

KIRIBATI AUDIT OFFICE PERFORMANCE REPORT



MAY 2020



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Abbreviations

AG	Auditor General
EU	European Union
FMIS	Financial Management Information System
GAAP	Generally Accepted Accounting Principles
IDI	INTOSAI Development Initiative
INTOSAI	International Organisation of Supreme Audit Institutions
ISSAIs	International Standards of Supreme Audit Institutions
KAO	Kiribati Audit Office
MFED	Ministry of Finance and Economic Development
MOE	Ministry of Education
NCS	National Conditions of Service
PASAI	Pacific Association of Supreme Audit Institutions
PEFA	Public Expenditure and Financial Accountability
PMF	Performance Measurement Framework
PSC	Public Service Commission
PSO	Public Service Office
SAI	Supreme Audit Institutions
UNDP	United Nations Development Programmes

Foreword

The Kiribati Audit Office (KAO) is the Supreme Audit Institution (SAI) of the Republic of Kiribati.

This performance report describes the assessment results of KAO's performance against the International Standards of Supreme Audit Institutions (ISSAIs). The assessment follows the methodology prescribed by the Supreme Audit Institutions' Performance Measurement Framework (SAI-PMF) issued by the International Organisation of Supreme Audit Institutions' (INTOSAI) Working Group on the Values and Benefits of SAIs. The assessment measures the current performance of the KAO across six domains against a set of pre-determined indicators within those domains. The domains covered are as follows:

- A. Independence and Legal Framework
- B. Internal Governance and Ethics
- C. Audit Quality and Reporting
- D. Financial Management, Assets and Support Services
- E. Human Resources and Training
- F. Communication and Stakeholder Management

The assessment was conducted in September 2019 as part of a regional initiative implemented as part of the United Nations Development Programme's (UNDP) *Strengthening of Public Finance Management and Governance in the Pacific Project* funded by the European Union (EU). The assessment was conducted by a team comprised of four members from supreme audit institutions in the PASAI region and the PASAI Secretariat. Team members are Mrs Sinaroseta Palamo-Iosefo, PASAI's Director of Practice Development (Team Leader), Mr Samuela Tupou of SAI Fiji, Ms Elsie Willy, and Ms Elsie Daniels – both of SAI Vanuatu.

The assessment team would like to thank the Auditor General of the KAO, Mr Eriati Manaima and his staff for their cooperation and openness throughout the assessment. We would also like to acknowledge the invaluable and ongoing support of PASAI's development partners.

a) Executive Summary

In 2019, the PASAI in collaboration with the IDI continued the implementation of the INTOSAI SAI Performance Measurement Framework (SAI-PMF) in the Pacific region. Five SAIs including Kiribati Audit Office (KAO) agreed to participate in the regional program and have their performance assessed, to gain an objective assessment of its current capability to deliver its mandate in line with the requirements of ISSAIs. The assessment was funded by the European Union (EU) under the United Nations Development Programme (UNDP) project – “Strengthening of Public Finance Management and Governance in the Pacific”.

The report will be used by Kiribati Audit Office to inform future developments within the SAI to improve its performance in delivering its mandate and having an impact on the lives of the citizens of Kiribati. Also, as part of a regional initiative, the report provides objective information that the PASAI will utilize to monitor and measure the performance of SAIs in the region and to guide the development of future capacity development interventions that will help strengthen SAI performance.

The specific objectives of the assessment are to:

- 1) To determine how well SAI Kiribati performs against international auditing standards and good practices.
- 2) To assist in informing and developing the 4 years’ strategic plan of the Kiribati Audit Office for the years 2020-2023; and
- 3) To inform necessary measures required as a step towards implementing ISSAIs.

As a Small Island State spread across 33 atolls and extending about 3,900 kilometres from east to west and 2,100 kilometres from north to south¹, Kiribati is faced with several development challenges. KAO operates in one of the least developed countries in terms of its economy, infrastructure, health, and education systems. The lack of development in these key areas has adverse and pervasive implications on KAO’s institutional, organisational and staff capacities which affected its performance.

The Public Financial Management system in which the SAI operates is weak. Although there have been improvements in some areas as identified by the 2017 PEFA assessments, among other pillars of the PFM systems, there is a need to improve the FMIS to improve fiscal controls, consolidation of data, analysis, and reporting. There is also the need to train finance officers at government entities to be familiar with the system to ensure completeness and integrity of financial information captured by the system. These developments will improve the timeliness and quality of financial statements available to be audited.

¹Kiribati National Tourism website.

Summary of Overall Performance

The KAO's level of performance recorded in this assessment fluctuates across the full range of the assessment scores available on the SAI-PMF scale from 0 – 4. A summary of the scores achieved by indicator and dimension is shown at Annex 1.

It is important for readers to understand that the performance is measured specifically within the context in which the KAO operates and as such comparisons with the performance scores of other SAIs are inappropriate.

Key Findings

The KAO has a wider mandate in terms of having the authority to audit not just government ministries and departments but government corporations, boards as well as local councils. KAO carried out financial audits of SOEs, donor-funded projects, local councils and government and compliance audits of ministries and departments. Although it has the mandate to conduct performance, environmental and IT audits, KAO has not carried out any of these activities. This wider mandate inevitably creates pressure on KAO to utilize its limited resources in the most effective and efficient manner.

Generally, the KAO is performing at the lowest level across most domains, where most of the key features are not established or barely functioning with a few areas at the development level.

The quality of financial and compliance audit reports that the assessment team reviewed is not in line with ISSAIs. This is due to several factors including outdated manuals, staff not trained on audit methodology prescribed by ISSAIs and the absence of internal quality control and quality assurance systems.

KAO has a very good coverage of financial statements that were received to be audited but low coverage of compliance audits that are conducted as separate engagements. KAO managed to submit their financial audit reports to legislature and publish them on their website within the stipulated time. The good coverage and timely submission and publication of financial audit reports is facilitated by the fact that KAO's legal framework clearly defines its reporting responsibilities and timelines. On the other hand, compliance audit reports were not submitted and published on time. This is partially because the legislation does not define clear timeframes for the submission and publication of compliance and performance audit reports.

KAO's performance in terms of following up audit recommendations vary between the three audit disciplines. Audit recommendations for financial audits are followed up in the next year's audit while recommendations from compliance audits conducted as standalone engagements have not been followed-up. The SAI does not have a systematic and structured follow-up mechanism to help auditors plan, implement and report on follow up efforts.

The SAI's performance is impacted by external factors relating to KAO's mandate, in particular the lack of autonomy over human resources where KAO is subject to wider government rules on issues such as recruitment, promotion, and remuneration. The lack of autonomy over human resources is further compounded by the weaker educational system in the country. KAO's performance is also impacted by the lack of key internal governance systems such as having clear processes for organisational planning. Poor planning may lead to ineffective use of limited resources.

Weaknesses in KAO's internal governance systems also impacted its performance. KAO lacks clear and established systems for quality control, quality assurance and overall audit planning. Staff needs to be trained to understand the practical applications of these control mechanisms and how they contribute to improving audit quality and performance of the SAI. These internal control systems collectively ensure quality of audits and ensures that the SAI's limited resources are effectively utilized to achieve its mission of "*Providing quality audit services to government and people of Kiribati*".

In relation to its core function of conducting audits, KAO's performance has been critically affected by the calibre of its workforce and the absence of key resources such as manuals to support staff. Taking stock of staff's capacity needs and providing the appropriate training and professional development will also improve quality of audits. Training opportunities are available through KAO's affiliations with PASAI, INTOSAI working groups and through the Kiribati Public Service Office (PSO).

One of the objectives of this assessment is to inform necessary measures required as a step towards implementing ISSAIs, which are the standards that the KAO are legally required to adopt. With the change in the Head of the SAI and the completion of the strategic period, this report will provide a sound basis for the development of KAO's next strategic plan. PASAI plans to support KAO to develop its next strategic plan 2019-2023.

KAO is having dialogue with the appropriate authority in government to secure its own Office so that all staff are located under the same roof. This will facilitate management and monitoring of all staff performance. In addition, KAO is working closely with the PASAI Secretariat as well as its bilateral donors to mobilise resources needed for future capacity development.

The KAO should consider wider developments in the Kiribati public sector while developing its strategic plan and consider the impact on its current resources when implementing the plan over the next five years, recognizing that the SAI must continue to deliver its mandate while going through significant development phases.

b) Independent Review Statement

SAI Performance Report of the Kiribati Audit Office dated 9 December 2020 Independent Review Statement

The INTOSAI Development Initiative (IDI), as operational lead on SAI PMF, provides support to SAI PMF assessments where requested. Such support includes conducting independent reviews (IR) of draft assessment reports. A request for such an IR was received from the assessment team on 11. May 2020 in agreement with the Auditor General.

This SAI Performance Report (SAI-PR) was prepared by Mrs Sinaroseta Palamo-Iosefo (Team Leader - PASAI's Director Practice Development). Supported by Mr Samuela Tupou (Assessment Team Member, SAI Fiji – Audit Manager), Ms Elsie Willy (Assessment Team Member, Vanuatu National Audit Office – Audit Manager) and Ms Elsie Daniels, Vanuatu National Audit Office – Audit Manager). The team leader and the team members together are considered to have the appropriate skills and experience to produce a high-quality assessment.

The design of the independent review process was included in the assessment Terms of Reference and approved by the Auditor General of the Kiribati Audit Office. The assessment was funded by the European Union and implemented by the United Nations Development Programme (UNDP) in partnership with the Pacific Association of Supreme Audit Institutions (PASAI).

In compliance with recommended SAI PMF methodology, the Auditor General of the Kiribati Audit Office received the draft report for review and official comment with the objective of ensuring that the report is factually correct.

The independent review arranged by IDI was carried out by Mr Alain Roger Memvuh, Manager at the IDI. The reviewer had no responsibility for preparing the SAI-PR and has been properly trained and is considered to have the knowledge and experience necessary for this task. The objective of this review was to ensure that the SAI PMF methodology had been adhered to, that the evidence in the SAI-PR was sufficient to justify the indicator scores, that the analysis was consistent with the evidence, and that the executive summary was consistent with the analysis in the rest of the SAI-PR. The review concluded that all objectives have been satisfactorily met in the final report dated 9 December 2020.

Significant matters raised during the independent review process have been addressed in this version of the SAI-PR.

Prepared by: Alain Roger Memvuh
Date: 23 December 2020

c) Observations on the KAO's Performance and Impact

(i) Integrated assessment of KAO's Performance

The Auditor General is the administrative head of the Kiribati Audit Office (KAO), whose duties and functions are defined in the Constitution of the Republic of Kiribati (as amended 1995), the Audit Act 2017 and related statutes. KAO has a wider mandate that requires it to conduct compliance, financial and performance audits as well as environmental and IT audits of all government entities including SOEs, government projects and local councils. KAO had a change in leadership before this assessment was conducted, with the incumbent AG taking Office in January 2019, eight months before this assessment. The period covered in the assessment is January to December 2018.

The key measure of any SAI's performance relates to the quality, timeliness and usefulness of its audit reports and the valuable contribution it makes to stronger governance, greater accountability, and improved transparency within the public sector.

The quality of financial and compliance audit reports that the assessment team reviewed is not in line with ISSAIs. Several factors contributed to the low quality of audit reports. These factors are the deficiencies in staff audit competencies, the lack of proper training and in-house support the auditors receive and the way they are managed and guided throughout the audit process, from the planning to the reporting phase. Most of the auditors are not well-versed with ISSAIs which are the standards that the SAI is required by legislation to adopt and therefore needed training on the audit methodology.

KAO's performance is also constrained by significant weaknesses at the organizational level. The non-existence of proper audit manuals that align with acceptable auditing standards and the lack of staff capability to understand and apply these auditing standards played a critical role in the quality of audit performed. The quality of audit work carried out by the KAO is not aligned with acceptable auditing standards adopted. The SAI's audit manual is outdated, lacks clear guidance and description of the financial audit process, and is not aligned with the requirements of ISSAIs. The lack of clarity in the SAI's financial audit methodology not only affected the quality of audits but also the consistency in the audit practices which in practice, is reflected in the different audit approaches adopted by the four divisions performing financial audits.

KAO does not have audit manuals for compliance and performance audits. The absence of audit manuals and guidance for these two audit streams affected the staff's knowledge, skills, and their confidence in conducting compliance and performance audits according to stipulated auditing standards. This significantly impacted the quality of compliance audits conducted as well as the capability of SAI staff to initiate and conduct performance audits. Consequently, these types of audits were not adequately implemented and covered in the respective divisions' annual work plan.

Compliance audit as defined by the ISSAIs, is less developed within KAO and a systematic approach to compliance audit is non-existent. This is reflected in the low quality of compliance audits conducted. Guidance on compliance audit is provided only through government

financial regulations with specific focus on compliance of financial transactions with these regulations, but do not provide guidance on the full audit process, from planning the audit to reporting the audit results in accordance with applicable auditing standards.

The KAO has never initiated and conducted a performance. Despite participation in regional initiatives on performance audits in previous years, the knowledge gained was not sustained and any chance of strengthening performance audit capability was exacerbated with the departure of staff who participated in these regional capacity development programs.

Having well-established internal quality control and quality assurance systems play an essential role in ensuring quality service delivery. Unfortunately, these mechanisms are not in place which could improve the quality of the audit process and ultimately the quality of audit reports.

In terms of the audit coverage of KAO's mandated responsibilities, the SAI has a very good coverage of financial statements that were received to be audited. However, a reasonable percentage (40%) of financial statements required to be audited were not received by the SAI. The coverage of compliance audits and performance audits was very low. In general, the audit coverage is affected by the lack of qualified staff and insufficient funding to recruit and retain qualified staff.

As a government entity, KAO is required by its legislation to follow national conditions of services applicable to all public sector employees, administered by the PSC. Given this legislative requirement, KAO does not have full autonomy to recruit, promote and develop staff which affected its plans to strengthen staff capability when and how it sees fit. As such, the SAI has little control over setting appropriate and attractive salaries to be able to retain qualified staff. Staff turnover became an ongoing concern where qualified and experienced staff of KAO have taken up employment in other entities who offer better remunerations.

At the institutional level, Kiribati's national educational systems are not well-developed providing less educational opportunities at tertiary level where people can pursue higher qualifications including developing appropriate knowledge and skills on public accounting and auditing. As a result, there is a lack of qualified accountants and auditors in the country where KAO can recruit competent staff from, and this significantly impacted the quality and competencies of KAO's staff which in turn affected the quality-of-service delivery and coverage of KAO's mandated responsibilities.

The critical shortcomings at the institutional level impacted KAO's ability to recruit qualified staff and set appropriate remunerations to minimise staff turnover which are crucial in ensuring quality audits and sustaining quality audit practices. Furthermore, these deficiencies affect KAO's ability to complete planned audits and ensure that a reasonable coverage of its mandate is implemented by performing a variety of audits such as financial, compliance, performance, environmental and IT audits as empowered by the Audit Act 2017.

The lack of qualified personnel in accounting and auditing in the country has pervasive effects throughout the public sector, which resulted in most of the local councils not having qualified personnel to prepare their financial statements and therefore affected the preparation and quality of financial statements. About 87% of the 23 local councils have not submitted their financial statements to be audited due to lack of expertise in these entities. This failure on the audited entities' part to prepare and submit quality financial statements to be audited makes it challenging for KAO to complete the audits of these entities but also perform quality audits.

KAO managed to submit their financial audit reports to legislature and publish them on their website within the stipulated time. The timely submission and publication of these reports is facilitated by the fact that KAO's legal framework clearly defines its reporting responsibilities and timelines. On the other hand, compliance audit reports were not submitted and published on time. The legislation does not define clear timeframes for the submission and publication of compliance and performance audit reports. A general requirement is that the reports should be submitted to legislature as soon as practicable. However, this requirement is not in line with the ISSAIs, which require compliance reports to be submitted to legislature within six months of the period for which the audit relates. The delay in submitting compliance audit report is due to the delay in receiving the statements to be audited.

KAO's performance in terms of following up audit recommendations vary between the three audit disciplines. The SAI follows up recommendations for its financial audits as part of the following year's annual audit. Compliance audits are conducted by two separate divisions and have different practices with regards to follow-up of audit recommendations. The audit recommendations from the compliance audit which is carried out together with the financial audit of government accounts are followed-up in the next year's audit while the audit recommendations for the compliance audit carried out as a separate audit were not followed up. The SAI does not have a systematic and structured follow-up mechanism to help auditors plan, implement and report on follow up efforts.

KAO's performance during the period under review is impacted by systemic issues that are directly under its control such as its audit methodology; that it can seek to influence such as its legal framework and resourcing and that are beyond its control such as Kiribati's political system and economic situation.

KAO operates in one of the least developed countries in terms of its economy, infrastructure, health, and education systems. The lack of development in these key areas has adverse and pervasive implications on KAO's institutional, organisational and staff capacities which affected its performance.

KAO's legal framework allows it to engage external qualified individuals and/or firms to conduct audits on its behalf. However, there are no accounting firms or practitioners in Kiribati that KAO can outsource audits to and alleviate the staff capacity shortfall which impacts the delivery of its mandate. Also, there is no appropriate legal framework and/or institution in Kiribati to regulate accounting/auditing practices and provide assurance that quality, ethical and professional service is guaranteed.

Weaknesses in KAO's internal governance systems also impacted its performance. KAO lacks clear and established systems for quality control, quality assurance and overall audit planning. These internal control systems collectively ensure quality of audits and ensures that the SAI's limited resources are effectively utilized to achieve its mission of "*Providing quality audit services to government and people of Kiribati*". The absence of a code of ethics and clear guidance on how the staff should apply these ethical requirements is critical to ensuring quality. Also, SAI leadership's inaction in establishing and encouraging a culture of ensuring quality in staff performance has affected the quality of work carried out by staff.

Moreover, the lack of established organisational planning processes affected how the SAI developed its overall audit plans, specifically identifying potential audit topics or ministries for

performance and compliance audit purposes. KAO's organisational plans considered the wide range of entities that are required by its mandate to audit, through the four audit divisions' annual work plans. However, its inability to conduct and complete all planned audits is due to the lack of qualified and competent workforce and resources to support the auditors in performing its functions.

The calibre of the SAI's workforce is essential in achieving effective and efficient results. There is a critical need to develop staff capacity and provide them with proper training and professional development. Because there are no established plans and processes for professional development and training for all staff, the audit competencies required to be developed to deliver KAO's mandate are not clearly identified, staff's specific training needs are also not identified and mechanisms to ensure knowledge and skills gained through trainings are transferred and embedded in the SAI's operations are not clearly described. Institutional knowledge and knowledge gained from trainings is easily lost when staff leave the SAI for greener pastures.

Training opportunities are available through KAO's affiliations with PASAI, INTOSAI working groups and through the PSO. But until KAO develops organisational and individual staff plans for professional development and training, it is difficult to ensure that all staff will receive the appropriate training and professional development and that knowledge gained is embedded and sustained in daily audit practices. KAO needs a structured and systematic way of managing and monitoring staff trainings and translating the lessons learnt to tangible results.

KAO has made great strides in making its audit reports publicly available by publishing them on its website once they are submitted to the legislature. However, it is difficult for the SAI to know whether the audit reports are clearly understood by the public or legislature because the SAI has no mechanisms in place to guide them on how to ensure that these reports are clearly understood by parliament, citizens, and key stakeholders. Having a clear communication strategy which identifies key stakeholders, their expectations and means of communicating with them will assist the SAI in engaging effectively with its key stakeholders and ensuring they are fully aware of and understood the value and benefits they receive from the work of the SAI.

KAO has demonstrated some degree of good governance to an extent, given its limited capacity and resources. The SAI has published an annual progress report for the 2018 financial year. The report details how the SAI has utilised its budget and the SAI's performance against the targets for the financial year. With the establishment of an oversight Board in 2018, it is envisaged that this will provide some strong support for the SAI leadership in terms of encouraging and motivating the SAI to strive for excellent in service delivery but also ensuring that the AG is well supported in any request for assistance in developing and strengthening the KAO.

Follow up audits on the implementation of audit recommendations ensures that corrective measures and improvements have in fact taken place within the respective entities but also confirms that the SAI has made a valuable contribution to the development of Kiribati's public sector.

(ii) The Value and Benefits of Supreme Audit Institutions – Making a difference to the Lives of Citizens

ISSAI-12: *The Value and benefits of Supreme Audit Institutions – making a difference to the lives of citizens*, prescribes three mechanisms by which SAIs can have an impact on society and deliver value and benefits that improve the life of the citizens:

- By strengthening the accountability, transparency and integrity of government and public sector entities.
- By demonstrating ongoing relevance to citizens, Parliaments, and other stakeholders.
- By being a model organization through leading by example.

Strengthening the Accountability, Transparency and Integrity of Government and Public Sector Entities

In a democracy, elected members of the legislature are empowered to make decisions and act on behalf of citizens through legislative and executive bodies. As such, the concept of accountability is an essential element of a democratic system, which describes the relationship between the duties of the state as represented by the legislature, and the privileges to be afforded to citizens. Nevertheless, there is always a risk in a democracy of mismanagement or misuse of power and resources that can lead to a loss of trust and undermine the democratic system. Therefore, having an independent, effective, and credible SAI that scrutinises the use and impact of public resources is an important element in holding government accountable and strengthening transparency and integrity across the public sector.

Currently, KAO does not measure what impact it is having on the accountability, transparency and integrity of government and public sector entities. However, according to 2017 PEFA assessments of Pacific Island Countries (PICs) including Kiribati, outcomes have been achieved in the following areas which can be attributed to the work of the SAI.

- Improvement in expenditure control, predominantly driven by strengthened controls on expenditure as instigated through audit recommendations from audit of ministries' revenue and expenditure statements.
- Slight improvement in fiscal reporting coverage and quality driven by availability of audited financial statements that are scrutinised by Parliaments.

KAO is yet to fully develop as a SAI and to be consciously aware and recognize the critical role it plays in society and that its contribution to government and citizens at large goes beyond completing audits – they should strive to make a difference in the lives of Kiribati citizens. No doubt the work of KAO has contributed to the development of Kiribati's public sector but the absence of established and formal processes that provides feedback and assurance on the impact of the SAI's work, makes it difficult for the SAI to identify what impact, if any, it has made on the lives of citizens. The fact that the KAO exists and is actively submitting audit reports on government accounts is encouraging. Given time to develop its capabilities, it may achieve its vision of "*Audit for an Impact for the Public*".

