. In either case, clearly defined working relations with the Judiciary, and/or prosecuting and investigating agencies should be maintained.

POPA also conducts special investigations, and the results of these investigations are also included in the Annual Reports submitted to the Legislature. The OPA works very closely with the Office of the Attorney General and other investigation agencies who assist in prosecuting the cases being investigated.

SAI-25: Communication with the Media, Citizens and Civil Society Organizations

It is necessary that the SAI is being perceived as a credible source of independent and objective insight and guidance to support beneficial change in the public sector¹. Therefore this indicator assesses the practices of the SAI in reaching out to society; informing the public about its role, work and results, as well as about how it provides a relevant contribution to increased accountability in the public sector.

| SAI-25: Communication with the Media, Citizens and Civil Society Organizations | Criteria Met | Criteria not Met | Assessor Score |
|---|---------------------|-------------------------|-----------------------|
| <i>Dimension (i) – Good Practices regarding communication with the media</i> | e, f | a, b, c, d, | 1 |
| SAI Pohnpei does not hold press conferences for release of the audit reports when issued to legislature, but rather have them posted on the website | | | |
| <i>Dimension (ii) – Good Practices Regarding Communication with Citizens and Civil Society Organizations</i> | a, d, e, f | b, c, g, h | 2 |
| The SAI conducts annual public awareness programs for the anti-corruption day and fraud presentations to organizations and schools upon request. | | | |
| SAI-25 overall score | | | 1 |

¹ ISSAI 12:7

Dimension (i) Good Practices Regarding Communication with the Media

It is important that the SAI keeps a close contact with the media, appropriately using it to disseminate the results of its audits. This should be done in accordance with the SAI's communications strategy and/or an applicable legal framework.

The SAI's OPPM described the policies and procedures regarding communication with the media, which require all staff members to fully cooperate with media representatives and the general public. It emphasized that the POPA has an obligation to prevent unauthorized or premature disclosure of privileged or confidential information. Therefore it is imperative to make sure that all questions or inquiries regarding audit information are referred to the State Public Auditor for approval.

SAI Pohnpei does not hold press conferences for release of the audit reports when issued to legislature. Additionally it does not issue press releases with major reports nor approach appropriate media to disseminate audit reports, but rather have them posted on the website. Even though the OPA does not have a system to monitor media coverage of topics addressed by the audits conducted, policies are in place for handling requests and questions from the media.

Dimension (ii) Good Practices Regarding Communication with Citizens and Civil Society Organizations

Society is becoming more aware of its role in driving its own development and of its responsibility in holding governments accountable. The SAI should stimulate this behaviour, by reaching out directly to citizens and civil society whenever possible, developing a relationship with them.

Communicating with citizens and civil society organizations is important to the SAI's role of holding government accountable. The SAI relies on the information published on its website as a way to communicate to citizens and civil society organizations (CSOs). However, there is no evidence that the citizens and CSOs are actually visiting the website or downloading any of the reports. Nevertheless, the SAI also conducts Public Awareness Campaigns and Programs in order to increase awareness of citizens and CSOs about POPA's activities and functions. Public Awareness Programs are conducted annually for the Anti-Corruption Day as well as Fraud Presentations for organizations and schools upon request.

Chapter 5: SAI Capacity Development Process

5.1 DESCRIPTION OF RECENT AND ON-GOING REFORMS

Pohnpei SAI has been engaged in several reform activities, some of which are ongoing, for capacity development. These activities include:

- Maintaining active membership with the Association of Pacific Island Public Auditors (APIPA), attending its annual conferences, and participating in the periodic Peer Review of its audits;
- Establishing its Compliance Investigations Unit (CIU) to investigate received allegations of misuse, fraud, and waste, as well as raising awareness;
- Being an active member of the Pacific Association of Supreme Audit Institutions (PASAI), participating in many of its capacity building workshops, conferences, and

- programs such as the SAI PMF assessment;
- and its affiliation with various U.S. auditing and accounting standards boards and organizations.

Additionally, Pohnpei SAI keeps up to date its manuals and procedures guidelines including its annual audit plans, its audit Manual, and its Strategic Management Operational Plan.

POPA was established in 1988 to, among other purposes, establish an organized body to act as one voice in support of the goal of promoting efficiency and accountability in the use of public resources of emerging nations of the Pacific, sponsor auditing and accounting training workshops, in cooperation with established associations of the staff of member offices, as well as promote public awareness for the purposes of conducting audits of public resources. POPA utilizes its membership with APIPA to earn its required continuing professional education through APIPA's annual conferences. As a member of the APIPA, POPA is required to be peer reviewed every three years on the audits they conduct.

The POPA also, recently established a Compliance Investigation Unit within its office. The CIU focuses on conducting compliance investigations referred to them from audit findings from its audit section, reported anonymously to the CIU, or other means. The CIU also, periodically conducts fraud and anti-corruption awareness activities to brief its citizens and the general public on what fraud and corruption are, how to detect, and prevent them.

POPA is also a member of PASAI. Through its membership, PASAI makes available training opportunities in various areas including auditing and SAI leadership and management. Through its PASAI membership, POPA was able to partake in this SAI-PMF Assessment as well as numerous other workshops and conferences.

POPA conducts its audits in accordance to accounting and auditing standards of the United States of America. The two main standards the POPA is required to follow are the Generally Accepted Government Auditing Standards (GAGAS) and the Generally Accepted Accounting Principles (GAAP). The SAI follows the Generally Accepted Government Auditing Standards or the "yellow book" for both its financial and performance audits. It follows the GAAP for the financial audits it conducts.