Demonstrating ongoing relevance to Citizens, Parliaments and Other Stakeholders

SAIs demonstrate ongoing relevance by responding appropriately to the challenges of citizens, the expectations of different stakeholders, and the emerging risks and changing environments in which audits are conducted. This can be achieved by encouraging greater public and media interest in audit reports that are uncovering weaknesses in transparency and governance which in turn may generate demands for improvement in the stewardship of public funds. Additionally, the SAI may engage more actively with parliament to stimulate interest in the way in which public funds are utilized and help them get a better understanding of its reports so that Parliament can make informed decisions on holding public servants accountable for their service and management of public funds.

KAO does not actively seek feedback on its performance from any of its stakeholders nor actively engage with its stakeholders when determining how best to use its resources. The SAI will act and respond to any requests from stakeholders as they are required by their mandate; for instance, responding to a request from a government ministry to investigate a specific program, which resulted in the SAI conducting a special investigation. However, the SAI has not taken further measures to ensure Parliament or other stakeholders understood the work of the SAI and how it can benefit society. The SAI has not created opportunities, where possible, to better interact with its stakeholders and citizens.

The lack of efforts taken by KAO to demonstrate ongoing relevance to Parliament, citizens and other interested parties is intensified by the fact that KAO does not have a communication strategy that provides guidance on structured ways to engage with its key stakeholders and citizens. The lack of a formally approved and implemented communication strategy demonstrates that there is scope for improvement in responding appropriately to the expectations and challenges of different stakeholders.

Being a Model Organization through Leading by Example

The assessment team understands that the KAO plans to submit this report to Parliament, which itself sets a positive example on transparency and a willingness to open itself to external scrutiny. Like all other public entities, the KAO also submitted its annual report 2018 to legislature but the report is not published on its website.

However, there are a number of areas where the KAO needs to improve if it is to be seen as an exemplar for others and to demonstrate clearly that it fulfills its functions in an efficient and effective manner. These include improving strategic and annual planning processes; establishing internal control systems; improving stakeholder engagement; establishing formal plans for professional development and training and improving audit methodologies for all audit types. It is up to KAO's leadership team to prioritize these focus areas as some of these issues can be addressed quickly whereas others will take a little longer and may require external support.

- (iii) Analysis of the KAO's Capacity Development Efforts and Prospects for Further Improvement

Ongoing capacity development efforts as described in Chapter 5.1 recognized the need to strengthen KAO's organisational capacity as well as its technical capacity. The incumbent AG's decision to participate in this regional initiative, phase 3 of implementing SAI PMF in the Pacific region, is testament to the KAO's critical need for further improvements. This report will assist KAO's leadership team in identifying areas requiring improvements and hopefully help them in prioritising and identifying what resources and support they need to strengthen the areas identified.

Technical support in financial audit has already been provided by PASAI with more targeted support planned in the coming years, on the other types of audits that KAO is required to perform. In addition, PASAI plans to support KAO in developing its next strategic plan 2019-2023 and strengthening its internal control systems, organizational planning processes.

KAO is having dialogue with the appropriate authority in government to secure its own Office so that all staff are located under the same roof. This will facilitate management and monitoring of all staff performance.

As a member of the PASAI, the KAO has benefitted immensely from its capacity development programs over the years and will continue to do so in the future. KAO is working closely with the PASAI Secretariat as well as its bilateral donors to mobilise resources needed for capacity development efforts to materialise. Of course, success in implementing any development plan will depend on the sustained commitment of KAO's leadership and staff and sustained financial support from the development community. The assessment team is confident that with such support, KAO can make real progress in the future.

d) SAI Management Use of Assessment Results

SAI Kiribati last four years strategic plan ended last year 2019 therefore the findings of this Performance Measurement Framework (PMF) assessment will be used to inform our next four year's strategic plan (2020-2023). The results of this assessment have shown us where we (SAI Kiribati) are against international best auditing practices but more importantly what or which areas we need to focus on as we continue building and strengthening SAI Kiribati in the next four years.

The report will also be used by SAI Kiribati Management when seeking assistances (financial or technical) for short- or long-term training and capacity building for her staffs and Technical Assistance from our key stakeholders like the Government of Kiribati and our development partners like Government of Australia, New Zealand, the European Union, World Bank, Asian Development Bank, and others.

Chapter 1: Introduction

The Kiribati Audit Office (KAO) is the Supreme Audit Institution (SAI) of the Republic of Kiribati. The Kiribati Audit Office (KAO) expressed its interest in participating in the second regional initiative supporting the implementation of SAI PMF and assessing its performance given the relevance of the assessment in developing its capacity. This assessment is part of a regional initiative which is implemented as part of the *Strengthening of Public Finance Management and Governance in the Pacific Project* funded by the European Union (EU) and

implemented by the United Nations Development Programme (UNDP). PASAI is one of the implementing partners of the PFM project.

The assessment used the Endorsement version of the tool which was formally approved as an official INTOSAI tool at the INTOSAI Congress in Abu Dhabi December 2016. The Congress brought a strengthened focus on professionalization of public external audit where the SAI PMF is seen as an important component.

SAI Kiribati will own the assessment product and publishing of the assessment report is subject to the discretion of the Auditor General (AG) or Head of the KAO.

The specific objectives of this assessment are:

- 4) To determine how well SAI Kiribati performs against international auditing standards and good practices.
- 5) To assist in informing and developing the 4 years' strategic plan of the Kiribati Audit Office for the years 2020-2023.
- 6) To inform necessary measures required as a step towards implementing ISSAIs.

Given the specific objectives and as part of the regional initiative facilitated by the IDI and PASAI, a peer review approach was decided to be taken by an external assessment team for this assessment. The assessment team comprised of Mrs Sinaroseta Palamo-Iosefo, PASAI's Director Practice Development (Team Leader), Mr Samuela Tupou, Acting Audit Manager Performance Audit Division from Fiji Office of the Auditor General, Ms Elsie Willy, Audit Manager Compliance and Ms Elsie Daniels, Audit Manager Investigations, both from Vanuatu National Audit Office.

Palamo-Iosefo manages the SAI PMF program in the PASAI region and has extensive knowledge and experience in the methodology used for this assessment as well as providing support on capacity development needs of SAIs in the Pacific region. Other members of the assessment team have participated in a comprehensive training on using the SAI PMF methodology during the regional planning workshop delivered by IDI and PASAI in May 2019 to prepare participants for this assessment.

The assessment covered all areas of KAO's operations with respect to all domains set out in the SAI PMF endorsement version and all indicators except SAI-5: Outsourced audits. The SAI has never outsourced any audits or services nor has any plans to outsource work in the future. The AG's decision not to outsource is because the private sector in Kiribati with respect to the provision of auditing and assurance services does not exist. There are no auditing and assurance firms in Kiribati to provide this service besides the Kiribati Audit Office. Another factor hindering SAI Kiribati's ability to engage external auditors, especially retired KAO auditors and other retired/academically qualified accountants is the absence of an institution and the appropriate legal framework in Kiribati that will among other things, license, regulate, and ensure audit quality and professionalism from these individuals/firms who will provide audit and assurance services.

SAIs 18 to 20 are also excluded from the assessment because KAO does not have jurisdictional functions and therefore these indicators are not applicable. The assessment was based on work carried out by KAO during the financial year 1 January to 31 December 2018.

Chapter 2: Methodology

This assessment is conducted as part of a regional initiative, facilitated by the PASAI and IDI. As one of the participating SAIs in the program, the Auditor General, Mr Eriati Manaima confirmed agreement to assessing his Office using the SAI PMF tool.

The regional program involved two workshops, a planning workshop where staff of all participating SAIs go through a training on applying the SAI PMF methodology and a performance analysis workshop where the assessment teams analyse the results and prepare the SAI's performance report, which is the final output of the assessment. This assessment was conducted over three phases in line with the terms of reference (TOR) approved by the AG.

Phases	Outputs
<p><u>Planning: May – August</u></p> <p>Gather basic information about the SAI and its environment including constitutional and legal framework, mandate, strategic and operational plans, annual reports, to assist in preparing and finalising the assessment TOR.</p>	<ul style="list-style-type: none"> • initial assessment of Scope of the assessment and evidence required. • TOR finalised (23 August)
<p><u>Fieldwork: 23 August – 4 September</u></p> <p>In country mission</p> <p>Preliminary review of background documentation and raise awareness of SAI staff and management about the assessment.</p> <p>Gather evidence through review of audit files, interview of staff and SAI stakeholders where possible.</p> <p>Presentation of initial assessment results to KAO leadership and staff.</p>	<ul style="list-style-type: none"> • Discuss assessment plans with Head of SAI and management • Presentation of initial assessment results to KAO leadership and staff (4 September)
<p><u>Reporting: October 2019 - February 2020</u></p> <p>Assessment team prepares first draft of the SAI Performance Report (SAI-PR)</p> <p>Finalise draft report including quality control by SAI and feedback from independent review by IDI.</p>	<ul style="list-style-type: none"> • First draft of the assessment report to the SAI for quality control of facts. (1 October 2019) • Finalise SAI-PR including feedback from SAI and independent review • Final report and IR statement for the SAI.

The planning and preparations for this assessment took place during a planning workshop held in Fiji from the 6 to 10 of May 2019 to train members of assessment teams on the SAI PMF methodology and prepare them on applying the methodology when conducting the assessments of the five SAIs including Kiribati Audit Office (KAO), who are participating in this regional program. The assessment approach adopted by this program is a peer assessment by another SAI in the PASAI region. The assessment team had the opportunity to review the draft terms of reference (ToR) for the assessment and finalise it in consultation with Mr Manaima and his management team and with his approval.

The assessment fieldwork was conducted on 23 August – 5 September 2019 at KAO premises. Documentary review, interviews with appropriate SAI staff and review of a sample of audit files were the main methods used for gathering data and information. The main documents obtained and reviewed by the assessment team are listed in Annex 2: *Sources of Information & Evidence to Support Indicator Scoring*. Among the main documents are the Constitution of Kiribati (Constitution), Kiribati Audit Act 2017 and other relevant Acts and regulations, the Strategic Plan, the KAO 2000 Manual Audit Instructions, audit reports, audit files, annual reports and other relevant materials. The assessment team also conducted interviews with personnel as listed in Annex 2, and a survey questionnaire with all SAI staffs.

The assessment team had the freedom to randomly select the sample of audit files to be reviewed, without any interference from those responsible for the audits. Audit files selected for review were taken from the list of audits completed during the period under assessment. Financial audit is conducted by four different divisions namely the Central Government, Local Government, State-Owned Enterprises and Projects. One audit file from each division was selected. Two compliance audit files were reviewed, one conducted as a separate audit and the audit of ministries revenue and expenditure statements which were conducted together with the financial audit of government accounts. Performance audit is less developed in the SAI and the SAI did not conduct an audit for the period under review. Nevertheless, the team assessed the auditing standards, policies, and procedures the SAI has in place to guide its performance audit practice to identify areas for improvements for the SAI to consider for further developments.

Sample Audit Files to review

Financial Audit

1. Central Government Accounts 2017
2. Kiribati Housing Corporation 2017
3. Tabiteuea Island Council Audit 2017
4. Kiribati Outer Island Food and Water Project Accounts – 31 December 2017

Compliance Audit

1. Special Investigation on Meleang Tabai Secondary School
2. Central Government Accounts 2017

Based on the documents reviewed and information gathered, the assessment team analysed the evidence and scored the indicators using pre-determined criteria described in the SAI PMF methodology. The assessment team was able to conduct all planned interviews and were able to obtain all information required to complete the assessment.

As part of the regional program, the performance analysis workshop was held in November 2019 where all members of the assessment team analysed the results from the assessment fieldwork and received guidance on developing the performance report.

To ensure the quality of the assessment, the assessment team, PASAI and IDI played separate roles throughout the assessment until the report is finalized. The assessment team leader supervised the assessment, review team members' work and manage the assessment process. PASAI conducted a high-level review of the first draft report before the report was submitted to KAO for its quality review to confirm the assessment results and findings. The final report was independently reviewed by IDI for quality assurance purposes. The Head of the KAO, Mr Manaima intends to submit the final performance report with the Legislative.

Chapter 3: Country and SAI Background Information

3.1 Kiribati Country Context and Governance Arrangements

Country context

The Republic of Kiribati (pronounced Kiribass) is a sovereign state within the Commonwealth of Nations, located in the central Pacific, who won independence from the United Kingdom in 1979. Kiribati comprised of 33 coral islands, is one of the smallest, most remote and most geographically dispersed countries in the world. Of the 33 islands, 21 are inhabited low lying islands with no more than three metres above sea level and are at risk from rising sea levels because of global warming. Its landmass is 811 square kilometres, extending about 3,900 kilometres from east to west and 2,100 kilometres from north to south². This geography creates significant economic growth and service delivery challenges.

The capital, South Tarawa, the most populated area and where the SAI has its office, consists of several islets connected by a series of causeways. *Weaknesses in governance, business regulations, and access to credit exacerbated the geographical challenges. Long-run prospects are clouded by climate change*³. According to the 2015 population census the total population was 110,110⁴, an increase of 7,052 persons over the last 2010 census total of 103,058. This is equivalent to a growth rate of 1.32% per annum.

Figure 1: The Kiribati Islands

²Kiribati National Tourism website.

³IMF Country Report No. 19/26 – 2018 ARTICLE IV

⁴ Kiribati 2015 Population and Housing Census – Preliminary Report.



(Source: Kiribati National Tourism website)

Kiribati has few natural resources since the depletion of phosphate mines which was a major source of revenue for the country up until 1980⁵. Economic activity is driven by subsistence fisheries and copra (which is subsidized by the Government), the public sector (including SOEs), and a service economy underpinned by the public sector in the capital of South Tarawa (where approximately half the population live).

In one form or another, Kiribati gets a large portion of its income from abroad through fishing licenses, development assistance, worker remittances and tourism. Private sector development opportunities are highly constrained by the lack of economies of scale possible in such a small and fragmented domestic market that is extremely remote from large markets abroad. Severe infrastructure deficits in the areas of utilities, transport and communications compound these constraints. Given Kiribati's limited domestic production ability, it must import nearly all of its essential foodstuffs and manufactured items while depending on these external sources of income for financing. The main constraints to Kiribati's growth potential are imposed by "(i) land area, (ii) geographic dispersion across 5,000 km of ocean, (ii) remoteness from major markets with associated high external transport costs, (iii) high vulnerability to natural forces including climate change and sea-level rise, and (iv) scarce natural resources."⁶

Kiribati National Statistics Office (KNSO) figures show that Real GDP growth in 2017 was 0.3%, a steep fall from 5.1% growth experienced in 2016. The Nominal GDP per capita in 2017 was \$2,141⁷ one of the lowest of Pacific Island nations. The latest KNSO figures for the December quarter 2018 show an annual rate of inflation of 0.5%. Since 2010, inflationary pressure has been low, with inflation between -3.0% and +2.1%. The IMF forecast that inflation will rise to 2.0% in 2019, largely in-line with the price of imported goods.⁸ Generally there is poor infrastructure environment, limited internet connectivity and low level of computer and

⁵ BBC Country Profile, January 2018.

⁶ Kiribati: Country Partnership Strategy (2010-2014), ADB, May 2010

⁷ Economic Outlook 2018, Kiribati – May 2019

⁸ Economic Outlook 2018, Kiribati – May 2019

internet access. These are some of the issues that hinder the effective use of technology and therefore efficiency of service delivery across the islands.

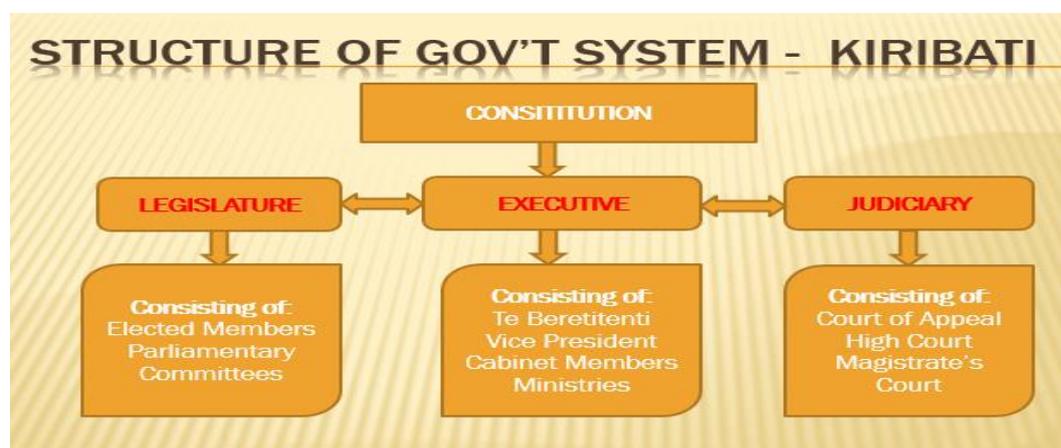
Kiribati's economy also benefits from international development assistance programs. Multilateral donors provide development assistance aimed at supporting measures that reduce Kiribati's vulnerability to the effects of climate change and sea level rise by raising awareness of climate change, assessing and protecting available water resources, and managing inundation, and the most vulnerable sectors in the most highly populated areas. Initiatives include improving water supply management in and around Tarawa; coastal management protection measures such as mangrove re-plantation and protection of public infrastructure; strengthening laws to reduce coastal erosion; and population settlement planning to reduce personal risks.⁹

In 1956, Kiribati established a sovereign wealth fund, the Revenue Equalization Reserve Fund (RERF), to act as a store of wealth for the country's earnings from phosphate mining, which at one time accounted for 50% of government revenue. *In 2009 the RERF was valued at A\$570.5 million (Australian dollars). In 2018, it is set to reach A\$1 billion*¹⁰.

Besieged by the rising tides of climate change, in 2014, Kiribati bought land in Fiji for food security and as a possible refuge, with the Fijian government's permission.

Governance arrangements

Figure 2: Government Structure



The Republic of Kiribati has a parliamentary representative democratic framework of governance where the President is the head of state and the head of government as well¹¹. The Republic was established in 1979 after Kiribati gained independence from the United Kingdom and adopted its constitution in the same year. In Kiribati, the Constitution is the supreme law in the country and dictates the sovereignty of Kiribati and outlines the fundamental rights and freedoms of its citizens.

⁹ Government of Kiribati Climate Change Strategies – November 2010

¹⁰ Sovereign Wealth Fund Institute, March 2013

¹¹ Section 30(2) Constitution

The Kiribati Constitution provides for free and open elections. The executive branch consists of a president (*the Beretitenti*), a vice-president and a cabinet. The cabinet is composed of the president, vice-president, and 10 ministers (appointed by the president) who are also members of the House of Assembly. The legislative branch is the unicameral *Maneaba Ni Maungatabu* (House of Assembly). Legislators serve for a four-year term.

Local government is through island councils with elected members. Island councils make their own estimates of revenue and expenditure and generally are free from central government controls. The 21 inhabited islands each has its own council who also prepare financial reports that the SAI is required to audit.

Education

The education system in Kiribati is fragmented¹². The following are five Educational sub-sectors.

- Early childhood education; primary (years 1 to 6).
- Junior secondary (forms 1 to 3/ years 7 to 9).
- Senior secondary (forms 4 to 7/ years 10 to 13).
- Technical and Vocational Education and Training (TVET) – consisting of the Marine Training Centre, Fisheries Training Centre, Kiribati Institute of Technology, Police training and Nurse training; and
- Higher education - the Kiribati Teachers' College and campus of the University of the South Pacific (USP) on Tarawa.

The primary and junior secondary school sectors are compulsory and free while the senior secondary sector is free only up to year 12 under the Government's Free Education policy¹³. The Ministry of Education (MOE) is responsible for the delivery of primary and secondary education (excluding specialized schools for children with disabilities), administration of the Kiribati Teachers College (KTC) and regulatory oversight of early childhood education. Also, MOE including the Ministry of Public Works and Utilities (MPWU) and Ministry of Internal and Social Affairs (MISA) are collectively responsible for maintaining primary school buildings, furniture, and equipment.

The government as the main employer in Kiribati plays an important role in providing education and capacity support. This role is administered by the Public Service Office (PSO) through providing scholarships, in-country and overseas short-courses as well as providing whole-of-government oversight for human resources, governance, and customer service delivery. Every year, the National Human Resources Planning Committee with representatives from government and NGO stakeholders, recommend to Cabinet a list of priority areas for considerations and allocation of scholarship awards. Scholarship selection is entirely based on merit. Scholarship awards are offered through bilateral donors but mainly by the Australian, New Zealand and Taiwan governments¹⁴.

¹²Kiribati Education Improvement Program (KEIP) Phase 1 – Design Document (Final)

¹³ Kiribati Voluntary National Review and Kiribati Development Plan Mid-Term Review 2018

¹⁴ Kiribati Voluntary National Review and Kiribati Development Plan Mid-Term Review 2018

Developing an educated and healthy workforce remains vital to providing broad-based economic opportunities and creating economic resilience. Recent years have seen significant advances in school enrolment rates, basic literacy, and numeracy, particularly for girls and young women. There have also been improvements in geographical accessibility, teacher qualifications and free-to-access education. However, the high costs of service delivery and limited capacity at tertiary institutions to absorb school-leavers remain challenging issues. Education outcomes among young males are not showing the same level of success, with male students less likely to progress to the next stage of schooling.

Media

Freedom of speech and of the media is generally respected. The most popular and common forms of media available in Kiribati are the government-run radio station and newspaper. Protestant and Catholic churches publish newsletters and periodicals which are other important sources of information. There is no domestic TV service, but the country has access to international TV networks such as CNN, BBC and Australian TV networks.

Traditional knowledge and cultural skills are a rich resource for Kiribati. Culture is implicit in the Kiribati community, although the intrinsic value tends to be overlooked. Traditional knowledge and cultural practices have become increasingly undervalued and have also deteriorated. Each island has its own unique history. While some stories and myths link one island to another, the individual islands are possessive over and proud of their versions of Kiribati prehistoric times, which is commonly linked to land ownership¹⁵.

3.2 Kiribati's Public Sector Budgetary Environment and Impact on SAI Performance

Structure of the Public Sector

Kiribati Government's administrative structure include central, local councils and state-owned enterprises (SOEs). Currently, central government has 22 ministries and departments, 23 local councils and 21 SOEs or corporations with four being defunct. The financial statements of government are prepared by the Ministry of Finance and Economic Development (MFED) while the financial statements of local councils, SOEs and non-SOEs are prepared by the respective entity. Furthermore, the ministries do not compile or have their own separate financial statements as they are all included in the government accounts prepared by the (MFED). However, a Revenue and Expenditure Statement (RES) for each ministry is prepared by the Accountant General and submitted for audit by the SAI.

The Annual Account of the Republic of Kiribati is presented in accordance with section 39 of the Public Finance (Control and Audit) Act 1976 and should be submitted to the Auditor General within six months after the financial year. The government's financial year is the calendar year.

The Annual Accounts are prepared under the Cash Basis Accounting and comprised of the Balance Sheet (Financial Position) and Statements of Income and Expenditure (Financial

¹⁵Kiribati 20 Years Vision – 2016 - 2036

Performance). The disclosure of the Annual Accounts follows the requirement prescribed in section 40 of the Public Finance (Control and Audit) Act, 1976 and amended in 2010, which requires the Annual Accounts to include nineteen statements. These are described in Annex 3 of this report.

The financial statements for local councils, SOEs and non-SOEs are prepared based on generally accepted accounting principles (GAAP). These financial statements are also audited by the KAO. These entities have the same financial year as the central government, except Kiribati Provident Fund (KPF) whose financial year is 12 months ending on 31 March of every year. The relevant enabling Acts stipulate the process and procedures for preparation and auditing of accounts for these entities.

In addition, the results of repeated PEFA assessments over the last two calendar years (2016-17) in four PICs including Kiribati have demonstrated outcomes in the following areas¹⁶:

- Budget reliability – slight improvement overall driven by improvement on the information on resources and performance included in budget documentation.
- Expenditure control – improvement predominantly driven by strengthened controls on expenditure, and the establishment of risk based internal audit functions.
- Fiscal reporting coverage and quality – slight improvement driven by availability of audited financial statements that are scrutinized by Parliaments.
- Asset and liability management – improvement driven predominantly by better cash management forecasting and the disclosure of assets.
- Managing fiscal risks – improvement driven by greater central oversight by central governments over public corporations and sub national governments.

The PEFA assessment results further identified ongoing support from development partners to most PICs including Kiribati, to upgrade their Financial Management Information System (FMIS). The use of this technology to maximise the organisation, analysis, and consolidation of data, and reporting, as well as implementing fiscal controls is another challenge that needs to be addressed. There is also the need to train finance officers at government entities to be familiar with the system to ensure completeness and integrity of financial information captured by the system. This will further improve the timeliness and quality of financial statements available to be audited.

3.3 KAO's Legal and Institutional Framework, Organizational Structure and Resources

Legal Framework

The Constitution

Section 114(1) of the Constitution of the Republic of Kiribati covers the appointment of the Auditor General (AG), which was known at the time as the Director of Audit. An amendment to the Constitution in 1995 changed the designation from Director of Audit to the Auditor General. The Office of the AG was established under the same legal provision. The

¹⁶<https://www.forumsec.org/2018-femm-improving-public-finance-management-in-the-pacific/>

Constitution covers the tenure and removal of the AG as well as appointment of staff of the KAO.

Section 114(2) of the Constitution requires the Auditor General to audit and report annually on the public accounts of Kiribati and of all departments, offices, courts, and authorities of the Government. The Auditor General or any person authorised by the AG shall always be entitled to access all books, records, returns and other documents relating to such accounts.

The mandate of the KAO is supplemented by the following Statutes.

- Public Finance (Control and Audit) Revised Act 1981, section 29 requires the AG to examine, inquire into and audit the accounts of the Chief Accountant (Accountant General) and of accounting officers and of all accountable officers. This is a broad mandate which specifically extends the power of the AG to audit the work carried out by the accounting officers and all accountable officers.
- Local Government Act 1984, section 67 gives the power to the AG to audit accounts of the Council. Section 69 (1) provides specific powers and duties of the AG in relation to examining the Council's accounts. These powers state that the AG may disallow an unlawful expenditure and surcharge the amount of loss on the responsible person. It is the AG's duty to certify the amount due from a person upon whom he has made a surcharge. Section 72 of the Act requires the payment of every amount certified by the AG to be paid to the Council within 60 days after it has been certified, or if an appeal has been made with respect to the amount due, within 30 days after the appeal.
- The State-Owned Enterprises Act 2012, section 23 states the AG is the auditor for every SOE. However, the AG may appoint a person or firm that is a qualified auditor to audit an SOE on the AG's behalf, if the responsible Minister approves.
- Enabling legislations and relevant regulations for each SOE

Audit Act 2017

Before this Act was enforced, all the powers and duties of the AG were prescribed in the Constitution and the relevant legislations as described earlier. This Act provided further guidance on the auditing standards that the SAI should adopt when performing its audit work as well as additional functions of the SAI, such as the power to conduct performance, environmental and IT audits. Section 22(3) of the Act explicitly require the AG to apply the International Standards for Supreme Audit Institutions (ISSAIs) when performing his/her functions.

This Act established an Audit Board (the Board) whose functions included reviewing the annual work plan of the KAO and determining whether there is sufficient resources to carry out the functions of the AG. The Board shall endorse the work plan and the budget of the KAO and consider any new recommendations for the future development of the Audit Office.

The Act refers to the appointment and discipline of the staff of the KAO as subject to the provisions of section 99 of the Constitution, which means that the AG does not have full autonomy on human resource matters such as the appointment, promotion, disciplinary controls of all staff of KAO. Recruitment of all staff and all human resource matters are

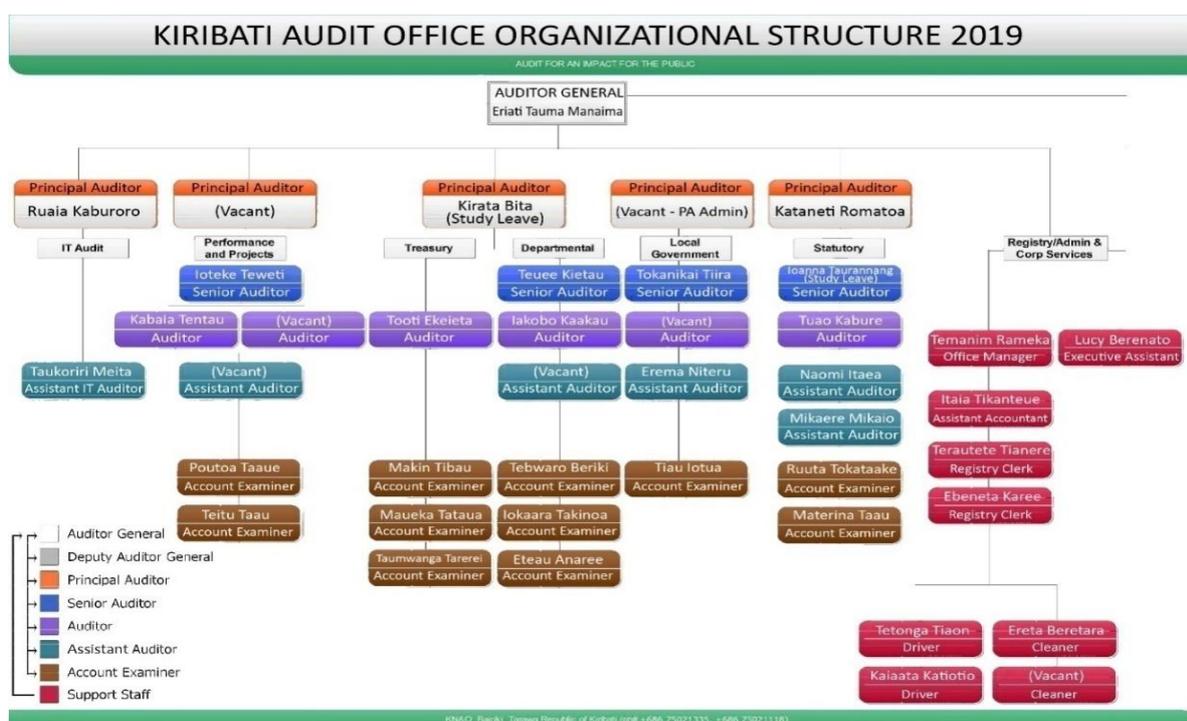
required to follow the policies and procedures as set down in the National Conditions of Service (NCS) administered by the Public Service Commission (PSC).

Organisational Structure

The current AG assumes duties on 1 January 2019 after the former AG’s term was completed in December 2018. The Auditor General is the Head of the SAI and is the first and highest level in the KAO’s structure. The second level is formed by five Principal Auditors but two are currently vacant. The Principal Auditors head each of the five audit divisions and the IT division, except one Principal Auditor looking after two audit divisions which relate to Treasury and Departmental – together the two divisions make up the “Central Government” division. The other levels within the KAO are as depicted by the organisational chart: after the principal auditors, there are the senior auditors (4), auditors (4), assistant auditors (5), account examiners (11) and support staff (8); a total of 36 staff including the AG. KAO’s executive and management team comprised of the AG and heads of the six divisions.

At the start of the strategic period 2016-2019, there was a deputy Auditor general post within the SAI and the SAI had five divisions, namely Government (Treasury and Departments) and Local Government, SOEs, Performance Audit and Projects, IT and Support Services (Administration). In 2018, the deputy AG position was abolished. In 2019, further changes were made with the split of the Government and Local Government division, resulting in establishing a separate division for Local Government audits.

Currently, the SAI is accommodated in two separate buildings – the main office (AG’s office and four divisions) is located in an Office within the MFED building while the other two divisions are located in another building located within 50m from the main Office. This physical setup of the SAI’s office makes supervision and flow of work within the Office very challenging.



KAO's Budget

Table 1: Kiribati Audit Office Budget (Australian dollars (AUD))

	2016		2017		2018	
	Approved	Actual	Approved	Actual	Approved	Actual
Revenue	40,000	43,200	50,000	80,000	7,000	28,200
Expenditure	744,083	737,596	758,103	594,822	885,120	668,329
Budget Utilization		99%		78%		76%

Source: KAO

In the last three years, KAO's budget has never been fully utilized, as shown in *Table 1: Kiribati Audit Office Budget (Australian dollars (AUD))*. Staff turnover during the year is one of the factors that contributed to the under-utilization of the budget. Although KAO does not have financial autonomy, there was no interference in accessing its approved budget.

Chapter 4: Assessment of the SAI's Performance

4.1 Domain A: Independence and Legal Framework

This domain covers the legal mandate of the SAI and its independence by considering the institutional basis for the SAI's operations. The SAI's independence and legal framework are not directly under the control of the SAI because it is often decided by the Legislature or other state authority. Nevertheless, this domain is included in the assessment because the SAI's independence and legal framework significantly contributes to its effectiveness. Domain A comprises two indicators. The following table provides an overview of the dimension and indicator scores.

Domain A: Independence		Dimensions				Overall Score
Indicator	Name	(i)	(ii)	(iii)	(iv)	
SAI-1	Independence of the SAI	3	1	3	1	2
SAI-2	Mandate of the SAI	4	3	3		3

4.1.1 SAI-1: Independence of the SAI – Score 2

Having an objective Supreme Audit Institution which operates in an effective manner lies at the heart of measuring independence. According to ISSAI 1: *The Lima Declaration*, the SAI should enjoy financial and organizational independence including security of Head of SAI's tenure and legal immunity in the normal discharge of his/her duties.

The indicator is assessed based on the following dimensions:

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

(i) *Appropriate and Effective Constitutional Framework*

The Kiribati Audit Office (KAO) was established under section 114(1) of the 1979 Constitution of the Republic of Kiribati. At such time, the head of the SAI was known as the Director of Audit (DOA), whose office was to be a public office. The head of SAI's designation changed from Director of Audit to Auditor General through an amendment to the Constitution in 1995. The powers and duties of the Auditor General (AG) are prescribed in the Public Finance Ordinance (Control and Audit) 1981 and the Audit Act 2017. Section 114(4) of the Constitution further laid down the SAI's independence stating that "in the exercise of his functions, the DOA shall not be subject to the direction or control of any person or authority". The same provision is also prescribed in the Audit Act 2017.

The independence of the KAO provided under the Constitution and relevant legislations also guarantees a very high degree of initiative and autonomy. Section 114(2) of the Constitution states that Public Accounts of Kiribati and all departments, offices, courts and authorities of Government shall be audited and reported on annually by the Director of Audit (ie. Head of the SAI) or any person authorised by him on this behalf; access to records relating to accounts at all times. Audit Act 2017 prescribes a wide mandate for the SAI to conduct any type of audit as he/she thinks fit and audits at the request of Ministers.

The Head of SAI is appointment by the President, who is the head of the State and Government, acting in accordance with the advice of the Public Service Commission (PSC), as required under Section 100(2) of the Constitution. The PSC consists of a Chairman and four other Commissioners, who are appointed and may be removed by the President, acting in accordance with the advice of the Speaker and Chief Justice acting jointly. According to the Constitution, the AG's term ends when s/he reaches 55 years of age. President may permit to extend the term after 55 years until such years as agreed between the AG and the President. However, according to section 12 of the Audit Act 2017, the AG's term is on a full-time basis. The term of appointment of the current AG according to his contract is for three years. The AG may be removed from Office only due to inability to discharge the functions of his office or for misbehaviour, by the President, based on the advice of a Tribunal who has investigated the AG on the basis of misbehaviour.

Neither the Constitution nor the Audit Act 2017 provides for any legal protection by a supreme court against any interference with the SAI's independence while carrying out his/her functions. Section 41 of the Public and Finance (Control and Audit) Act 1981 allows the AG to send a special report to the Legislature on any matter concerning his powers and duties as prescribed under this Act that may affect his ability to perform his work in accordance with his mandate.

However, one of the functions of the Audit Board (the Board), which was established under section 5 of the Audit Act 2017, is to determine if the AG has sufficient resources to perform the functions set out in the annual plan and if not, the Board will propose an increase in the budget. The Board's recommendations are submitted to the SAI for consideration in revising its budget before submitting it to the Ministry of The Act is not clear, who the Board reports to or submit such proposal to increase the SAI's budget if necessary.

The SAI has strived to promote, secure and maintain an appropriate and effective constitutional, statutory or legal framework, which resulted in the Audit Act 2017. The new

Act improves clarity of the SAI's powers, functions, reporting responsibilities which were all included in the Public Finance (Control and Audit) Act 1981 and specify the auditing standards that the SAI should adopt when performing its duties. The current Head of SAI has been in Office for eight months when the assessment fieldwork was conducted and is looking forward to the SAI PMF to identify areas where they need to further strengthen the SAI's legal framework.

(ii) *Financial Independence / Autonomy*

Section 20 of the Audit Act 2017 requires that the AG prepares the SAI's budget and submit to the Audit Board, who plays an oversight function over the SAI, for review of reasonableness and feasibility. Once the Board approves the budget, the AG can then submit the SAI's budget estimates to the Secretary responsible for Finance, following the same budget process that applies for all government ministries. The government budget, including the SAI's budget, is then submitted and approved by the Legislature. Given this legislative process, the SAI is not free to propose its budget directly to the Legislature without interference from the executive through the Ministry of Finance and Economic Development (MFED).

Despite the SAI's budget being submitted to the MFED, the SAI is entitled to use the funds allotted to it, which is designated under a separate budget heading, as it sees fit. After the SAI's budget has been approved by the Legislature, the Executive (via MFED) does not control the SAI's access to these resources. During the past 3 years there have been no cases of undue interference from the Executive regarding the SAI's budget proposal or access to financial resources.

The Constitution and Audit Act 2017 are silent on the SAI's right of direct appeal to the Legislature if the resources provided are insufficient to allow it to fulfil its mandate. There is no provision in the legislation giving the AG a right of appeal. One of the Audit Board's functions is to review the work plan of the SAI to determine whether the AG has sufficient resources to deliver its work plan. However, the Audit Board can only recommend revisions of the budget to the AG, if it determines that the budget needs to be increased but has no power to recommend to the MFED any increase in the SAI's budget.

(iii) *Organisational Independence / Autonomy*

The Constitution section 114 (4) and the Audit Act 2017 section 22 ensures the SAI has functional and organisational independence required to fulfil its mandated responsibilities. The Constitution provides that in the exercise of his functions, the Auditor General shall not be subject to the direction or control of any other person or authority. This authority extends to any person authorised by the Auditor General to conduct audits on his behalf. Section 22 of the Audit Act 2017 empowers the Auditor General "to exercise his or her functions in such manner as the Auditor General thinks fit". In doing so, the Auditor General is required to have regard to recognized professional standards and practices, to apply the ISSAIs and to comply with any relevant requirements imposed by law. In practice, the SAI is free from direction or interference from the Legislature or the Executive in the organization and management of his office. This is confirmed by the Head of SAI and senior management staff who have been working in the SAI for over 10 years.

The legal framework through section 114(4) of the Constitution and section 22 Audit Act 2017, empowers the SAI to determine its own rules and procedures for managing business and for

fulfilling its mandate, in such a manner that the AG thinks fit. This gives the power to the SAI to develop policies, procedures, and processes appropriate to the SAI's functions to enable it to fulfil its mandate. The SAI has developed administrative manuals and adopted auditing and ethical standards to ensure quality audits and service delivery.

There is no provision in the Constitution or the Audit Act 2017 that clearly defines the relationship between the SAI and the Legislature as well as with the Executive.

The legal framework provides for accountability and transparency by establishing an Audit Board to provide oversight of the SAI's activities. Section 7 of the Audit Act 2017 describes the functions of the Board which included reviewing the annual work plan of the SAI and determining whether the SAI has sufficient resources to perform its functions; endorsing the work plan and budget of the SAI; considering the Annual Report and actual performance of the SAI against the annual work plan; considering and reviewing modern audit practices and making recommendations to the AG.

The AG may delegate powers provided to him under the Audit Act 2017 or other relevant laws to any person or auditor¹⁷. Furthermore, the State Owned Enterprises (SOE) Act 2012 allows the AG to "appoint a person or firm that is a qualified auditor to audit an SOE on the Auditor General's behalf"¹⁸, if the responsible Minister approves. Both legislative provisions empower the SAI to call on and pay for external expertise, as necessary.

Although the SAI is free to determine its own rules and procedures for managing its business as it sees fit, the SAI does not have the freedom to recruit, promote and set remuneration of its own employees. The SAI is regarded as a public office under the Constitution and appointment of employees to public offices are vested in the Public Service Commission (PSC)¹⁹. Therefore, the Head of SAI is not free to independently decide on all human resource matters, including appointments of staff and establishment of their terms and conditions. Terms and conditions for all civil servants including staff of the SAI are described in the National Conditions of Service (NCS) administered by the PSC. This is further constrained by the limited pool of qualified personnel in the country that the SAI may recruit suitable and competent staff from, to fulfil its mandate.

(iv) Independence of the Head of the SAI and its Officials

The conditions of appointment and reappointment of the Head of the SAI to ensure his independence are not specified in the Constitution or Audit Act 2017, except conditions for his removal²⁰. According to section 100(2) of the Constitution, the AG is appointed by the President on the advice of the PSC. Although the appointment of the previous and current AG followed the process as prescribed in the Constitution section 100(2), there is no due process undertaken by PSC to determine the suitable candidate, who is then recommended to the President for approval and appointment. The position is not advertised but a list of potential candidates is compiled by the Secretary to PSC and recommendation is made to the President on the preferred candidate to be appointed as the AG.

¹⁷ Section 19(1) Audit Act 2017

¹⁸ Section 23(2) SOE Act 2012

¹⁹ Section 99(1), (2) The Constitution

²⁰ Section 101 The Constitution

According to the Constitution, the Head of the SAI may vacate office when he reaches 55 years of age and can be extended by the President on a fixed term agreed to with the Head of SAI. On the other hand, the Audit Act says the AG’s appointment is on a full-time basis. Despite these provisions regarding the Head of the SAI’s tenure, the current AG’s term of appointment is for three years, which is not sufficiently long.

The Head of the SAI is immune to any prosecution for any act that results from the normal discharge of his/her duties. The Constitution states that the AG “shall not be subject to the direction or control of any other person or authority”²¹.

Within the past 3 years, there have been no periods longer than 3 months during which there has been no properly appointed AG with tenure. The former Head of SAI completed her 5-years term in Office in December 2018 and the new AG assumed Office in January 2019. Furthermore, there have been no cases where the Head of the SAI was removed through an unlawful act or in a way that compromised the SAI’s independence; the previous Head of SAI vacated Office because her term has completed.

The legal framework ensures that the SAI’s audit staff will not be influenced by the audited organizations and dependent on such organizations. The Audit Act requires all staff of KAO to conduct themselves in accordance with the requirements of the Code of Ethics of ISSAIs and the provisions of the National Conditions of Service (NCS)²². Furthermore, the SAI’s Professional Code of Ethics (the Code) prescribed in its Manual of Audit Instructions 2000, required all audit staff to be objective, independent and diligent and avoid any possible compromise of independence through any form of conduct which could imply or create an impression of lack of independence. Independence should not be impaired by personal or external interests. The Code also provides that auditors should not accept or solicit any money, gift or other benefit from an entity which could affect audit independence and objectivity. At no time should an auditor take part in any activity which could conflict with the legislative audit interests or responsibilities of the Auditor General or which could prejudice the performance of audit duties and responsibilities. Any potential conflict of interest should be reported to the Auditor General.

Assessment Findings and Scores by Dimension

Indicator score: 2		
Dimension	Findings	Score
(i) Appropriate and Effective Constitutional Framework	Criteria a, b, c, d, f, g are met. Criterion e is not met. The SAI and its independence are established in the Constitution. The head of the SAI is appointed by the President acting on the advice of the PSC. The framework does not provide for legal protection by a supreme court against any interference with the SAI’s independence. The Public Finance Act allows the SAI to report on any matters that may affect its ability to perform its work in accordance with its mandate. The SAI has strived to secure and maintain an appropriate	3

²¹ Section 114(4) The Constitution of the Republic of Kiribati

²² Audit Act 2017 section 17(2)

	and effective legal framework which resulted in the passing of the new Audit Act 2017, which clarifies further powers and duties of the SAI.	
(ii) Financial Independence / Autonomy	<p>Criteria b, d, e, g, are met. Criteria a, c, f, are not met.</p> <p>The SAI's budget is approved by the Legislature. The SAI is not free to propose its budget directly to the Legislature without interference from the executive through the Ministry of Finance and Economic Development (MFED). In the past 3 years there were no cases of undue interference from the Executive regarding the SAI's budget proposal or access to financial resources.</p>	1
(iii) Organisational Independence / Autonomy	<p>Criteria a, b, c, f, g, are met. Criteria a, d, e, are not met.</p> <p>The SAI determines its own rules and procedures to manage its operations but is not free to decide on all human resource matters. The relationship between the SAI and the Legislature and Executive is not clearly defined in the legal framework. The Audit Board established under the Audit Act 2017 provides oversight of the SAI's activities. The SAI can call on or pay for external expertise as necessary to perform audits on its behalf.</p>	3
(iv) Independence of the Head of SAI and its Officials	<p>Criteria c, d, f, g, are met. Criteria a, b, e, are not met.</p> <p>Conditions of appointment and reappointment of AG are not stipulated in the legislation except conditions for removal. The AG is appointed by the President on the advice of the PSC, in accordance with section 100(2) of the Constitution. The appointment of the current AG did not go through a due process where the position was advertised, and appropriate candidates go through a transparent selection process that informs PSC's recommendation to the President. In the past three years, there were no cases where the Head of SAI was removed through ways that would compromise the SAI's independence.</p>	1

4.1.2 SAI-2: Mandate of the SAI – Score 3

SAI-2 aims to assess the extent of the SAI's mandate in terms of the scope and nature of the duties and responsibilities of the AG and the SAI, including the SAI's ability to access all information required to fulfil its functions and its rights and obligation to report on its audit findings. The dimensions to be assessed in this indicator are:

- i. Sufficiently broad mandate
- ii. Access to information
- iii. Right and obligation to report

(i) *Sufficiently Broad Mandate*

The SAI is required to audit the public accounts of Kiribati and all accounts of all departments, offices, courts, and authorities of the Government²³. The SAI's mandate specifically ensures it is responsible for the audit of all central government activities. The Constitution section 114 (2) provides the authority for the Auditor General to audit the public accounts of Kiribati and of all departments, offices, courts and authorities of the Government and report on such audits annually.