5.2 USE OF SAI RESULTS BY EXTERNAL PROVIDERS OF FINANCIAL SUPPORT

The two main use of POPA results by external providers of financial support is through the result of the financial and performance audits it performs on Pohnpei State programs and component units or State-Owned Entities (SOEs), and the results from the investigations of its Compliance Investigations Unit.

The POPA conducted, completed, and submitted two financial statement audits on the Pohnpei Transportation Authority and Small Business Guarantee and Finance Corporation for fiscal year ended 9/30/15. These two audits are then included to form part of the Pohnpei State-wide or the whole government financial audit performed by an external auditor. Inclusion of all material SOE's financial statement into the State-wide financial audit as well as other contributing factors renders Pohnpei State an unqualified or unmodified audit opinion which is the best grade or opinion an auditor can give a set of financial statements. If these two financial audits were not included into the State-wide financial statement, the audit opinion would not be an unqualified opinion, which is basically a less than satisfactory audit grade.

The audited and published financial statement of Pohnpei State is used by external providers

of financial support as a significant deciding factor for future funding for the State. Depending on the magnitude of the findings in the audit report and the type of audit opinion given to the State plays a major role in the decision of external providers of financial support by way of additional restrictions, reducing funding, or even discontinuing funding.

The other main POPA result used by external providers of financial support are the completed and published reports from its Compliance Investigation Unit. Similar to the results from the financial statements audits, the POPA CIU conducts its investigations to prove or disprove allegations or potential findings. In cases of the allegations that are confirmed to be true, prosecuted by the proper authorities, and published, they can then be utilized by external providers of financial reports in their decision making.

ANNEX 1: PERFORMANCE INDICATOR SUMMARY

| Indicator | Indicator Name | (i) | (ii) | (iii) | (iv) | Overall Score |
|-----------------|--|-----|------|-------|------|---------------|
| Domain A | Independence and Legal Framework | | | | | |
| SAI-1 | Independence of the SAI | 1 | 1 | 2 | 3 | 2 |
| SAI-2 | Mandate of the SAI | 3 | 4 | 4 | | 4 |
| Domain B | Internal Governance and Ethics | | | | | |
| SAI-3 | Strategic Planning Cycle | 2 | 1 | 1 | 1 | 1 |
| SAI-4 | Organizational Control Environment | 0 | 1 | 3 | 0 | 1 |
| SAI-5 | Outsourced Audits | 2 | NA | NA | | NA |
| SAI-6 | Leadership and Internal Communication | 2 | 3 | | | 2 |
| SAI-7 | Overall Audit Planning | 1 | 2 | 2 | | 2 |
| Domain C | Audit Quality and Reporting | | | | | |
| SAI-8 | Audit Coverage | 4 | 2 | NA | | 3 |
| SAI-9 | Financial Audit Standards and Quality Management | 3 | 3 | 3 | | 3 |
| SAI-10 | Financial Audit Process | 2 | 3 | 2 | | 2 |
| SAI-11 | Financial Audit Results | 4 | 4 | 3 | | 4 |
| SAI-12 | Performance Audit Standards and Quality Management | 3 | 4 | 2 | | 3 |
| SAI-13 | Performance Audit Process | 3 | 1 | 2 | | 2 |
| SAI-14 | Performance Audit Results | 4 | 4 | 2 | | 3 |
| SAI-15 | Compliance Audit Standards and Quality Management | NA | NA | NA | | NA |
| SAI-16 | Compliance Audit Process | NA | NA | NA | | NA |
| SAI-17 | Compliance Audit Results | NA | NA | NA | | NA |
| SAI-18 | Jurisdictional Control Standards and Quality Management | NA | NA | NA | NA | NA |
| SAI-19 | Jurisdictional Control Process | NA | NA | NA | | NA |
| SAI-20 | Results of Jurisdictional Control | NA | NA | NA | | NA |
| Domain D | Financial Management, Assets and Support Services | | | | | |
| SAI-21 | Financial Management, Assets and Support Services | 2 | 1 | 1 | | 1 |
| Domain E | Human Resources and Training | | | | | |
| SAI-22 | Human Resource Management | NA | 0 | NA | NA | NA |
| SAI-23 | Professional Development and Training | 4 | 4 | 4 | 4 | 4 |
| Domain F | Communication and Stakeholder Management | | | | | |
| SAI-24 | Communication with the Legislature, Executive and Judiciary | 0 | 2 | 2 | 2 | 1 |
| SAI-25 | Communication with the Media, Citizens and Civil Society Organizations | 1 | 2 | | | 1 |

ANNEX 2: SOURCES OF INFORMATION & EVIDENCE TO SUPPORT INDICATOR SCORING

General Sources of Information

- Pohnpei State Public Law no. SL-1L-10-79 establishes the Office of the Pohnpei State Auditor.
- Division I, Title 5 of the Pohnpei Code
- Pohnpei State Constitution Article 11, Section 8
- Pohnpei Public Service System Act of 1981
- Government Accounting Standards 2011 revision
- Amended Compact Agreement
- Constitutional Convention

Evidence to Support Indicator Scoring

- Strategic Management of Operation Plan 2013-2017
- POPA Audit Policies and Procedures Manual
- POPA Annual Plan 2017
- POPA 2015 and 2016 Annual Reports
- Internal Memorandums
- Adopted Pohnpei financial audit manual
- Financial audit file of Pohnpei Transportation Authority – Audit Report No. 001-16 – fiscal year ending September 30, 2015
- Financial audit file of Small Business Guarantee and Finance Corporation – Audit Report No. 002-16 – fiscal year ending September 30, 2015
- Performance audit file of The Kolonial Town Government (KTG) - fiscal years 2012 and 2013
- Correspondences with the Government Ministries and Authorities
- Staff personnel files reviewed