KAO is free from direction and interference in the selection of audit issues, planning, conducting, reporting and follow-up of their audits. Section 114(4) of the Constitution states that in the exercise of the Auditor General's functions prescribed in the same section, he shall not be subject to the direction or control of any other person or authority. The SAI's mandate was further broaden under the Audit Act 2017 providing specific authority for the SAI to conduct performance, environmental and IT audits.

Interviews with some senior auditors confirmed that during the past 3 years the SAI has not been given and has not taken any tasks which influence the independence of its mandate. There have been no cases of interference in the SAI's selection of audit clients or subjects within the last three years, in a way that may compromise the SAI's independence.

Legal provisions in the Constitution and the Audit Act 2017 empowered the SAI to audit the legality and regularity of government or public entities' accounts, the quality of financial management and reporting and economy, efficiency and effectiveness of government or public entities' operations. Section 23 of the Audit Act 2017 requires the AG to ascertain whether, in his opinion, proper accounts were kept in accordance with the law and procedures applied were in accordance with the prescribed requirements. Section 24 of the Audit Act 2017 requires the SAI to conduct performance audits to determine whether the public entity is carrying out their activities effectively, economically, and efficiently and in compliance with the relevant laws and other prescribed requirements.

(ii) *Access to Information*

The Constitution section 114(2) and the Audit Act 2017 section 27 provide the SAI with unrestricted right of access to records, documents and information required for audit purposes. This unrestricted right of access to information extends to any person authorised by the AG to conduct audits on his behalf²⁴. Furthermore, the SAI has the right to decide which information it needs for its audits and may take extracts from and make copies of any documents²⁵.

The Audit Act 2017 section 27 (2) (a) gives the AG the right to enter, at any reasonable time, a place occupied by a public entity subject to audit. This legislative provision gives SAI staff the right of access to the premises of audited bodies to carry out the audit fieldwork the SAI deems necessary.

Despite the unrestricted right of access provided in the legislation for the AG in order to carry out its mandated responsibilities, both the Constitution and Audit Act 2017 are silent in the

²³ The Constitution, section 114 (2)

²⁴ The Constitution, section 114(2)

²⁵ Audit Act 2017 section 27(2)(c)

event that access to information required for the audit is restricted or denied. There is no established and appropriate process for resolving such matters.

(iii) Right and Obligation to Report

The AG is required to audit public accounts of Kiribati and all government entities and report on them annually²⁶. The reports should be submitted to the Speaker who will table them with the Legislature. Section 33(3) Public Finance (Control and Audit) Act 1981 empowers the AG to report any unauthorised or unsupported expenditure discovered during his examination of all public accounts to Legislature.

Legislations are silent on the timing of when the SAI should submit their audit reports. The PFCA Act 1981 section 39 requires the Chief Accountant to submit the public accounts to the AG for audit within six months after the end of the financial year. The Audit Act sections 39 and 41 require the AG to report to Parliament on any audit conducted, including financial audit, performance audit and special reports but there is no guidelines or specific timeframe on when the SAI should submit its reports to Parliament. Audit reports for SOEs and local governments are submitted to these entities upon completion of the audit and the respective entity will report

There is no provision in the Constitution or the Audit Act 2017 to allow the SAI to publish its annual audit reports. Legislation only requires the SAI to submit audit reports annually to the Speaker. There is also no clarity as to when and if audit reports are published / become public document. The SOEs report directly to Parliament on their operations through the responsible Minister while the local governments publish their audited accounts within six months of receipt of the AG's report, at their respective Offices²⁷.

Although there is no specific provision in the legislations regarding the content of the audit report and whether the SAI is free to decide the content of its audit reports, section 114(4) of the Constitution states that the Auditor General shall not be subject to the direction or control of any other person or authority in the exercise of his functions prescribed in the Constitution. Since the current AG was only in Office since January 2019, one of the senior auditors who have been with the SAI during the past 3 years confirmed that there was no interference in the SAI's decisions on the content of its audit reports and the SAI's efforts to publish its audit reports.

Assessment Findings and Scores by Dimension

Indicator score: 3		
Dimension	Findings	Score
(i) Sufficiently broad mandate	Criteria a, c, d, e, f, g, h, i, are met. Criterion b is not applicable. The SAI is required to audit all public financial operations including central government activities. The SAI is also required to audit the legality and regularity of government accounts as well as the economy, efficiency and effectiveness of government and public	4

²⁶ The Constitution, section 114(2)

²⁷ Local Government Act 1984, section 75

	entities' operations. Audit Act 2017 provides specific authority for the SAI to conduct performance, environmental and IT audits.	
(ii) Access to information	<p>Criteria a, b, e, are met. Criterion c is not met. Criterion d is not applicable</p> <p>Legislation provide the SAI unrestricted right of access to any information required for audit purposes. However, it does not have an established process to resolve issues in the event that the SAI's access is denied. The SAI has the right to decide which information it needs for audit purposes.</p>	3
(iii) Right and obligation to report	<p>Criteria a, c, d, f, g, are met. Criteria b, e, are not met.</p> <p>The SAI is required by legislation to report its audit findings annually and independently to Parliament. Legislation is silent on the timing of submission and publication of audit reports and the SAI's authority to determine the content of its audit reports.</p>	3

4.2 Domain B: Internal Governance and Ethics

Domain B assesses the SAI's efforts in managing its own operations through establishing effective internal governance and ethic systems. This domain has five indicators however one indicator, SAI-5: Outsourced Audits, is not applicable to the KAO because it has not outsourced nor plan to outsource any audit. Therefore, this indicator will not be assessed.

The following table provides an overview of the dimensions and scores for each respective indicator. Further details on the results for each indicator are provided in sections 4.2.1 to 4.2.4.

Domain B: Internal Governance and Ethics		Dimensions				Overall Score
Indicator	Name	(i)	(ii)	(iii)	(iv)	
SAI-3	Strategic Planning Cycle	1	1	0	1	1
SAI-4	Organisational Control Environment	0	0	0	0	0
SAI-5	Outsourced Audits	N/A	N/A	N/A		N/A
SAI-6	Leadership and Internal Communication	0	2			1
SAI-7	Overall Audit Planning	0	1			0

4.2.1 SAI-3: Strategic Planning Cycle – Score 1

Strategic planning is a critical process for any organisation such as the SAI, as a way to ensure that it has a clear direction and vision and that those charged with governance have developed a well-thought out plan to achieve its vision. Best international practices such as the IDI Handbook on Strategic Planning emphasized the importance of having a documented strategic planning process to properly guide the development of the strategic plans and to ensure it is implemented in a coherent and logical manner. The SAI's strategic plan should be

supplemented by annual operational plans that will translate the SAI's strategic vision and aspirations into meaningful operational activities.

The assessment is based on the SAI's organisational plans namely the strategic plan, operational and audit annual plans. The dimensions to be assessed in this indicator are:

- i. Content of the Strategic Plan
- ii. Content of the Annual Plan / Operational Plan
- iii. Organizational Planning Process
- iv. Monitoring and Performance Reporting

i. Content of the Strategic Plan

KAO's strategic plan 2016-2019 was developed based on an analysis of the SAI's strengths, weaknesses, opportunities, and threats (SWOT) analysis, conducted by the executive and management team of the KAO and the AG. Not all staff of the SAI were involved in conducting the SWOT analysis or development of the strategic plan. The SWOT analysis is included in the strategic plan detailing the key areas requiring development such as restructuring the Office to better reflect its extended mandate as prescribed under the new Audit Act 2017, inability to complete timely audits of remote government entities such as the island councils and projects implemented in the outer islands, staff training, and the need to accommodate all staff and SAI operations in one building. One of the SAI's strategic goals was reviewing the Audit Bill 1996 to align with international interventions. There is now a new Audit Act 2017.

Although the strategic plan includes the SAI's vision, mission and strategic goals and activities, there seems to be a missing link between the strategic goals and the activities, because outputs and outcomes are not clearly defined. Other elements such as realistic timelines, targets and milestones are not described in the plan. Collectively these elements should be articulated in a complete and logical results framework to facilitate understanding of how and when the SAI aims to achieve its goals and to ensure that the SAI will in fact achieve its goals. The lack of clarity on the linkages between these elements of the plan can lead to ineffective transformation of the SAI's strategic goals to meaningful and intended outcomes.

The strategic plan contains indicators at the input/activity level but not at the output and outcome level. Some of the indicators identified are not measurable which can result from the lack of clarity in defining the output to be achieved. The fact that there are several indicators included in the plan can become unmanageable for a SAI that lacks the capacity to collect data for monitoring and reporting purposes.

The strategic plan does not include an implementation matrix or similar schedule which clearly identifies the SAI's priorities and facilitate how the planned activities are to be delivered and when. Although risks are described in the strategic plan, we cannot see how these risks were considered in the plan due to the absence of an implementation schedule. The risks affect the delivery of the strategic plan however the plan fails to identify when the proposed activities and objectives are expected to be achieved, considering the risks.

Expectations of a wider variety of key stakeholders and emerging risks were not factored into the development of the strategic plan. Such expectations would have been identified and considered through consultations with key stakeholders, such as government ministries, local

councils, donors and CSOs. The plan however considers how the SAI responds to legislature's expectations as prescribed in its mandate.

Stakeholders' expectations and emerging risks were not factored into the development of the strategic plan. The SWOT analysis does not provide a reasonable analysis of the institutional framework but mostly organizational issues. There is no analysis or understanding of public financial management (PFM) systems and key stakeholders' capacity to make use of the SAI's reports.

The strategic plan includes measures designed to strengthen the SAI's institutional framework. It recognized the need for and plans to review the audit Act to clarify the powers and duties of the AG.

ii. Content of the Annual Plan / Operational Plan

To assess this dimension the assessment team has reviewed the SAI's operational plan which is included in its Strategic Plan for 2016-2019 and the divisional plans. It is been important to assess the divisional plans since these are the plans that are used in practice to plan and implement the day to day activities of the SAI, and can be considered the actual operational plan. The operational plan clearly defined the activities, the responsible division and performance targets for each year of the four years covered by the strategic plan. The operational plan covers all the SAI's main support services such as financial management, IT, infrastructure, and staff training. However, there is no timeframe for when each activity will be implemented and completed.

Each audit division has its own divisional plans developed by the head of division. The divisional annual plans described each division's planned activities for the year, including the allocation of staff and timelines for each audit. These divisional annual plans are not collated in one SAI plan to reflect a holistic plan and linkages between the audit divisions' plans and the SAI's operational plan, as well as linkages between the divisional plans and the support services. Furthermore, there are some activities in the operational plan that are not considered in the divisional plans. For instance, one of the activities in the SAI's operational plan is to improve the audit coverage of the remote island councils. This is not reflected in the divisional plan of the division responsible for auditing these remote entities. Another activity included in the SAI's operational plan which is not reflected in the divisional plan is the provision of audit training on performance auditing. Trainings are not identified in the performance audit division's annual plan. There is clearly a disconnect between the divisional annual work plans and the SAI's operational plan. Although the SAI's operational plan is linked in theory, to the strategic plan, but the disconnect between the SAI's operational plan and the divisional plans means that some activities in the operational plan and therefore the strategic plan will not be implemented. Since there is no clear link between the strategic plan and the divisional plans, and not between the divisional plans and the operational plan, we cannot say that there is a clear link between the planning of the daily activities and the strategic objectives in the strategic plan.

The divisional plans are also not linked to the SAI's budget and as such, there is no evidence that considerations have been made about the resources needed to complete the activities in the plan. The SAI has not assessed the risks that may affect the achievement of its operational plan. Although performance indicators and targets are included for each activity in the operational

plan, there are no indicators at the output and outcome level. Some of the indicators are not measurable, for instance, eradicate stakeholders' mistrust on KAO's work. The targets are not clearly defined and there are no baseline data of current performance because this is the first time that the SAI's performance has been independently and formally assessed.

iii. Organisational Planning Process

The former head of SAI and five divisional heads were all involved in developing the strategic plan. Divisional heads are responsible for developing their own annual plans detailing their activities, resources, and timelines for implementation.

All staff did not provide input to the development of the organizational plans. External stakeholders were not consulted as part of the process. The strategic plan and other organisational plans were not communicated to all staff to enable them to understand the SAI's overall goals and how each staff will contribute to the achievement of these goals during the strategic period.

The strategic plan is not on the SAI's website, but a summary of the vision, mission, values, and core business are summarised on the website in the "About Us" section. There is no process for annual and/or in-year monitoring of progress against the strategic plan and annual/operational plan. There are no clearly defined responsibilities, actions, and a timetable for developing the organizational plans such as the strategic and operational plans. For instance, there is no clear understanding of who is responsible for developing these plans and when they should be developed. The existing strategic plan was the first plan of the SAI.

The Operational Plan which is included in the strategic plan provides performance targets over the strategic period and most of the targets are "on going", which makes it challenging to measure / monitor. There was no evaluation of the SAI's documented policies and processes on developing organisational plans because there were no processes in place.

iv. Monitoring and Performance Reporting

KAO prepared an annual report which reports on the activities that the SAI has conducted and completed during the year. However, the annual report does not report or measure the SAI's efforts towards achieving its goals as explained in its strategic plan. In practice, each division makes a presentation on what they have achieved against their divisional work plans before the Audit Board. The Audit Board, who plays an oversight role on the KAO's activities notes the achievements and provide recommendations. This is the KAO's internal reporting practices. Because the divisional plans are not linked to the operational plan, it is difficult to monitor and confirm if KAO has achieved its operational and strategic objectives.

The SAI has not established performance indicators to measure achievement of internal performance objectives nor performance indicators to assess the value of audit work for Parliament, citizens, and other stakeholders. The AG attends parliamentary briefings and committee meetings however, there were no records of any issues raised or feedback from these meetings on the work of the SAI. The SAI does not conduct activities to follow up their public visibility, outcomes, and impact.

This assessment is the first independent external assessment of the SAI and the AG plans to submit this report to legislature. The audit standards and core audit methodologies adopted by KAO are described in the Audit Act 2017. The Audit Act is not available on the KAO's website

to facilitate public access but this and any document and information can be provided by KAO upon request.

Assessment Findings and Scores by Dimension

Indicator score: 1		
Dimension	Findings	Score
(i) Content of the Strategic Plan	<p>Criteria a, g, are met. Criteria b, c, d, e, f, are not met.</p> <p>KAO developed its strategic plan 2016-2019 based on a SWOT analysis conducted by the executive management team and the AG. The strategic plan included the KAO's mission, vision, and strategic goals however these are not clearly described in a logical results framework to facilitate understanding on how the SAI will achieve its goals.</p>	1
(ii) Content of the Annual Plan / Operational Plan	<p>Criterion b is met. Criteria a, c, d, e, f, g, are not met.</p> <p>KAO's operational plan covers all the SAI's support services. The plan clearly defined the activities and responsibilities, but the timelines are not defined. The operational plan is not linked to the strategic plan and the budget. There is no evidence that considerations were made about the resources needed to complete the activities in the plan. The plan does not include measurable indicators and baseline data for current performance. This is the first time the SAI's performance has been independently and formally assessed.</p>	1
(iii) Organisational Planning Process	<p>Criterion a is met. Criteria b, c, d, e, f, g, h, i are not met.</p> <p>There is a high-level ownership of the SAI's organisational planning process, where the Head of SAI and management were involved in the development of its strategic plan. However, all staff were not given the opportunity to provide to provide input in the process. Key stakeholders were not consulted or involved. The strategic plan was not communicated to everyone in the SAI nor is it publicly available.</p>	0
(iv) Monitoring and Performance Reporting	<p>Criterion g is met. Criteria a, b, c, d, e, f, are not met.</p> <p>The SAI prepares an annual report which describes what the activities they have done during the year. However, the SAI has not assessed and reported on its performance against its strategic plan. KAO has not used performance indicators to measure achievement of internal performance objectives. In fact, these internal performance objectives are not defined at all.</p> <p>KAO has not assessed the value of its work for legislature, citizens, and other key stakeholders. There is a lack of efforts on</p>	1

	<p>measuring the impact of the SAI’s work and obtaining external feedback on public visibility of the SAI’s work and impact.</p> <p>The standards and methodology adopted by the KAO are described in the Audit Act 2017. The Audit Act is not available on the SAI’s website but can be provided to interested parties upon request.</p>	
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4.2.2 SAI-4: Organizational Control Environment – Score 0

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, SAIs should have a quality control system in place 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 is based on a review of the SAI’s Code of Ethics, the approved organizational structure and interviews with senior staff. The dimensions to be assessed are:

- i. Internal Control Environment – Ethics, Integrity and Organizational Structure
- ii. System of Internal Control
- iii. Quality Control System
- iv. Quality Assurance System

i. Internal Control Environment – Ethics, Integrity and Organizational Structure

The Audit Act required the staff of the SAI to conduct themselves in accordance with the requirements of the Code of Ethics of the ISSAIs and the provisions of the National Conditions of Service (NCS)²⁸ administered by the PSC. The SAI does not have a separate document referred to as its “Code of Ethics” but its Manual of Audit Instructions, Chapter 3, included a section entitled “*Professional Code of Ethics*” that auditors are expected to observe. This section contains the values that address the auditor’s integrity, independence, objectivity, competence, professional behaviour, confidentiality, and transparency as per ISSAI 30. The manual is not publicly available on the SAI’s website. Furthermore, there is no provision in this chapter of the manual requiring any party contracted by the SAI to carry out work on its behalf to commit to the SAI’s ethical requirements.

The KAO has a total of 36 staff including the AG during the year under review. The SAI has an approved organizational structure reflecting the SAI’s mandate and the reporting lines. Each team supervisor and the Principal Auditors are responsible for the system of internal control and the job descriptions clearly outline these responsibilities. The job description for each position clearly described the main responsibilities and reporting lines. There is no documented process to ensure all staff are clear on their tasks and reporting lines however, the responsibility

²⁸ Audit Act 2017 section 17(2)

rests with the divisional heads to ensure all staff under their direct supervision have a clear understanding of their tasks. In practice, this is assured through divisional meetings.

The Professional Code of ethics in the SAI's manual was never published on the website despite the existence. The manual including the professional code of ethics has not been reviewed since its establishment in 2000. There are also no processes in place to identify and analyse ethical risks, to mitigate them, to support ethical behaviour and to address any breaches of the code.

The SAI does not have any tool nor use the IntoSAINT tool to assess its vulnerability and resilience to integrity violations, in the past five years. The SAI also does not have an integrity policy.

ii. System of Internal Control

The system of internal control is not fully established in the SAI. This is reflected in the absence of clearly documented policies and procedures for mitigating and monitoring major operational risks and an annual process for the heads of divisions to provide assurance that they have carried out their risk management responsibilities. The SAI's annual progress report 2018 does not include a signed statement of internal control.

Although the SAI does not have its own internal policies and procedures, they are required to comply with the internal control policies and procedures that apply to everyone working in government entities, which are prescribed in the National Condition of Services (NCS) and the Financial Regulations. Again, there is no process to ensure that all staff are in fact complying with these conditions. There is a general expectation that all staff, as public servants, are made aware of these conditions when they first enter the workforce. The NCS are also very general and focussed on the whole public service that it fails to address issues and practices that are specific to the work of the auditors and the SAI.

The SAI does not have an internal audit mechanism nor a system for monitoring the implementation of any recommendations from the Audit Board or the Head of SAI to address any weaknesses relating to the SAI's internal policies and procedures. The SAI submits its annual work plan and budget to the Audit Board for review, but the Audit Board is not responsible for ensuring internal controls for all areas of the SAI's operation are in fact working effectively as they should.

KAO does not have a notification procedure in place for employees to report suspected violations. However, the SAI's website included this clause, "*for any rumour concerning frauds regarding the misuse of public funds, please report to us using our Contact Form. Your personal information and contact details will be kept confidential*". Furthermore, there is no job rotation policy in place; any instructions on staff rotation are given verbally by the (former) AG.

iii. Quality Control System

KAO has not established policies and procedures to promote quality in all services performed nor does it have policies and procedures in place that describe the overall responsibility for maintaining the system of quality control in all areas of the SAI's operations.

In practice, there is a three-tiered level of quality control process carried out for all audits with the first level of review performed by the senior auditors, the second level by the principal auditors and the final review carried out by the AG. This process is conducted verbally and there is no documentation of the reviews being conducted at each level. In the absence of established quality control policies and procedures, there is no clear guidance on who is responsible or any delegation of authority for the overall quality control system.

Furthermore, the SAI has not established a system or processes that identify the risks to quality which arise from carrying out the work. This includes the need to consider its annual operational plan and whether they have resources to deliver the range of work to the desired level of quality. To achieve this, the SAI should have a system to prioritize its work in a way that considers the need to maintain quality. The SAI does not have a system or process/procedures in place to prioritize its work considering its scarce resources. Each division develops its own annual work plan without due consideration given to any risks that may affect the delivery of their planned work. This is reflected in the quality of audit work carried out by each division.

iv. Quality Assurance System

Having an established quality assurance system is critical to the SAI's operations. The system, which should be documented, should specify the frequency with which the SAI should carry out quality assurance review of a sample of work, both audit and non-audit services. The system should also identify who is responsible for carrying out such review. Unfortunately, the SAI does not have established and documented procedures and plans for quality assurance and therefore has never carried out a review of any of the completed audit work across the range of audits it performed. Additionally, the SAI has not considered engaging another SAI, or other suitable body, to carry out an independent review of the overall system of quality control, such as a peer review.

Assessment Findings and Scores by Dimension

Indicator score: 0		
Dimension	Findings	Score
(i) Internal Control Environment – Ethics, Integrity and Organizational Structure	<p>Criteria a, b, h, i, j, are met. Criteria c, d, e, f, g, k, l, are not met.</p> <p>KAO's Code of Ethics is included in its audit manual which provides brief descriptions of the ethical principles to guide the work of all staff. This manual is not publicly available and has not been reviewed since its development in 2000.</p> <p>KAO has an approved organisational structure reflecting the SAI's mandate and the reporting lines. There are no processes in place to identify and analyse ethical risks, to mitigate them, to support ethical behaviour and to address any breaches of the code.</p> <p>KAO has not assessed its vulnerability and resilience to integrity violations. KAO does not have an integrity policy.</p>	0

(ii) System of Internal Control	<p>All Criteria are not met.</p> <p>KAO does not have clearly documented policies and procedures for mitigating and monitoring major operational risks and an annual process for the heads of divisions to provide assurance that they have carried out their risk management responsibilities. There is no statement of internal control signed by the AG and there has been no review undertaken of the SAI's internal control system.</p> <p>The SAI does not have an internal audit unit, but it reports to the Audit Board on the implementation of its annual work plans. The SAI does not have a job rotation policy.</p>	0
(iii) Quality Control System	<p>All Criteria are not met.</p> <p>KAO has not established clear policies and procedures to ensure quality of all its work and to consider the risks to quality which arise from carrying out the work. KAO has also failed to consider whether they have the resources to deliver its planned activities to the desired level of quality.</p>	0
(iv) Quality Assurance System	<p>All Criteria are not met.</p> <p>The SAI does not have established and documented procedures and plans for quality assurance and therefore has never carried out a review of any of the completed audit work across the range of audits it performed.</p> <p>The SAI has not considered engaging another SAI, or other suitable body, to carry out an independent review of the overall system of quality control, such as a peer review.</p>	0

4.2.3 SAI-6: Leadership and Internal Communication – Score 1

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. For the SAI to effectively fulfil its mandate, strong leadership and good communication with staff is essential.

The assessment is mainly based on a review of corporate documentation (i.e Management Minutes, Corporate Plans) and questionnaire on leadership circulated to all KAO staff, except management, for their feedback on SAI leadership. This indicator measures the following dimensions relating to two main aspects of leadership within the SAI.

- i. Leadership
- ii. Internal Communication

i. Leadership

The SAI leadership is the executive management team which includes the AG and heads of the four divisions. During the period under review, the SAI management holds monthly meetings. Minutes of management meetings held were not properly kept due to poor maintenance of records and therefore we were not able to have access to any key decisions made by the SAI's leadership. Staff meetings are rarely held, and any key decisions made by management are communicated to all staff through the heads of divisions.

The SAI leadership has identified the SAI's values on the website but not on any of the SAI's core documents such as the strategic plan and annual progress report. There is also no evidence of efforts (if any) to disseminate the SAI's values and promote these in any public activities, forums and regular communications.

Authority is delegated to heads of divisions in line with the reporting line and responsibilities set out in the organizational structure and detailed in the job descriptions. However, there is no evidence of regular monitoring by management to ensure that managers or divisional heads are held accountable for their actions.

KAO does not have incentives for better performance. According to the NCS which applies across all government employees, all civil servants are entitled to leave grant. In a survey conducted by the assessment team, most staff felt that incentives for better performance is lacking.

Feedback from staff through the survey stated that the SAI leadership needs to take initiatives to build an ethical culture within the SAI and to identify ethics as a priority. Currently the ISSAI 30 is adopted as the code of ethics however, the SAI leadership has not taken the initiative to raise awareness on the code of ethics instead staff have to find their own time and way to familiarize themselves with it and understand its practical application. Some staff felt that the SAI leadership and management does not create an open and mutual learning environment where difficult and sensitive questions can be raised and discussed. Others felt that maintaining the high standards of professionalism, accountability and transparency in decision making depends very much on situations.

The SAI leadership has not demonstrated initiatives to establish an internal culture recognising that quality is essential in performing all of its work. This is validated by the absence of policies and procedures on quality control.

ii. Internal Communication

The main medium of internal communication for the SAI is through email and share drive on a network which holds all audit working papers and other internal documents and correspondence. Regular emails are circulated to all staff on decisions and office matters, announcements, and key issues. In addition, the SAI has what they call "Achat system", where information can be communicated to staff. However, not all staff have a work email with the SAI's server. According to the IT personnel, there is limited license and data available under the existing internet contract it has with the internet service provider. The license has about 16 users, but the total number of SAI staff is 35. Staff who do not have emails with the SAI's server are connected using their personal emails. With the limited access to internet, internal

communication is disrupted and any exchange of information via email may not be received by all staff on a timely basis.

The above practice and the limited internet access existed for a while because the SAI has not established principles and policies for internal communication and monitored and implemented these policies. The SAI also does not hold regular staff meetings. For those meetings that were held there were no minutes documented, but management decisions are disseminated through the heads of divisions.

During the period under review, the SAI leadership has not communicated the SAI's mandate, vision, core values and strategy to staff and rarely informs and consults employees regularly on key issues related to the organization. Although the SAI's vision, mission and core values are displayed on the website, not all staff have read what is on the website and fully grasp what they mean.

The newly appointed Auditor General has an open-door policy welcoming any staff who wishes to discuss any issues with him. This encourages staff to approach the AG and freely discuss any concerns they may have with their daily work. Any critical issues identified are normally communicated through internal memorandum to all staff. Otherwise, all internal communication is through emails or through heads of division (HoD) who are expected to inform all staff in the division accordingly.

Assessment Findings and Scores by Dimension

Indicator score: 1		
Dimension	Findings	Score
(i) Leadership	<p>Criterion a is met. Criteria b, c, d, e, f, g, h, are not met.</p> <p>The SAI management holds monthly meetings however minutes of these meetings were not properly kept and therefore access to any key decisions made by the SAI's leadership is not possible.</p> <p>SAI's values are identified on the website but not in any of the SAI's core documents such as the strategic plan and annual progress report. There is a lack of efforts to disseminate the SAI's values and promote these in any public activities, forums, and regular communications.</p> <p>Incentives for better performance is lacking. SAI leadership has not taken the initiative to raise awareness of all staff on the code of ethics to ensure they understand its practical application. There is a lack of initiatives to set a tone enabling accountability and strengthening the culture of internal control.</p>	0
(ii) Internal Communication	<p>Criteria c, d, f, are met. Criterion a, b, e, are not met.</p> <p>The SAI has not established principles and policies for internal communication and monitored and implemented these policies.</p>	2

	<p>During the period under review, the SAI leadership has not communicated the SAI's mandate, vision, core values and strategy to staff and rarely informs and consults employees regularly on key issues related to the organization.</p> <p>The newly appointed Auditor General has an open-door policy welcoming any staff who wishes to discuss any issues with him.</p>	
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4.2.4 SAI-7: Overall Audit Planning – Score 0

The SAI's overall audit plan defines the audits the SAI plans to conduct in each period; it can be either an annual or multiannual plan. This plan supports the SAI in fulfilling its mandate and achieving its objectives efficiently and effectively. It is essential that the overall audit plan is feasible, reflecting the SAI's budget and human resources.

The SAI's overall audit planning process is assessed based on the following dimensions.

- i. Overall Audit / Control Planning Process
- ii. Overall Audit Plan / Control Programme Content

i. Overall Audit / Control Planning Process

KAO does not have a documented process to develop any organisational plans, including its overall audit plan/control programme. The head of each division prepares the divisional plan based on the entities the division is responsible for auditing. Collectively the divisional plans identify the SAI's audit responsibilities from its mandate. There are 4 divisions conducting financial audits and each division knows how many entities they are supposed to audit every year. Regarding performance and compliance audits to be conducted, there is no structured process to determine how many performance and compliance audits should be conducted during the year.

The process for developing the divisional plans are not described or documented. Therefore, there is no systematic and consistent methodology for all divisions to adopt when developing their annual work plans. The divisional plans do not follow a risk-based methodology when determining the audits to be conducted.

The responsibilities for planning, implementing, and monitoring the audit plan for the SAI are not clearly defined. However, by default, the heads of each division are responsible for planning and monitoring the implementation of their respective divisional plans. The divisional plans are submitted annually to the Audit Board to review the SAI's performance against its annual plan. However, there is no evidence that the SAI regularly monitors the implementation of its audit plan throughout the year. The SOE division provides comments in its divisional plan relating to reasons for any deviations from the plan but this practice is not consistent by all divisions to reflect any constant monitoring of the audit plan.

The divisional plans are not clearly linked to the SAI's overall budget thus making it difficult to determine whether the SAI's (divisional) planning process takes into account the SAI's

expected budget and resources for the period to which the plan relates. Furthermore, the planning process has not considered expectations of any stakeholder groupings and emerging risks that may affect the implementation of the audit plan.

ii. Overall Audit Plan / Control Programme Content

The SAI does not have a single document representing its overall audit plan. However, each division has its own plan detailing the audits to be conducted and when the audits will be conducted. The format and content of each divisional plan are different from one another and do not follow a standard format to reflect a uniform SAI practice. These divisional plans are incomplete in that they do not define the objectives of the plan at a high level. Only one of the five divisional plans identifies who has the responsibility for each audit to be carried out.

Each divisional plan included a schedule for the implementation of all audits planned to be conducted in the year. Together all four divisional plans demonstrate that the SAI is discharging its mandate. Each division is responsible for the audits of various government entities the SAI is responsible to audit. Each divisional plan identifies the human resources required to conduct the planned audits. However, it is not possible to link the divisional plans to the SAI's budget because the costings for the divisional plans are not prepared by the divisional heads but by another officer who is responsible for preparing the SAI's budget for all its operations. The divisional plans do not contain an assessment of risks and constraints to the delivery of the plan.

Assessment Findings and Scores by Dimension

Indicator score: 0		
Dimension	Findings	Score
(i) Overall Audit / Control Planning Process	<p>Criteria a, b, c, d, e, f, g, are not met.</p> <p>KAO does not have a documented process to develop any organisational plans, including its overall audit plan/control programme. The responsibilities for planning, implementing, and monitoring the audit plan for the SAI are not clearly defined. There is no evidence that the SAI regularly monitors the implementation of its audit plan throughout the year.</p> <p>The divisional plans are not clearly linked to the SAI's overall budget. The planning process has not considered expectations of any stakeholder groupings and emerging risks that may affect the implementation of the audit plan.</p>	0
(ii) Overall Audit Plan / Control Programme Content	<p>Criterion b, c, d is met. Criteria a, e, are not met.</p> <p>Each of the 5 divisions has its own annual work plan detailing the audits to be conducted and when the audits will be conducted.</p> <p>Each divisional plan identifies the human resources required to conduct the planned audits. However, it is not possible to link the divisional plans to the SAI's budget. The divisional plans do not</p>	1

	contain an assessment of risks and constraints to the delivery of the plan.	
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4.3 Domain C: Audit Quality and Reporting

The SAI's core function in public sector auditing and other responsibilities are defined by its mandate and relevant legislations in the country's legal framework. Public sector auditing has diverse applications which are defined in international auditing standards (ISSAIs) adopted by the SAI. ISSAIs provide guidance on the three main types of audit: compliance, financial, and performance audit. This domain assesses KAO's audit coverage of its mandated responsibilities and its performance in conducting audits.

The following table provides an overview of the dimensions and scores for each respective indicator. Further details on the results for each indicator are provided in sections 4.3.1 to 4.3.10.

Domain C: Audit Quality and Reporting		Dimensions				Overall Score
Indicator	Name	(i)	(ii)	(iii)	(iv)	
SAI-8	Audit Coverage	2	0	1		1
SAI-9	Financial Audit Standards and Quality Management	0	0	0		0
SAI-10	Financial Audit Process	0	0	0		0
SAI-11	Financial Audit Results	4	4	1		3
SAI-12	Performance Audit Standards and Quality Management	0	0	0		0
SAI-13	Performance Audit Process	0	0	0		0
SAI-14	Performance Audit Results	0	0	0		0
SAI-15	Compliance Audit Standards and Quality Management	0	0	0		0
SAI-16	Compliance Audit Process	0	1	1		1
SAI-17	Compliance Audit Results	2	1	0		1

4.3.1 SAI-8: Audit Coverage – Score 1

This indicator measures audit coverage in each of the three audit disciplines: financial, performance and compliance audit. It provides information on the extent to which the SAI is able to audit the entities within its mandate. The dimensions to be assessed are:

- i.* Financial audit coverage
- ii.* Coverage, selection and objective of performance audit
- iii.* Coverage, selection and objective of compliance audit

(i) *Financial Audit Coverage*

The SAI classifies the entities subject to financial audit under the following four divisions:

- (i) Government ministries
- (ii) Local Government / Outer Islands

- (iii) State-owned enterprises
- (iv) Projects (mainly donor-funded)

The government accounts audited by the SAI are presented in two parts: Part I - Revenue and Expenditure of Government Ministries which compiles the audit results and opinions for each of the 22 ministries; and Part II – Government Annual Accounts, which are the consolidated accounts for all 22 government ministries. The financial audit of government accounts covers both parts and are carried out by the “Government Ministries” division of the SAI.

The coverage of financial audit is based on the number of financial statements the SAI received and have audited during the year. For the purpose of financial audit coverage, the assessment team considered the audit of the 22 ministries’ Revenue and Expenditure statements as compliance audit in nature and are therefore excluded from this dimension but included in dimension (iii): *Coverage, Selection and Objective of Compliance Audit*.

The KAO received a total of 31 financial statements to be audited and was able to audit 21 financial statements. These financial statements included the government’s consolidated accounts, Local Government, State Owned Enterprises (SOEs) and Implementation Agencies for donor-funded projects. KAO managed to achieve 68% coverage of financial audit as required by its mandate. However, it did not report on the 40% of entities that have not submitted their financial statements due for audit.

The selection of financial statements for audit is not based on considerations of risk, materiality or available resources but what the SAI is required to audit as per its mandate.

ii. Coverage, Selection and Objective of Performance Audit

Performance audit function was established in 2016 and sits under the Performance Audit and Projects (PAP) division. Section 5 of the SAI’s strategic plan explains plans to conduct performance audit, among other types of audits. However, the PAP’s divisional plan for 2018 did not include any planned performance audits to be conducted during the year. Therefore, based on the divisional plan, the SAI has not set any priorities for performance audits for the period under review.

The SAI has not initiated any performance audits for the years 2016 to 2018 and ever since the Office was established. However, the SAI has participated in regional co-operative performance audits initiated by the Pacific Association of Supreme Audit Institutions (PASAI) in the past, such as co-operative performance audits on “*Solid Waste Management*” (2010), “*Access to Safe Drinking Water*” (2011) and “*Management of Sustainable Fisheries*” (2012). The SAI recognized the importance of building its capacity on performance audit before it can embark on undertaking performance audit on its own. Most of the staff who received training in performance audits through the regional cooperative audits and regional trainings / workshops are no longer working with KAO.

The KAO does not have a documented planning process to identify potential performance audit topics that are significant, auditable and align with the SAI’s mandate. In the absence of a planning process, there is no guidance on factors to consider when identifying audit topics, setting priorities for performance audits and determining objectives of any performance audit.

iii. Coverage, Selection and Objective of Compliance Audit

Compliance audits are conducted by two separate divisions and the coverage and selection of entities to be audited differ between the two divisions. The SAI's mandate requires the SAI to audit the compliance of Revenue and Expenditure Statement (RES) of each of the 22 government ministries according to legislative requirements prescribed in the Public Finance (Control and Audit) Ordinance 1976, section 33. Compliance audits of government ministries' RES are not conducted as a separate audit but as part of the financial audit of Government annual accounts every year. These audits are conducted by the Central Government division and reflected in the division's annual audit plan. In addition, the SAI conducts special investigations which are recognized as compliance audits. These audits are conducted and managed by the Performance audit and projects division.

The audit of Ministries' RES is mandatory and are not subject to a selection process. However, the selection of entities to be audited by the Performance audit and project division is not based on a systematic and documented assessment of risk and materiality, and consideration of the SAI's available resources. There is no process in place for selecting entities to be subject to compliance audit. Based on an interview with the head of the division, compliance audits are initiated when there is a request for special investigations from the legislature or a Minister or government ministry. Therefore, the entities subject to a compliance audit are not identified by the division during its planning process but is included in the divisional plan when a request is received.

The audit of all 22 ministries' Revenue and Expenditure statements focus on ministries compliance with all applicable government legislations, regulations, government directives, and financial regulations regarding utilization of budget appropriation and collection of revenue. This is the SAI's ongoing audit practice. Therefore, for the past three years, the audit of ministries' Revenue and Expenditure statements have addressed compliance with government procurement practices, payroll, and revenue collection.

Assessment Findings and Scores by Dimension

Indicator score: 1		
Dimension	Findings	Score
(i) Financial audit coverage	Total entities to be audited is 52, of which 31 financial statements (Government consolidated accounts, 3 LG, 17 SOEs, 8 Projects, 2 Non-SOEs) were submitted for audit; Total FS audited is 21. The SAI did not report on the 40% of entities that are required to submit accounts for audit but have not done so.	2
(ii) Coverage, Selection and Objective of Performance Audit	All Criteria are not met. The Performance Audit and Project (PAP) division's annual work plan did not include any planned performance audits, although the SAI's strategic plan describes plans to conduct performance audits. The SAI does not have a documented planning process to provide guidance on identifying audit topics and determining audit objectives for performance audits.	0

(iii) Coverage, Selection and Objective of Compliance Audit	Criteria a and d are met. Criteria b and c are not met. The SAI conducts audits of Ministries' Revenue and Expenditure Statement and special investigations as compliance audits. Entities to be audited are not selected by the SAI but are based on SAI's mandate. Accordingly, the divisional plan does not identify entities to be subject to compliance audits but any request for special investigation is included in the division's annual work plan when a request is received. The audit of ministries' Revenue and Expenditure statements have addressed compliance with government procurement practices, payroll, and revenue collection.	1
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4.3.2 SAI-9: Financial Audit Standards and Quality Management – Score 0

This indicator assesses the SAI's approach to financial auditing in terms of its overall standards and guidance for financial auditing, as well as how matters of audit team management and skills and quality control are implemented at the audit engagement level.

The dimensions to be assessed are:

- i. Financial Audit Standards and Policies
- ii. Financial Audit Team Management and Skills
- iii. Quality Control in Financial Audit

i. Financial Audit Standards and Policies

KAO has a Manual of Audit Instructions developed in 2000 but the audit practice and procedures described in the manual are not aligned with the requirements of ISSAIs. According to the Kiribati Audit Act 2017 section 24, "...the Auditor-General is required:- (a) to have regard to recognised professional standards and practices; (b) to apply the International Standards for Supreme Audit Institutions (ISSAI) and (c) to comply with any relevant requirements imposed by law.

Additionally, the SAI has also adopted guidance and templates from the "Sub-regional Audit Support" (SAS) Program, a regional program facilitated by PASAI in 2011-2015, where staff of KAO participated and were trained on conducting financial audits. These SAI staff continued to use some audit templates from this program, where they felt were relevant. Although these templates were used as guidance by some staff, there is no policy prescribing that the SAI will formally adopt these templates and as a result not all staff used these templates and therefore the templates were not consistently used where relevant.

KAO's manual and audit templates adopted do not require the auditors to assess the preconditions for a financial audit. There is no guidance on how auditors should reduce audit risk and apply the concept of materiality appropriately when planning and performing the audit. The Manual describes the types of documentations the audit should have but does not require the auditor to prepare these documents in a manner that will enable an experienced auditor to understand the nature, timing and extent of the audit procedures performed.

Furthermore, there is a lack of structured guidance for auditors in terms of what to do at various stages of the audit process. The auditors are not required to determine the appropriate person(s) within the audited entity's governance structure and communicate with such person(s) regarding the planned scope and timing of the audit. There is no guidance/requirement on several tasks that auditors need to undertake when planning and conducting an audit such as the need to agree the terms of the audit engagement with management, to assess the risks of material misstatement at the financial statement level, assertion level, account balances and disclosures and to respond appropriately to address any risk of material misstatement assessed.

The manual however, requires the auditors to develop an overall audit strategy, have an understanding of the audited entity and its environment, including internal control procedures relevant to the audit, and perform audit procedures in a manner to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw conclusions on which to base an opinion.

ii. Financial Audit Team Management and Skills

The SAI has not established a system to ensure that the engagement team collectively have the appropriate competence and capabilities. The existing manual does not provide guidance or requirement for auditors' required capabilities such as the need to have an understanding and practical experience of audit engagements of a similar nature and complexity through appropriate training and experience; an understanding of professional standards and the applicable legal and regulatory requirements; technical expertise, including expertise with relevant information technology and specialized areas of accounting or auditing; knowledge of relevant industries or sectors in which the audited organization operates; an understanding of the SAI's quality control policies and procedures; and an understanding of the applicable reporting arrangements. The manual does not identify the knowledge, skills and expertise required for conducting the financial audit.

iii. Quality Control in Financial Audit

Quality control of the audit process describes the sum of the measures taken to ensure the high quality of each audit product and is carried out as an integrated part of the audit process. The existing audit manual does not describe policies and procedures to carry out at the different phases of the audit process to ensure quality in financial audits. In practice, the Head of Division carries out a review of audit work carried out by members of the audit team, but these reviews are incomplete and not properly evidenced and documented. The process and procedures for quality control is dependent on the reviewer and his/her level of audit experience and understanding on what needs to be done when reviewing the work of others. As such, there is no established and structured process for auditors to follow when reviewing work to ensure quality of work done and the overall quality of the audit being performed.

Assessment Findings and Scores by Dimension

Indicator score: 0		
Dimension	Findings	Score

(i) Financial audit Standards and Policies	<p>Criteria g, h, i, o, t, v (i) (ii) are met. Criteria a, b, c, d, e, f, j, k, l, m, n, p, q, s, u are not met. Criterion r is not applicable.</p> <p>The SAI's Manual of Audit Instructions 2000 is not aligned with the requirements of ISSAIs and therefore lacks guidance on most of the audit procedures that the auditors should undertake to ensure an effective and efficient audit is conducted. The manual does not explicitly require the auditors to assess the preconditions for a financial audit; there is no guidance on how auditors reduce the audit risk and apply the concept of materiality when planning and conducting the audit.</p> <p>The manual however, to gain an understanding of the audited entity, develop an audit strategy and plan the audit to ensure it is conducted in an effective and efficient manner.</p>	0
(ii) Financial Audit Team Management and Skills	<p>All Criteria are not met.</p> <p>The SAI does not have an established system to ensure that the engagement team collectively have the appropriate competence and capabilities to perform the audit. The SAI's audit manual does not provide guidance on the knowledge, skills and expertise auditors need to have to conduct financial audits.</p>	0
(iii) Quality Control in Financial Audit	<p>All Criteria are not met.</p> <p>The SAI's audit manual does not provide an established and structured process to ensure quality of financial audits performed. Although in practice all audit work is reviewed by the auditor in charge, but these reviews and results of such reviews are not documented. There is a lack of evidence that all work is being reviewed.</p>	0

4.3.3 SAI-10: Financial Audit Process – Score 0

This indicator looks at how financial audits are carried out in practice by the SAI. The assessment is based on reviewing a sample of financial audit files completed during the period under review.

The dimensions to be assessed are:

- i. Planning Financial Audits
- ii. Implementing Financial Audits
- iii. Evaluating Audit Evidence, Concluding and Reporting in Financial Audits

Financial audit is performed by four divisions within the SAI and therefore a sample of one audit file was selected from each of the four divisions to be reviewed and form the basis of

assessing the financial audit practice as implemented by KAO. The following audit files were selected from the respective division.

- Central Government Accounts for the year ended 31 December 2017
- Kiribati Housing Corporation for the year ended 31 December 2017
- Kiribati Outer Island Food and Water Project Accounts for the year ended 31 December 2017
- Tabiteuea Island Council Audit

Based on our review of the four audit files selected, the financial audit practice is not consistent across the four divisions that are responsible for conducting financial audits. As such, there are instances where one audit file will comply with some requirements of ISSAIs while the others do not. For the purpose of this assessment, where one audit file does not meet the required criterion, the criterion is scored as “not met”. Therefore, the results in the table above reflected the results of all the four selected audit files being reviewed. A summary of the results for each audit file reviewed is provided at the end of this indicator.

i. Planning Financial Audits

Planning is a critical phase of the audit process which lays down the audit scope, objectives, the audit procedures and what to be produced at the completion of the audit. Based on the review of the selected audit files, all four audit files did not have an overall audit strategy that describes the scope, timing and direction of the audit, the nature, timing and extent of resources necessary to carry out the engagement. In the absence of an overall audit strategy and plan, it was difficult to see any evidence that the auditors plan the audit properly to ensure that it is conducted in an effective and efficient manner.

All four audit files lack documented evidence for audit procedures undertaken by the audit teams when planning the audit. There was no evidence of determination of materiality, gaining an understanding of the audited entity, risk assessment and evaluating the overall internal control environment of audited entity. The auditors though may have conducted some of these planning audit procedures but results of these procedures have not been documented. Additionally, there was no evidence that the risks of material misstatement, material non-compliance with laws and regulations and material misstatement due to fraud have been assessed.

There is no evidence of an established system in the SAI to ensure that at the audit engagement level, its auditors comply with the relevant ethical requirements.

ii. Implementing Financial Audits

The implementation of the audit is affected by the planning and most of the planning procedures for all four audits were not carried out. In the absence of a proper audit plan and risk assessment, there was no basis to determine whether they have obtained sufficient appropriate audit evidence. Audit work was carried out based on the audit team leader’s knowledge and experience and what was normally done in previous years’ audits.

Based on the review of the selected audit files, all audit files did not have evidence that the auditors have designed audit procedures such as substantive procedures and tests of controls to address the assessed risks. There was no risk assessment carried out to guide the overall audit plan for all files reviewed. The nature, timing and extent of audit procedures were not described. The SAI has not adopted policies and procedures regarding an approach to calculating minimum planned sample sizes in response to materiality and risk assessments. There was a lack of evidence that the audit procedures performed obtained sufficient evidence which support conclusions drawn and form the basis of the audit opinion

Furthermore, the manner in which financial audit was performed by the four divisions were not consistent and as such some audit teams used a variety of methods such as the use of external confirmations, analytical procedures and sampling to gather sufficient audit evidence while others did not. Two audit files used a checklist identifying the audit procedures to be performed as a control mechanism to ensure that all audit procedures were performed. The audit procedures performed were signed by the responsible auditors and reviewed by the audit manager. All planned audit procedures described in the checklist were performed.

The Central Government division audits the whole of government annual accounts which comprised of financial transactions of all 22 government ministries. These accounts are prepared by the Ministry of Finance where the government's financial system is centralised and managed. Therefore, the auditors did not have to assess the consolidation process for preparing government accounts as ministries do not prepare their own financial statements and there was only one set of financial statements for the whole of government.

iii. Evaluating Audit Evidence, Concluding and Reporting in Financial Audits

From our review of the selected audit files, there is insufficient audit documentation 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 results and the audit evidence obtained. The documentation procedures regarding the form, content and extent of documentation, and the assembly of the final audit vary across the four audits reviewed. This is reflective of the different audit templates adopted by each audit team and the absence of a common understanding across all auditors on the approved templates and audit process that should be followed when conducting a financial audit, regardless of which division carries out the audit.

The SAI's audit findings were submitted to the audited entity for their feedback and responses are included in the final audit report. However, the practice of documenting any evaluation of uncorrected misstatements for materiality, individually or in aggregate is lacking with only one of the four audit files having documentation of uncorrected misstatements discussed and resolved with the audited entity.

An audit opinion is issued in each of the audits being reviewed. However, the lack of proper planning and documentation of sufficient appropriate evidence gathered has a huge impact on the validity and accuracy of the audit opinion issued. The absence of clear guidance on the format of the audit report is reflected in the different format and content of the audit reports for the audit files being reviewed. Of the audit reports being reviewed, some elements of the audit report prescribed by ISSAIs, are not included, such as an introductory paragraph identifying whose financial statements have been audited; a section describing Management's

responsibility for the preparation of the financial statements; and the date on which the auditor obtained sufficient appropriate evidence on which to base the auditor's opinion on the financial statements.

The audit reports were easy to understand, free from vagueness and ambiguity. They are objective and fair, including only information which is supported by sufficient and appropriate audit evidence and ensuring that findings are put into perspective and context. The audit observations and recommendations were written clearly and concisely and directed to those responsible for ensuring they are implemented.

There is no evidence that the audit teams have evaluated the financial reporting framework, and this is reflective of the limited staff capabilities to be able to do this. Thus, there is a lack of awareness of what an acceptable financial reporting framework should have and how it affects the quality of the financial statements and the auditor's report and the opinion. This lack of awareness resulted in the SAI not considering the need to inform the legislature about the matter.

Table 1: Summary of Financial Audit Files reviewed

Audit Division	Score	Dimensions		
		(i)	(ii)	(iii)
Central Government	Met		d	d, f, h, i
	Not Met	All criteria (a-k)	a, b, c, f, g	a, b, c, e, g, j
	N/A		e	k
SOE	Met		d	d, e, f, g, h, i
	Not Met	All criteria (a-k)	a, b, c, f, g	a, b, c, j
	N/A		e	k
Project	Met		g	d, f, g, h, i
	Not Met	All criteria (a-k)	a, b, c, d, f	a, b, c, e, j
	N/A		e	k
Island Council	Met		g	
	Not Met	All criteria (a-k)	a, b, c, d, f	a, b, c, d, e, f, g, h, i, j
	N/A		e	k

Assessment Findings and Scores by Dimension

Indicator score: 0		
Dimension	Findings	Score
(i) Planning Financial Audits	<p>All criteria are not met</p> <p>All four audit files being reviewed lack documented evidence of any planning procedures undertaken. There may have been some procedures carried out however these were not documented and evidenced in the audit files. There were no overall audit strategy describing the audit scope, objectives, and audit approach. Risk assessments were not conducted.</p>	0

(ii) Implementing Financial Audits	<p>Criteria a, b, c, d, f, g, are not met. Criterion e is not applicable.</p> <p>All criteria are not met because not all four audit files reviewed met the same criteria. The auditors did not design audit procedures to address risks assessed and there was no risk assessment conducted. There was a lack of evidence that the auditors have obtained sufficient appropriate evidence to support conclusions drawn and form the basis of the audit opinion.</p> <p>The whole of government accounts is not a consolidated set of financial statements because the 22 government ministries do not prepare separate financial statements.</p>	0
(iii) Evaluating Audit Evidence, Concluding and Reporting in Financial Audits	<p>Criteria a, b, c, d, e, f, g, h, i, j, are not met. Criterion k is not applicable.</p> <p>All criteria are not met because not all four audit files reviewed met the same criteria.</p>	0

4.3.4 SAI-11: Financial Audit Results – Score 3

This indicator assesses outputs or audit reports of the financial audits conducted by the SAI, the timely submission and publication of these audit reports and follow-up of audit observations and recommendations.

The dimensions to be assessed are:

- i. Timely Submission of Financial Audit Results
- ii. Timely Publication of Financial Audit Results
- iii. SAI Follow-up on Implementation of Financial Audit Observations and Recommendations

i. Timely Submission of Financial Audit Results

The Audit Act 2017 requires that all audit reports should be submitted within six months of the financial year end. 90% of all financial audit reports completed were submitted within the stipulated timeframe.

ii. Timely Publication of Financial Audit Results

The legislation is silent on any restrictions on the SAI publishing its report before the report is deliberated in Parliament. As such, all financial audit reports were published on the SAI's website once the report is submitted to legislature.

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

The SAI has not established a follow-up mechanism to prescribe policies and procedures on what the follow-up audits should focus on and reporting practices. The reporting requirements

for follow-up audits are also not described in any formal document or legislation. Furthermore, KAO has not established a practice for evaluating materiality to determine when a follow-up requires a new or additional investigation/audit. Consequently, the way recommendations raised in previous year's audit are followed up are not structured and properly documented.

Issues raised in previous year's audits are followed up during the audit of the current financial year's accounts and this follow up activity is not recognized as a separate audit. Therefore, the results of follow up are included in the audit report for the current year's accounts, which is submitted to legislature and published on the SAI's website. The audit report on Part 1 of government accounts included audit results and opinions for each ministry's revenue and expenditure statement. The status of previous audit's recommendations is also included in the report but at a high level. The report does not include the follow-up measures taken to address the audit recommendations but in summary form, lists the issues raised, whether the issue has been addressed or resolved and the status to date, whether improvement has been made or issue remains outstanding.

In the absence of established follow-up procedures and the lack of documentation of follow-up results, it is not possible to determine whether the audited entities were given the opportunity to provide information on corrective measures taken or why corrective actions were not taken.

Assessment Findings and Scores by Dimension

Indicator score: 3		
Dimension	Findings	Score
(i) Timely Submission of Financial Audit Results	90% (19 out of 21 completed audits) of financial audits, audit opinion / report submitted within 6 months from receipt of financial statements	4
(ii) Timely Publication of Financial Audit Results	ALL financial audit reports were published on the SAI's website as soon as it is submitted to Legislature.	4
(iii) SAI Follow-up on Implementation of Financial Audit Observations and Recommendations	Criteria b and e are met. Criteria a, c, d, f, are not met KAO has not established a follow-up mechanism nor a practice for evaluating materiality to determine when a follow-up requires a new or additional investigation/audit. However, KAO has followed-up issues raised in previous audit when conducting the audit of the current financial year. Follow-up activity is not a separate audit and less structured. Results of follow-up activities are included in the one and same audit report for the current audit.	1

4.3.5 SAI-12: Performance Audit Standards and Quality Management – Score 0

This indicator looks at the foundations for KAO's performance audit practice, including audit standards, guidance materials as well as its processes to ensure the quality of performance audits.

The assessment is based on analysing the requirements of the Kiribati Audit Act, KAO's Strategic Plan 2016-2019 and Organizational Structure and interviewing the Head of Project and Performance Audit division regarding performance audits.

The dimensions to be assessed are:

- i. Performance Audit Standards and Policies
- ii. Performance Audit Team Management and Skills
- iii. Quality Control in Performance Audit

i. Performance Audit Standards and Policies

KAO is required by section 22 (3) of the Kiribati Audit Act 2017 to apply the ISSAIs. However, the SAI does not have a performance audit manual or policies to demonstrate that they have formally adopted the relevant ISSAIs for performance audits. Having a performance audit manual is important as it translates the requirements of the ISSAIs to more practical processes that will enable the auditors to follow and be able to conduct audits in accordance with the ISSAIs. The SAI has however identified the urgent need to develop audit capacity of staff in the Performance audit unit to have the necessary professional competence to be able to perform the audits. This is evident by the fact that there were no performance audits planned to be carried out during the year under review.

In the absence of an audit manual, there is no established guidance on the performance audit process. There is no guidance on how to plan an audit, what audit procedures need to be undertaken when planning an audit, such as defining the objective of the audit, identifying the elements of a performance audit, defining the audit scope, determining audit criteria and considering materiality at all stages of the audit process. There is also no guidance on the audit procedures when conducting and reporting the audit.

ii. Performance Audit Team Management and Skills

The SAI has not established a system to ensure that the audit team collectively, has the necessary professional competence to perform the audit. There are no policies or guidance requiring staff to have sound knowledge of performance auditing, including an understanding of the applicable auditing standards; sound knowledge of government organizations, programmes and functions; personal strengths such as analytical, writing and communication skills and the ability and experience to exercise professional judgement.

During the period under review, the SAI has not been able to provide support to its auditors as required to implement the adopted audit standards (ie. ISSAIs) and develop their professional skills.

iii. *Quality Control in Performance Audit*

In the absence of a performance audit manual and relevant policies for performance audit, there are no documented guidance on how performance audits should be conducted, the quality control processes and the allocation of responsibilities for quality control. The review process, including review of the audit plan, working papers and the work of the team, and regular monitoring of progress by appropriate levels of management, is not established.

Assessment Findings and Scores by Dimension

Indicator score: 0		
Dimension	Findings	Score
(i) Performance Audit Standards and Policies	All Criteria are not met. The SAI is required to apply the ISSAI standards, however the standards have not been formally recognized in the form of a manual where policies, processes and procedures are provided, to enable the SAI to implement ISSAIs appropriately.	0
(ii) Performance Audit Team Management and Skills	All Criteria are not met. The SAI has not established a system to ensure that the audit team collectively has the necessary professional competence to perform the audit.	0
(iii) Quality Control in Performance Audit	All Criteria are not met. In the absence of an audit manual and relevant policies for performance audit, there are no established processes and procedures for ensuring the quality of any performance audit performed by the SAI.	0

4.3.6 SAI-13: Performance Audit Process – Score 0

This indicator assesses how KAO carries out performance audits in practice. It examines the planning phase, the implementation phase, and the reporting phase. The assessment is based on reviewing KAO's Strategic Plan 2016 - 2019, Office Structure and interviewing the Head of Project and Performance Audit division.

The dimensions to be assessed are:

- i. Planning Performance Audits
- ii. Implementing Performance Audits
- iii. Reporting of Performance Audits

KAO has not conducted any performance audit since 2016 to date. Therefore, the assessment team was not able to assess the SAI's current practice in relation to planning, implementing and reporting on a performance audit. Staff turnover and the lack of established guidance for performance audit has made it challenging for the SAI to initiate and conduct a performance

audit on its own. Although the SAI participated in cooperative performance audits facilitated as a regional initiative by the PASAI, none of these were performed during the period under review or during the strategic period 2016-2019. All staff who participated in these regional audits have left the SAI.

Assessment Findings and Scores by Dimension

Indicator score: 0		
Dimension	Findings	Score
(i) Planning Performance Audits	All Criteria are not met. The SAI has not initiated and conducted a performance audit during the period under review.	0
(ii) Implementing Performance Audits	All Criteria are not met.	0
(iii) Reporting of Performance Audits	All Criteria are not met.	0

4.3.7 SAI-14: Performance Audit Results – Score 0

This indicator assesses the performance audit outputs with regards to the timely submission, timely publication and the follow-up on audit results.

The dimensions to be assessed are:

- i. Timely Submission of Performance Audit Reports
- ii. Timely Publication of Performance Audit Reports
- iii. SAI Follow-up on Implementation of Performance Audit Observations and Recommendations

The AG is required by Section 41 of the Kiribati Audit Act 2017 to submit audit reports to Parliament, as soon as practicable. During the period under review, the SAI has not conducted any performance audit and therefore there were no reports to be submitted to Parliament as required by the legislation.

Assessment Findings and Scores by Dimension

Indicator score: 0		
Dimension	Findings	Score
(i) Timely Submission of	All Criteria are not met. The SAI has not initiated and conducted a performance audit during the period under review.	0

Performance Audit Reports		
(ii) Timely Publication of Performance Audit Reports	All Criteria are not met.	0
(iii) SAI Follow-up on Implementation of Performance Audit Observations and Recommendations	All Criteria are not met.	0

4.3.8 SAI-15: Compliance Audit Standards and Quality Management – Score 0

This indicator assesses the fundamental principles of compliance auditing by looking at KAO’s audit practice including audit standards and guidance material and processes to ensure the quality of compliance audits.

The dimensions to be assessed are:

- i. Compliance Audit Standards and Policies
- ii. Compliance Audit Team Management and Skills
- iii. Quality control in Compliance Audit

i. Compliance Audit Standards and Policies

The Public Finance (Control and Audit) Act, Part V section 29 requires the SAI to “examine, inquire into and audit the accounts of the Accountant General and of accounting officers and of all accountable officers”. This gives the legislative basis for the SAI to conduct compliance audit of the 22 government ministries’ Revenue and Expenditure Statements (RES) which are prepared by the Accountant General, who works for the Ministry of Finance. In addition to the compliance audit of Ministry’s Revenue and Expenditure Statement, the SAI also conducts special investigations as compliance audits.

The Audit Act 2017 requires the KAO to follow ISSAIs, however, there are no guidance materials reflecting that the SAI has adopted the relevant ISSAIs on compliance audits and ensure that any compliance audit conducted by the SAI will follow the prescribed processes and procedures. Furthermore, there are no established policies and procedures on how the audit of ministries’ Revenue and Expenditure Statement should be performed.

The KAO does not have specific policies and procedures describing the relevant requirements for compliance audits as prescribed by the ISSAIs. Although KAO has an audit manual developed in the year 2000, Manual of Audit Instructions, the manual does not describe the compliance audit process and the elements relevant to compliance auditing that the auditor

should identify before commencing the audit. There are no policies or guidance in this manual on what the auditors should consider when planning, performing and reporting on a compliance audit.

ii. Compliance Audit Team Management and Skills

The responsibility for conducting compliance audit, other than compliance audit for government ministries' RES is allocated to the Performance Audit and Projects division while the audit of each ministry's Revenue and Expenditure Statement is conducted by the Central Government division. This dimension examines whether the SAI has necessary skills and experience to conduct compliance audit and what support, if any, the SAI has provided to the auditors to enable them to conduct a compliance audit.

KAO has not established a system to ensure that members of the audit team collectively have the knowledge, skills, and expertise necessary to successfully complete the compliance audit. There are no policies or guidance on the critical requirements that auditors need to have such as, knowledge and practical experience of the audit being undertaken, an understanding of the applicable standards and authorities, an understanding of the audited entity's operations and the ability and experience to exercise professional judgment. The knowledge, skills and expertise required for conducting the compliance audit are not identified.

The reporting lines and allocation of responsibilities within the team are identified by the organisational structure of the SAI, where the head of the division assumes leadership and management of the divisional plans including supervising and managing audits carried out by the division. Thus, the designations of staff by default, defines the responsibilities and the reporting line for team members within the Performance and Project Audits division.

As a member of PASAI, staff of KAO have participated in regional trainings and workshops facilitated by PASAI and the IDI. However, most of the existing staff in this division have not had training on compliance audit enabling them to understand the compliance audit process and the key audit procedures and considerations involved when performing compliance audits.

iii. Quality Control in Compliance Audit

This dimension examines the KAO's mechanisms in place to ensure quality of compliance audits performed. In the absence of formal established guidance or audit manual, the SAI does not have any guidance materials, policies and processes on compliance audit and quality control procedures that auditors should implement during the audit. These quality control procedures include guidance on how quality control reviews for all work carried out should be done and ensuring that all issues raised during the audit are satisfactorily resolved before the audit report is issued. There are no procedures in place for authorizing reports to be issued.

Based on the audit files reviewed, not all work carried out by the audit team were subject to review. There is a lack of evidence for these reviews on the working papers.

Assessment Findings and Scores by Dimension

Indicator score: 0		
Dimension	Findings	Score

(i) Compliance Audit Standards and Policies	All Criteria are not met. The SAI does not have established guidance or an audit manual on how compliance audit should be performed.	0
(ii) Compliance Audit Team Management and Skills	Criterion g is met. Criteria a, b, c, d, e, h, i, j, k, l, m, n, o, p, q, are not met except. Criterion f is not applicable. The SAI does not have an established system to ensure that members of the audit team collectively have the knowledge, skills, and expertise necessary to successfully complete the compliance audit. There are clear reporting lines and allocation of responsibilities within the audit teams. External experts were not used in any of the audits being reviewed.	0
(iii) Quality Control in Compliance Audit	All Criteria are not met. KAO does not have established policies and procedures to ensure quality of compliance audits conducted. There is a lack of evidence in the audit file of review carried out on all audit work performed. There are no procedures in place for ensuring that any contentious issues have been resolved satisfactorily before the audit report is authorized and issued.	0

4.3.9 SAI-16: Compliance Audit Process – Score 1

This indicator looks at how compliance audits are carried out in practice by KAO. It examines the planning phase, the implementation phase, and the reporting phase. The assessment is based on the review of the audit of the Ministries’ Revenue and Expenditure Statements and the special investigation of the Meleang Tabai Secondary School.

The dimensions to be assessed are:

- i. Planning Compliance Audits
- ii. Implementing Compliance Audits
- iii. Evaluating Audit Evidence, Concluding and Reporting of Compliance Audits

i. Planning Compliance Audit

When conducting the audits of Ministry’s Revenue and Expenditure Statement and special investigations, the audit focused on the Ministry’s compliance with all applicable government regulations, directives, financial regulations and policies on approving and utilization of the Ministry’s budget. The audit of each Ministry’s Revenue and Expenditure statement covers compliance in all areas of the Ministry’s operations including compliance with government procurement policies and regulations, payroll, and revenue collection.

The assessment team reviewed the audit file for the compliance audit of Meleang Tabai Secondary School (MTSS). From our review of the audit plan, the elements relevant to

compliance auditing as prescribed by the ISSAIs, such as the subject matter of the audit, the applicable authorities covering regularity, the intended users of the report, were not identified before conducting a compliance audit. The criteria to be used to assess the entity's compliance with relevant authorities were not described or defined. Although the audit scope was included, the description of the audit scope did not clarify the extent and limits of the audit in terms of the subject matter's compliance with the identified criteria. From our interview with the head of the division, there is some planning activities undertaken however such work is not documented. Guidance to the audit team on what to do is given by the audit team leader verbally and such guidance is not documented.

Similarly, for the audits of Ministry's Revenue and Expenditure Statement, there is a lack of proper documentations of audit planning and the audit procedures to be undertaken. There is no proper audit plan identifying the applicable authorities, the subject matter that will be audited and the level of assurance provided by the audit. However, the working papers in the audit file identify the ministry being audited, the financial year, the criteria sourced from the Public Finance (Control and Audit) Ordinance 1981, members of the audit team and the allocation of tasks to members of the audit team. Given the task allocation, each team member prepares the audit procedures to be performed based on the financial requirements relevant to revenue and expenditure. Although there is no evidence of proper planning in the audit file, the management report issued to the ministries at the completion of the audit states the objective of the audit and area of focus, which is to report on the revenue collected by the ministry against budgeted revenue and whether expenditure incurred were within the approved budget and/or supplementary budget.

There was no evidence of consideration of risks throughout the audit process. Similarly, the level of materiality was not determined and documented during the planning phase. If there was any assessment of materiality, this was not documented in the working papers in the audit file. There is a lack of documentation of any communication with the audited entity throughout the audit process. The audit plan does not contain the suitable criteria. From discussions with the head of division, it was clear that the team lacked the knowledge and expertise on compliance audit as well as having an overall understanding of what a compliance audit is as prescribed by the ISSAIs. There is no evidence that the audit plan and related documents have been reviewed to ensure an effective and quality audit will be conducted.

There is no documented evidence that the SAI has gained an understanding of the audited entity. Based on discussions with the head of Performance Audit and Project division and the team leader for audit of ministries' Revenue and Expenditure Statement, the audit teams seem to have a general understanding of the ministries in terms of the key personnel and the financial regulations governing all ministries. However, whatever this "general understanding" is, is not documented. There is also no documented evidence that the auditors have gained an understanding of the entity's control environment and the relevant internal controls.

The SAI has not established a system requiring appropriate declarations signed by staff in relation to ethics and independence, to ensure that, at the audit engagement level, its auditors comply with ethical requirements such as integrity, independence and objectivity, competence, professional behaviour, confidentiality and transparency. The members of the

audit team conducting the special investigation have not signed any ethical/independence declaration, although this is a practice in the financial audit divisions.

ii. Implementing Compliance Audits

The practice of compliance audit is not consistent between auditors conducting the audit of Ministries' Revenue and Expenditure Statements and those carrying out a special investigation. The implementation of the audit is really affected by the lack of guidance on audit procedures as well as the quality of audit planning procedures undertaken. Given that the planning was not carried out in an effective manner, as demonstrated by the fact that some key elements and planning procedures were not clearly described in the audit plan, the implementation of the audit lacks some critical audit procedures that will ensure the audit is performed in an effective and quality manner.

The nature, timing and extent of audit procedures to be performed in light of the criteria and scope of the audit, characteristics of the audited entity and results of the risk assessment were not adequately identified for the audit of the MTSS performed by the Performance Audit and Projects division, to ensure sufficient and appropriate audit evidence are gathered. On the other hand, the audit of Ministry's RES described the audit procedures to be conducted and sample of transactions to be subject to audit tests whether they comply with the applicable authorities.

Both audits discover instances of non-compliance which may be indicative of fraud. These are reported to the audited entity through the management report. The teams do not interfere with any legal proceedings, should this be required because of their audit findings.

The review of the audit of Ministry's Revenue and Expenditure Statements and the audit of MTSS did not require or engage an external expert.

Furthermore, because of the incompleteness and lack of quality of the audit plans for both audits, it was not possible for the audit team to determine or confirm that they have gathered sufficient and appropriate audit evidence and that they have carried out all relevant audit procedures required to support the audit conclusions drawn and audit findings described in the final audit report.

All audit procedures that were performed are documented in the working papers for both audits. However, there is no control mechanism such as proper audit programs, to describe the planned audit procedures and therefore enables the auditors to determine whether all these procedures have been carried out. The audit procedures being performed seems to be taken as sufficient for the purpose of the audit and supporting the auditor's opinion.

iii. Evaluating Audit Evidence, Concluding and Reporting of Compliance Audits

Based on our review of the MTSS and the Ministries Revenue and Expenditure Statements audit files, the documentation of audit work performed was insufficient to enable an experienced auditor, having no previous connection to the audit, to understand from the documentation, the relationship between the subject matter, the criteria, the scope of the audit, the risk assessment, the audit strategy and audit plan and the nature, timing and extent and the results of procedures performed. It was challenging trying to understand the linkages between the criteria and audit objective and the audit conclusion.

The SAI's requirements for audit documentation have not been followed to ensure relevant audit documentation is prepared before the audit report is issued. For instance, the SAI's manual Chapter 2: Office Instructions No.9 on administrative procedures regarding audit review notes, requires auditors to discuss audit observations with the responsible officer and whenever possible, observations should be resolved on the spot and appropriate remarks should be recorded. Although audit observations and exceptions were noted on the working papers, there is no evidence whether any exceptions were resolved during the audit. It seems that all audit findings are reported in the management letter for response. Management response are then included in the audit report.

There was no documented evidence of the audit team's evaluation whether sufficient and appropriate audit evidence was obtained to ensure relevant conclusions can be drawn. Because of the lack of proper planning, this has significant impact on the relevance of conclusions drawn and assurance level that the audit intends to provide to the users of this audit report.

Having effective communication with the audited entity throughout the audit process is essential and during the audit, instances of material non-compliance should be communicated to the appropriate level of management or those charged with governance. This was lacking as communication was only evident when the audit report was completed and sent to the audited entity for management comments on the audit findings. Despite audit discovering instances of non-compliance which may be indicative of fraud, there was no record to suggest that this issue was brought to the attention of the audited entity during the audit – the issue was only described in the draft audit report.

Audit findings and recommendations were submitted to the head of each ministry for their comments before the report was finalised. Audit findings and recommendations are clear and concise and address to those in the ministry responsible for ensuring recommendations are implemented.

With regards to reporting, the audit reports are based on the principles of completeness and objectivity. The audit reports described how the audit was initiated (in the case of the MTSS audit, which was by a request from the Ministry of Education), the audit objectives, a summary of audit work carried out, audit findings, recommendations and an overall conclusion. The results summarised in Table 2 reflected variations in implementing and reporting on compliance audits by the two divisions. Some common practices are both audit reports describe the scope of the audit, including the time period covered, identify the subject matter, identify the auditing standards applied in performing the audit, a summary of the work performed and audit findings and a conclusion.

There were some key features of the audit report that were not included or described adequately, in accordance with the ISSAIs relevant to compliance audit. These vary between the audits reviewed as shown in Table 2: *Summary of Compliance audit files reviewed*. For instance, the audit report for MTSS did not include a description of the specific audit criteria but only the applicable legislations used to source audit criteria from. The audit report was not dated nor signed by the AG. The conclusion did not specifically address the audit objectives – whether there was compliance or not. The format and content of the audit report clearly demonstrate the audit team's lack of understanding of the relevant ISSAI requirements on and skills in compliance auditing.

In contrast, the audit for Ministries' Revenue and Expenditure Statements issued an audit opinion for each individual Ministry based on the audit of their respective Statements. All these Statements are compiled into one report and referred to as Part 1 of the Auditor's report to Parliament on the financial audit of government's annual accounts. There is no addressee in the audit report but the cover letter to submit the audit report to Parliament. Although the audit opinion for each Ministry's Revenue and Expenditure Statement indicated either unqualified or qualified opinion, there is no documented evidence that the opinion resulted from an evaluation of materiality and pervasiveness of the issues discovered by the audit. The SAI however has its own template with criteria to determine the type of audit opinion to issue based on the results of whatever audit procedures the auditors have performed.

Table 2: Summary of Compliance Audit files reviewed

Audit Division	Score	Dimensions		
		(i)	(ii)	(iii)
Central Government	Met		criteria a, b	criteria e, f, g(I, III to XIII), h, i, j
	Not met	All criteria (a-k)	criteria d, e	criteria a, b, c, d, g(II)
	N/A		criterion c	
Performance Audit and Projects	Met		criterion b	criteria e, f, g (I, II, III, IV, VI, VII, VIII, IX, XI), h, i
	Not met	All criteria (a-k)	criteria a, d, e	criteria a, b, c, d, g (V, X, XII, XIII)
	N/A		criterion c	criterion j

Assessment Findings and Scores by Dimension

Indicator score: 1		
Dimension	Findings	Score
(i) Planning Compliance Audits	All Criteria are not met. There were no proper planning documents in place to demonstrate that the SAI has taken actions to ensure an effective and quality audit will be conducted. There is no overall audit strategy in place, no evidence of risk assessment undertaken, and no documentation of any understanding gained about the audited entity and its control environment. The SAI has not established a system to ensure all staff comply with relevant ethical requirements.	0
(ii) Implementing Compliance Audits	Criterion b is met. Criteria a, d, e, are not met. Criterion c is not applicable. Compliance audit practice is not consistent between the two divisions who performed compliance audits. These are reflected in the results summarised in Table 2: Summary of Compliance Audit files reviewed. Instances of non-compliance which were indicative of fraud were reported to management of the audited entity through the management letter.	1

	<p>The lack of proper planning affected the implementation of the audit and the planned audit procedures that the auditors need to gather to obtain sufficient appropriate evidence. As such, there is no basis of confirming whether all planned audit procedures were performed.</p> <p>The audits reviewed did not engage external experts.</p>	
(iii) Evaluating Audit Evidence, Concluding and Reporting of Compliance Audits	<p>Criteria e, f, g(i), (iii), (iv), (vi), (vii), (viii), (ix), (xi), h, i are met. Criteria a, b, c, d, g(ii), (v), (x), (xii), (xiii) are not met. Criterion j is not applicable where there was no audit opinion provided.</p> <p>The documentation of audit work performed was insufficient to enable an experienced auditor, having no previous connection to the audit, to understand the relationship between the subject matter, the criteria, the scope of the audit, the risk assessment, the audit strategy and audit plan and the nature, timing and extent and the results of procedures performed. The</p>	1

4.3.10 SAI-17: Compliance Audit Results – Score 1

This indicator assesses outputs of the compliance audit function of the SAI with regards to the timely submission and timely publication of audit reports, and the follow-up of audit observations and recommendations.

The dimensions to be assessed are:

- i. Timely Submission of Compliance Audit Results
- ii. Timely Publication of Compliance Audit Results
- iii. SAI Follow-up on Implementation of Compliance Audit Observations and Recommendations

i. Timely Submission of Compliance Audit Results

The Audit Act 2017 section 41 requires the AG to prepare and submit reports on any audit conducted as soon as practicable. The audit report on the audit of Ministries' Revenue and Expenditure Statements for the financial year ending 31 December 2017 was submitted to legislature in March 2019, as soon as the audit was completed. Statements to be audited were received in October 2018 and the audit was completed within six months since receipt of Statements to be audited. Although the audit report was submitted within six months of receipt of Statements to be audited, the audit is not timely with respect to the period to which the audit relates.

The audit report for MTSS was submitted and stamped received by the Clerk of the Legislature on 5 May 2018. The audit covered three years up to 31 December 2017.

ii. Timely Publication of Compliance Audit Results

The SAI has the right and obligation to publish, however the MTSS audit report was published on KAO's website in September 2019, more than 60 days since the report was submitted to legislature. The audit reports for the Ministries' Revenue and Expenditure Statements which is part of the financial audit of the whole of government annual accounts were published on the website once the reports were submitted to legislature.

iii. SAI Follow-Up On Implementation of Compliance Audit Observations and Recommendations

KAO has not established a follow-up system to ensure that the audited entities properly address the observations and recommendations. The absence of an established follow-up system means there are no policies and procedures on how follow-up audit is conducted, its purpose, what to report on and when to report to legislature on the results of follow-up audits.

The MTSS audit report explained that the SAI will follow up on its recommendations within three months from the date the report is completed, to ensure management has promptly addressed these recommendations. At the time of the review, no follow-up on this audit's recommendations was carried out.

Assessment Findings and Scores by Dimension

Indicator score: 2		
Dimension	Findings	Score
(i) Timely Submission of Compliance Audit Results	There was no established legal time frame for submission of compliance audit reports. The audit report for MTSS was submitted within six months from the end of the period to which the audit relates. The audit report for Ministries' Revenue and Expenditure Statements was submitted within six months since the receipt of Statements to be audited.	2
(ii) Timely Publication of Compliance Audit Results	The SAI has the right to publish its audit reports. The audit report for all 22 Ministries' Revenue and Expenditure Statements was published on the SAI's website once the report is submitted to Parliament. However, the audit report for MTSS was published in September 2019, more than 60 days after the SAI is permitted to publish the report.	1
(iii) SAI Follow-Up on Implementation of Compliance Audit Observations and Recommendations	All Criteria are not met. There is not follow up procedure in place. The reports state there will be a follow up after 3 months of the report but no follow up was conducted yet.	0

4.4 Domain D: Financial Management, Assets and Support Services

SAIs require adequate resources and need to demonstrate effective planning and use of assets. SAIs also need to demonstrate that their financial resources, support services including archiving facilities, office equipment and IT infrastructure are well-managed. This domain covers one indicator – SAI-21: Financial Management, Assets and Support Services.

The following table provides an overview of the dimension and indicator scores and further details on each dimension are provided in section 4.4.1.

Domain D: Financial Management, Assets and Support Services		Dimensions				Overall Score
Indicator	Name	(i)	(ii)	(iii)	(iv)	
SAI-21	Financial Management, Assets and Support Services	1	0	0		0

4.4.1 SAI-21: Financial Management, Assets and Support Services – Score 0

This indicator measures the effectiveness of the financial management functions that are in place together with the infrastructural needs of KAO and other support services it provides to ensure quality audits are performed.

The assessment is mainly based on reviewing KAO’s Strategic Plan for 2016 to 2019, finance circulars and memorandums, Public Finance Control and Audit Act, job descriptions, management reports, draft IT Strategic Plan and interviewing the Accounts Clerk, Assistant IT Auditor and the Office Manager.

The dimension to be assessed are:

- i. Financial Management
- ii. Planning and Effective Use of Assets and Infrastructure
- iii. Administrative Support Services

i. Financial Management

The KAO is a relatively small SAI with only one accounts officer responsible for handling all of its financial activities. There are no written policies and processes on how KAO’s budget is prepared. However, the budget is prepared by the accounts officer and the Auditor General who have the appropriate skill set, experience, and resources to perform their financial responsibilities.

KAO has a proper system for delegation of authority to commit/ incur and approve expenditures for the SAI. Such delegation of authority and limits have been communicated by the SAI to the MFED. The SAI does not have its own financial manual or regulations but as a government agency, is required to comply with government financial regulations stipulated in the Public Finance Control and Audit Act (commonly referred to as CAP 79) which governs the financial operations of all government Ministries and Departments. There is no evidence to indicate that these regulations have been circulated or communicated by the SAI management to all staff to ensure that they are aware of the requirements of the Act. Nevertheless, those who

are responsible for implementing and ensuring that these financial regulations are adhered to, are aware of these regulations.

KAO does not have a functioning Management Information System (MIS) to record and process financial and performance information of the SAI. However, the financial transactions of all government ministries and departments, including the SAI are recorded in the primary accounting system, the Attaché Software, which is in and maintained by the MFED.

KAO does not have a functioning staff cost recording system but operates an electronic system recording the daily attendance of all staff. Reports on daily attendance are generated from the electronic system but the information from these reports are not utilised to inform any management decisions such as, to determine whether late arrivals would result in deduction of salary or salary deductions are based on unauthorised absence. The Management Reports that the SAI produces, monitors the actual expenditures incurred against the budgetary allocations.

The National Planning Office (NPO), a unit within the MFED who is responsible for the government's budget process prepares an overall schedule and timelines for the different stages of the process. KAO does not have a plan or timetable for preparation of its budget to ensure it can meet the timelines for the budget submission and consultation as proposed by the NPO. The KAO's budget is managed by the Auditor General and the Accountant. The SAI's actual expenditure for the last three years did not exceed the approved budget. As depicted in KAO's budget (table page 25), the SAI's actual expenditures for 2016, 2017 and 2018 were 76%, 78% and 99% respectively.

There is no legislative requirement for the SAI to prepare its own financial statements. Therefore, the SAI has never prepared its own financial statements which should be made public and subject to external independent audit or parliamentary review. The SAI's financial transactions are processed through the centralised government system maintained by the MFED. Hence information on the SAI's budget and spending are incorporated in the whole of government financial statements which is audited by the SAI.

ii. Planning and Effective Use of Assets and Infrastructure

The SAI has not developed a long-term plan for its infrastructure needs and a shorter-term plan for its IT needs based on current and anticipated future staffing levels. One of the strategic goals described in KAO's Strategic Plan 2016-2019 is to improve its infrastructure by having one office building that includes a Board and a training room. Currently, the SAI staff are in two separate buildings. However, there were no documented plans on how the SAI will achieve this goal throughout the strategic period which is coming to an end. In 2016, the SAI submitted a proposed plan for the renovation of the Office to the Ministry of Public Works and Utilities (MPWU) requesting the Ministry to commence scoping works but there has been no further progress made on this request.

There has been no review of the IT Infrastructure needs like computers, software, and IT network within the past 3 years. Although there is an IT Strategic Plan in place which focuses on the IT unit providing IT support to all staff, undertaking IT audits and addressing IT needs of the Office in order to undertake future projects but this plan is still in its draft form and no further actions or plans in place to finalise and implement the IT strategic plan.

The SAI has not reported on any inadequacies relating to its assets and infrastructure in its annual report when relevant matters arise. The KAO Annual Progress for 2018 reported on the progress of the SAI's core audit functions' outputs against the divisional work plans but not explicitly on the limitations relating to assets and IT infrastructure.

The SAI has two archive rooms as storage for old files that are no longer in use daily. The Kiribati's Public Records Act, section 7, requires that records over 15 years old be deposited with the Archives Office. There are no records or register of the files in the archive rooms and therefore it is difficult to determine which files should be maintained according to the legal requirements and which files should be removed from the room and disposed. These rooms are accessible by everyone and are not properly secured to ensure that there is no unauthorised access and to ensure that files are not removed without proper authorisation. Registry personnel monitors every person who access these rooms.

Furthermore, under the Strategic Plan Objective 8.1.4: *Improve consistent implementation of audit recommendation by clients*, one of the strategies to achieve this objective is "to provide a highly reliable information system infrastructure and computer power back up (archive, filing and storage of audit report)". This has not fully materialised as the Office still has some functions which are done manually and not all functions are fully automated.

iii. Administrative Support Services

The SAI's IT division consist of a Principal IT Auditor and an assistant IT auditor. The IT division is responsible for providing IT support and conduct IT audits. The principal IT auditor has the appropriate skills and experience but not the resources to provide IT support. All staff have a limited allowance of internet data to access the SAI's email system and share drive. This is due to the SAI' internet package which has limited users and limited data daily.

The responsibility for file management and archiving is assigned to the Office Manager (OM), who has the appropriate skill set and experience but not the resources to do the job. These responsibilities include ensuring compliance with registry procedures manual and records management policy. Registry procedures manual details the OM's responsibility in terms of archiving of files.

There is no one specifically tasked to maintain and update a record of all the assets of the SAI as the Office Manager and Registry clerks mostly must deal with maintaining the filing system. The assistant accountant's job description requires him to maintain the stores ledger for the Accounting division.

There has been no review done on the administrative support functions as any suggestions for change will go through the Public Service Office (PSO). The SAI needs to submit a request to the PSO if there is a need to recruit additional staff to strengthen its administrative function.

Assessment Findings and Scores by Dimension

Indicator score: 0		
Dimension	Findings	Score

(i) Financial Management	<p>Criteria a, b, d and h are met. Criteria c, e, f, g, i, j, k, are not met.</p> <p>Responsibilities for financial management activities are clearly assigned. KAO has a system of delegation of authority to incur and approve expenses on behalf of the SAI. Personnel tasked with budgeting and accounting have the appropriate skill set and experience to perform their responsibilities. KAO managed its spending within its budget allocation.</p> <p>KAO does not have written policies and processes on preparing its budget. There are no clear plans on budget preparation to ensure the SAI meets the budget timelines proposed by the National Planning Office who is responsible for preparing the national budget.</p> <p>KAO does not have its own management information system (MIS) but the SAI's accountant is responsible for all its financial activities. All government agencies including KAO are connected to the government's centralised accounting system located and administered by the MFED.</p>	1
(ii) Planning and Effective Use of Assets and Infrastructure	<p>All criteria are not met.</p> <p>KAO has not developed a plan for long term use of assets and infrastructure needs. The SAI has submitted proposal for improving its office, but proposal has not been addressed. KAO has not reported on the inadequacies relating to its assets and infrastructure. The SAI has not secured access to safe archiving facilities.</p>	0
(iii) Administrative Support Services	<p>All criteria are not met.</p> <p>The responsibilities for IT support and file management are clearly assigned to staff with appropriate skill set and experiences. However, what they lack is the appropriate resources to be able to perform their job. No one is specifically tasked to manage the SAI's assets and infrastructure. The administrative support function has not been reviewed within the past five years.</p>	0

4.5 Domain E: Human Resources and Training

An effective SAI is dependent on its ability to recruit, retain and effectively deploy highly skilled, hard-working and motivated staff. It is the responsibility of SAI's management to ensure that the SAI has the right staff at the right time and that it can recruit them effectively. This domain covers two indicators with further details provided in sections 4.5.1 and 4.5.2.

The following table provides an overview of the dimension and indicator scores.

Domain E: Human Resources and Training		Dimensions				Overall Score
Indicator	Name	(i)	(ii)	(iii)	(iv)	
SAI-22	Human Resource Management	2	0	1	2	1

SAI-23	Professional Development and Training	0	1	1	1	1
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4.5.1 SAI-22: Human Resource Management – Score 1

This indicator assesses elements of the SAI’s human resource management. This includes the SAI’s human resource policies and procedures, including among other things, recruitment, professional development, performance evaluation and promotion.

The assessment of this indicator is mainly based on reviewing the KAO’s Strategic Plan for 2016 to 2019, Organisational Structure, Office Managers Job Descriptions, Staff Appraisals, files for promotions, recruitments, National Conditions of Service 2011 and interviewing relevant personnel.

The following dimensions will be assessed.

- i. Human Resources Function
- ii. Human Resources Strategy
- iii. Human Resources Recruitment
- iv. Remuneration, Promotion and Staff Welfare

i. Human Resources Function

The Government’s Public Service Office (PSO) administers the human resource function for all government ministries and departments including the SAI. KAO’s Office Manager is responsible for coordinating, facilitating, and implementing any human resource matters approved by the PSO. If the SAI needs to recruit staff, a submission is made to the PSO for approval before the post is advertised. Any promotions are subject to the PSO’s approval. The Office Manager coordinates the recruitment process with the PSO. The Office Manager has the appropriate skills set and experience to facilitate the human resource matters as decided and approved by the PSO but not the skill set and experience to perform responsibilities expected of the HR function, such as developing a human resource strategy and maintaining a competency framework.

The PSO does not develop and maintain a human resource strategy for the SAI but maintains policies that are applicable to all government agencies and civil servants. The SAI does not have a competency Framework. The Public Service Commission (PSC) decides on staff promotions in accordance with government policies and procedures. Promotions are forwarded by the Auditor General to the PSC after consulting with the supervisors and verification of staff assessment report. Submissions are then made to PSC for final vetting and approval.

The PSO provides guidance and consultation on human resource matters. The SAI will process the template for advertisement of job vacancies. This is submitted to the PSO for vetting and clearance. The Ministry of Labour will then proceed to facilitate the advertisement of vacancies and sort and list the applicants. This list is given to the SAI who will co-ordinate with the PSO a schedule for the interview and selection process.

The SAI maintains a staff appraisal system where staff complete their performance appraisal report then the supervisors will assess the performance of staff and endorse the report.

The PSO generally informs the Auditor General if there is suitable professional development opportunities for staff of the SAI, for which the SAI will submit nominations. However, there is no schedule of such training opportunities. Other professional development opportunities for the SAI staff are offered by PASAI or other international institutions where participation is decided by the Auditor General.

Personnel files are maintained manually at the SAI's registry section. The personnel files contain documents such as medical reports, certificates, appointments letters but no code of ethics declarations. Records of trainings are also kept in the files as well as the printout of information from the Human Resource (Power Maker) database system. The Power Maker is a database that records appointments, date of birth, island of origin, title, training records, leave records, etc.

ii. Human Resources Strategy

The SAI does not have a Human Resource Strategy that provides guidance on the SAI's recruitment, performance management, retention, and staff welfare. All these matters are managed by the Public Service Office whilst the SAI mostly facilitates the process through submission of relevant correspondences and documents and having consultations with Public Service Office.

iii. Human Resources Recruitment

The SAI follows the recruitment process described in the National Conditions of Service (NCS) 2011. These procedures are determined by Government and involves other government ministries such as the PSO, PSC and the Ministry of Labour. The NCS 2011 is not available on the SAI's website but are available upon request by any interested party.

The main mode of advertising vacancies in the SAI is through the local radio station and on the SAI's website. There is no consideration for diversity in the recruitment procedures to consider age and gender and giving equal opportunities for physically challenged people.

The Auditor General makes the decision to initiate the recruitment process under which the Office Manager will facilitate through the necessary process involving other agencies such as the Public Service Office and the Ministry of Labour. There are no clearly documented procedures on how the recruitment process is undertaken in house. There are also no plans maintained for recruitments. This is all dependent on when the Auditor General will initiate the need to recruit.

The SAI sends the vacancy applications details to the Public Service Office which vets the application and give clearance to advertise the post. The Ministry of Labour then advertised the vacancy through the radio. Ministry of Labour also do the short listing of applicants and then submits the list of applicants to be interviewed to the SAI. The SAI will co-ordinate the interview and process of finalising the most suitable candidate. This process is done in consultation with the Public Service Office.

iv. Remuneration, Promotion and Staff Welfare

The KAO, like all government agencies, follow the remuneration and promotion policies and procedures established and administered by the PSO. Staff performance appraisals for all staff are carried out twice a year. The original copy of the performance appraisal is sent to PSO

whilst a copy is filed with the SAI. The performance appraisals for staff are conducted by the staff's respective supervisors and are endorsed by the Auditor General.

The performance appraisals are standard and there are no Individual Work Program targets to assess against as these are generic statements made by the Public Service Office for all Ministries and Departments. The appraisal forms are then submitted to Public Service Commission and MFED to determine if staff is eligible for any bonus payments.

The KAO does not have a policy in place that deals specifically with its staff welfare. Because the human resource function for all government agencies including the KAO are administered by the PSO, there is no expectation by the KAO to have a separate policy on its staff's welfare. Therefore, it follows whatever policies the PSO has established and have in place.

KAO rarely has staff meeting and therefore there is less opportunity for staff to express views of give feedback on any aspect of the office and the working environment. Nevertheless, in 2016 the SAI had consultations with the MPWU on proposed plans to renovate the existing Office and the possibility of increasing the capacity of the Office to be able to accommodate all staff in the one and same building. No work has been done to improve the working environment.

Assessment Findings and Scores by Dimension

Indicator score: 1		
Dimension	Findings	Score
(i) Human Resources Function	<p>Criteria d, e and g are met. Criteria a, b, c, and f are not met.</p> <p>The Government's Public Service Office (PSO) administers the human resource function for all government agencies including KAO. Therefore, the HR function is not within the SAI although the SAI's Office Manager facilitates any HR matters as required or approved by the PSO. PSO has not developed a human resource strategy and competency framework for the SAI. PSO does not prepare a schedule of professional development opportunities for the SAI but informs the SAI when opportunities are available.</p> <p>KAO has systems in place for processing advertisement of vacant posts, maintenance of personnel files, and the existence of a performance appraisal system.</p>	2
(ii) Human Resources Strategy	<p>All criteria are not met.</p> <p>The SAI does not have a Human Resource Strategy that aligns the plans of the Office in terms of recruitments, retention, remuneration, appraisals, and professional developments</p>	0

(iii) Human Resources Recruitment	<p>Criteria a, and d are met. Criteria b, c, e, f and g are not met.</p> <p>KAO follows recruitment process procedures described in the National Conditions of Service 2011, which are applicable to all government agencies. The decision-making process on any recruitment involves more than one person.</p> <p>The NCS is not available on the SAI's website but can be shared to any interested party upon request. Recruitment procedures do not promote diversity. KAO does not have any recruitment plans, but any recruitment is determined by the Auditor General on a need basis.</p> <p>The SAI does not have procedures in place to ensure the quality of work done by external expertise, in the event it engages external expertise.</p>	1
(iv) Remuneration, Promotion and Staff Welfare	<p>Criteria a, c, d and e are met. Criteria b, f, g and h are not met</p> <p>There is a proper system in place for remuneration, promotion and staff welfare which involves staff's appraisals where inputs from Supervisors are considered when processing promotions.</p>	2

4.5.2 SAI-23: Professional Development and Training – Score 1

The SAI should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient resources or personnel with the competence, capabilities and commitment to ethical principles necessary to carry out its work in accordance with relevant standards and applicable legal and regulatory requirements.

The dimensions to be assessed are:

- i. Plans and Processes for Professional Development and Training
- ii. Financial Audit Professional Development and Training
- iii. Performance Audit Professional Development and Training
- iv. Compliance Audit Professional Development and Training

i. Plans and Processes for Professional Development and Training

The KAO has not developed and implemented a plan for professional development and training that involves introduction and familiarization of new staff, internal training on the SAI's policies, procedures and processes, personal skills training, and management. There are no training policies maintained by the SAI and no training conducted for new staff joining the SAI.

The KAO has not developed a learning strategy or annual plan for professional development and training and align it with its strategic and operational goals and its human resource strategy (when a strategy is in place). All professional staff do not have a development plan based on their performance appraisals.

KAO has not established procedures for selecting staff to participate in trainings. However, the training needs of each staff are described in the staff performance appraisals. Other training

opportunities are also identified by the PSO. As a member of PASAI, the SAI staff are also eligible for training and professional development initiatives offered by the PASAI. The selection of staff to participate in any of these training opportunities rests with the Auditor General, although the basis for and considerations for selection are not established or written in any SAI document, such as Office Manual of Operations or similar document.

KAO's strategic plan 2016-2018 identified the need to train and develop performance audit skills and capabilities to conduct performance audit as required by its mandate. However, it does not recognize the need to develop skills in other audit discipline such as the financial and compliance audits, which the SAI is also mandated to perform.

Furthermore, KAO has not established policies, procedures, and processes for the professional development of non-audit or support staff such as in the administration, finance, and IT divisions. Like the professional staff, non-audit staff's training needs are identified and described in their performance appraisal reports. KAO does not have established mechanisms in place to monitor and evaluate the results of any professional development and training that staff have participated in.

ii. Financial Audit Professional Development and Training

The Auditor General is responsible for the professional development of all financial audit staff. All decisions on and nominations for professional development and trainings are made by the Auditor General. He nominates staff to attend overseas trainings coordinated and delivered by PASAI as well as government-sponsored trainings proposed by the Public Service Commission which requires his endorsement. KAO is a small SAI, and the Auditor General is more familiar with his staff as they report to him through their supervisors. He has sufficient and appropriate experience to provide recommendations for training opportunities.

KAO does not have a competency framework and therefore the competency requirements for the different staff level in financial auditing are not identified appropriately.

Staff performance appraisal are conducted every six months but there is no correlation between the training needs identified from these appraisals and the trainings and professional developments identified to address the capacity building needs of the staff. Financial audit staff do not have professional development plans which could have help monitor and evaluate whether staff training needs have been met and performance has improved because of trainings undertaken.

Because of the lack of in-house capabilities on ISSAIs, there were no formal internal trainings on the auditing standards and procedures. The SAI does not have any mentoring schemes in place to monitor the progress and provide coaching of the audit staffs. Most of the staff have academic qualifications like bachelor and master's degrees in accounting and other disciplines. However, the absence of a SAI or individual professional development plan makes it challenging to capture the financial auditors' professional development journey against identified needs and see how each staff will progress to the next level of their career development, such as becoming a member of a professional organisation. This is also made difficult with the non-existent of a professional accountancy organisation (PAO) in Kiribati.

iii. Performance Audit Professional Development and Training

All staff in the various audit disciplines follow the same policies, procedures, and processes. Like professional development and training for financial auditing, professional development and training for performance auditors are handled by the Auditor General.

All staff in the Performance audit division do not have individual professional development plans. Although some have formal qualifications, it is difficult to see evidence of professional development (if any) undertaken by staff. The competency requirements for the different staff grades in performance auditing are not identified and documented.

No internal trainings on auditing standards and procedures relevant to performance audit were held. Although the SAI has participated in cooperative performance audits as part of regional programs facilitated by the PASAI, staff turnover has impacted the sustainability and transfer of knowledge and skills gained through these regional initiatives.

iv. Compliance Audit Professional Development and Training

The responsibility for trainings and professional development for compliance auditors are assumed by the Auditor General. All decisions regarding training and professional development are handled by the Auditor General and follow the same process as for professional development and training for financial and performance auditors.

The SAI does not have its own competency framework and therefore the competencies for the different staff grades in compliance auditing are not identified.

Staff performance appraisals are conducted every six months but there is no correlation between how the training needs identified from these appraisals are linked to the identification of training or developments to help cater for the capacity building needs of the staffs. There is no individual plan for professional development of compliance audit staff.

There is no evidence of trainings conducted on auditing standards relevant to compliance audits. The SAI does not have any mentoring schemes in place to monitor the progress and provide coaching of the audit staffs. There are no evidences of quality controls reviews. If these reviews are done, they are not documented.

Assessment Findings and Scores by Dimension

Indicator score: 1		
Dimension	Findings	Score
(i) Plans and Processes for Professional Development and Training	All criteria (a - g) are not met. The SAI has not developed and implemented a plan for professional development and training. The SAI does not have an annual plan of professional development and training that aligns with its strategic and operational goals. There are no training policies established by the SAI for all staff nor procedures for selecting staff to participate in trainings.	0

	The SAI has identified the need to develop performance audit skills but has not identified the other audit disciplines such as financial and compliance audit which the SAI is also mandated to carry out.	
(ii) Financial Audit Professional Development and Training	<p>Criterion a is met. Criteria b, c, and d are not met.</p> <p>The responsibility for professional development is not assigned to a specific person. However, all decisions regarding training and professional development are made by the Head of the SAI. The SAI does not have a competency framework and as such the competencies for each staff level in financial auditing are not appropriately identified.</p> <p>Financial auditors do not have professional development plans. Some have formal qualifications, but the absence of development plans makes it difficult to monitor each staff's professional development and the next level that they need to pursue.</p>	1
(iii) Performance Audit Professional Development and Training	<p>Criterion a is met. Criteria b, c, and d are not met.</p> <p>All decisions regarding training and professional development are made by the Auditor General.</p> <p>Like financial auditors, performance auditors do not have individual professional development plans. There were no internal trainings on auditing standards and procedures relevant to performance auditing.</p>	1
(iv) Compliance Audit Professional Development and Training	<p>Criterion a is met. Criteria b, c and d are not met.</p> <p>All decisions regarding training and professional development are made by the Auditor General.</p> <p>Like financial and performance auditors, compliance auditors do not have individual professional development plans. There were no internal trainings on auditing standards and procedures relevant to compliance auditing.</p>	1

4.6 Domain F: Communication and Stakeholder Management

One of the SAI's main objectives according to ISSAI 12 is to demonstrate its relevance to stakeholders. SAIs should communicate with stakeholders to ensure that they understand the SAI's audit work and results and raise awareness of the SAI's role. This domain covers two indicators which are summarised in the table below. Further details on each indicator are provided in sections 4.6.1 and 4.6.2.

Domain F: Communication and Stakeholders Management		Dimensions				Overall Score
Indicator	Name	(i)	(ii)	(iii)	(iv)	
SAI-24	Communications with the Legislature, Executive and Judiciary	0	1	1	0	0
SAI-25	Communications with the Media, Citizens and Civil Society Organisations	1	1			1

4.6.1 SAI-24: Communications with the Legislature, Executive and Judiciary – Score 0

This indicator assesses the communication practices the SAI has established with institutional stakeholders. SAIs need to communicate effectively with these stakeholders and take the initiative to communicate its mandate and activities in a way that does not compromise its independence.

The dimensions to be assessed are:

- i. Communications Strategy
- ii. Good Practice Regarding Communications with the Legislature
- iii. Good Practice Regarding Communications with the Executive
- iv. Good Practice Regarding Communications with the Judiciary, and/or Prosecuting and Investigating Agencies

i. Communications Strategy

SAI Kiribati has not established a communications strategy or stakeholder engagement plan and therefore key stakeholders were not identified and key messages that the SAI wants to communicate to its stakeholders were not identified.

In practice, the SAI is communicating with stakeholders through audit reports, annual reports, and strategic plan, however other appropriate tools, and approaches for external communication to all relevant stakeholders are not identified. In the absence of a communication strategy, there is no mechanism in place to ensure that the way and the messages the SAI communicates with its external stakeholders are aligned with its strategic plan. Monitoring the implementation of the communication strategy is not recognized and identified in the SAI's strategic and operational plan because it does not have a communication strategy.

ii. Good Practice Regarding Communications with the Legislature

The SAI is required by the Kiribati Audit Act (KAA) 2017 section 39 to report its audit findings annually to Parliament. Section 41 of KAA prescribed the requirements regarding the tabling of financial audit, performance audit and special audit reports.

During the period under review, the SAI has not analysed their individual audit reports to identify common findings, trends, root caused and audit recommendations. Although the SAI as part of its normal audit practice, submits a management letter describing audit findings to those charged with governance of the audited entities, the practice of analysing individual reports and identifying common findings and root causes across audited entities can facilitate

understanding of common issues and establish a collaborative government-wide approach to addressing these common issues.

Although there is a legislative requirement for the SAI to report to legislature, however there are no established policies and procedures on how this reporting process and other ways of communicating with the legislature are implemented. For instance, there are no clear and documented processes in place identifying the responsibilities involved, the responsible officer, timing and frequency of any communication with the legislature. There is no evidence of any awareness raising activities or forum to ensure the legislature have a good understanding of the SAI's role and mandate. Additionally, the SAI has not developed a professional relationship with relevant legislative oversight committees to help them better understand the audit reports and conclusions and take appropriate action.

Despite the lack of established policies and procedures regarding external communications with key stakeholders, the KAO has provided the Legislature with timely access to its reports. Once an audit report is signed and approved by the Auditor General, the audit report is submitted to the legislature for their deliberations. The audit report is then uploaded on the SAIs website for public access.

There have been no instances where the SAI has provided the Legislature with professional advice, other than the normal audit opinion expressed in the audit reports or is required to provide comments on any draft laws or financial regulations. The SAI has not sought feedback from the Legislature about the quality and relevance of its audit reports.

iii. Good Practice Regarding Communications with the Executive

From interviews with senior management staff of the SAI, the SAI is not involved or seen to be involved in any manner, in the management of its audited entities. The SAI's professional code of ethics stipulate that staff "should not accept or solicit any money, gift or other benefit from an entity which could affect audit independence and objectivity. At no time should an auditor take part in any activity which could conflict with the legislative audit interests or responsibilities of the Auditor General or which could prejudice the performance of audit duties and responsibilities. Any potential conflict of interest should be reported to the Auditor General"²⁹. During the period under review up to when the assessment was conducted, there were no issues of conflict of interest reported.

During the period under review, the SAI's communications with the Executive is limited to its legislative requirements and as part of the normal audit process. The SAI issues management letters to those charged with governance of government agencies they audit and discuss its findings and recommendations. It is not an established practice for the KAO to provide generic information to the audited entities on what to expect during an audit including guidance on the SAI's objectives and the principles governing interactions between auditors and auditees. Communication between the SAI and the executive is limited to what is required when conducting the audit.

The SAI has not held any meetings with executive to discuss issues of concern to both the SAI and the Executive which may include common findings, trends and root causes the SAI has identified during the audit. The SAI has not sought feedback from the audited entities about the quality and relevance of audit reports and the audit process.

²⁹ Chapter 3 KAO Audit Manual of Instructions, 2000

iv. Good Practice Regarding Communications with the Judiciary, and/or Prosecuting and Investigating Agencies

Communications 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. There is a general understanding by auditors that if they discover any non-compliance with regulations that are indicative of fraud, these are referred to and handled by the police. However, there are no policies and procedures in place on how and what to communicate with the police and/or prosecuting agencies regarding these audit findings to ensure these agencies have the appropriate information and evidence to be able to investigate and resolve these referrals satisfactorily. The working relationship between the KAO and investigating agencies such as the Police department are not clearly defined in the KAO's legal framework.

There were no awareness raising activities conducted with the Judiciary and or prosecuting and investigating agencies on the SAI's role, mandate, and work. In addition, the SAI has not communicated with these agencies regarding the SAI's role in relation to any investigations and/or legal proceedings that are initiated based on the SAI's audit findings.

The SAI has never transferred any cases to the judiciary and/or prosecuting and investigating agencies for prosecution. There is no documented system in place for follow-up on such cases, if there will be cases transferred to these investigating agencies. Furthermore, the SAI does not have policies and procedures for audit documentation that are designed to ensure compliance with applicable rules of evidence.

Assessment Findings and Scores by Dimension

Indicator score: 0		
Dimension	Findings	Score
(i) Communications Strategy	Criteria a, b, c, d, e, f, g, are not met. The SAI does not have a communication strategy. Therefore, the key stakeholders and key messages that the SAI wants to communicate to its stakeholders are not formally identified and described.	0
(ii) Good Practice Regarding Communications with the Legislature	Criteria a, and f are met. Criteria b, c, d, g, h is not met. There are no established policies and procedures regarding its communication with the Legislature, including defining who in the SAI is responsible for this communication. The SAI has not conducted any activities or forum to raise awareness of the Legislature on the SAI's role and mandate. The SAI has provided the Legislature with timely access to its reports. There are no instances where the SAI has provided professional advice to the Legislature other than in the normal cause of its	1

	audits. The SAI has not sought feedback from the Legislature about the quality and relevance of its audit reports.	
(iii) Good Practice Regarding Communications with the Executive	<p>Criterion a is met. Criteria b, c, d, are not met.</p> <p>The SAI is not involved or seen to be involved in any manner in the management of its audited entities.</p> <p>The SAI's communication practice with the Executive is limited to what is required as part of the normal audit process. It has not held meetings with the Executive to discuss any issues of concern to both the SAI and the Executive. The SAI has not sought feedback from the audited entities about the quality and relevance of audit reports and the audit process.</p>	1
(iv) Good practice Regarding Communication with the Judiciary, and/or Prosecuting and Investigating Agencies	<p>Criteria a, b, c, d, e, are not met.</p> <p>KAO does not have policies and procedures in place on communicating with judiciary and/or prosecuting and investigating agencies. It has not conducted awareness raising activities with these agencies regarding the SAI's role in relation to any investigation that is initiated based on the SAI's audit findings.</p> <p>The SAI has not transferred any cases for further investigation or prosecution nor has any system in place to follow-up any cases that will be transferred to these investigating agencies. The SAI does not have policies and procedures for audit documentation that are designed to ensure compliance with applicable rules of evidence.</p>	0

4.6.2 SAI-25: Communication with the Media, Citizens and Civil Society Organisations – Score 1

One of the main channels of communication with the public is through the media and other interested parties such as the civil society organisations (CSOs). It is therefore important that the SAI maintains an effective relationship with these stakeholder groupings to maximise public exposure of important audit findings. Communications with these groupings must be well managed by the SAI.

The dimensions to be assessed are:

- i. Good Practice Regarding Communication with the Media
- ii. Good Practice Regarding Communication with Citizens and Civil Society Organisations

i. Good Practice Regarding Communication with the Media

During the period under review the KAO has not held any press conferences or issue press releases on major reports including any performance audit reports. KAO has an official website, a full time IT staff who looks after the IT section and updates the office website.

Information about the SAI is disseminated through the office website. There are no established procedures regarding communications with the media.

KAO does not have a system in place to monitor the media's coverage of the SAI's work. The Head of the SAI is the designated person who is authorised to communicate with the media on behalf of the office. However, KAO does not have procedures in place for handling requests from the media. Any enquiries from the media are to be directed to the Auditor-General.

ii. Good Practice Regarding Communication with Citizens and Civil Society Organisations

KAO has utilized its website effectively by publishing its mandate, summaries of audit reports. Written or otherwise communicated to make it easy for citizens to understand the main audit findings. The SAI's website is very informative, however, there is no evidence of established contacts with relevant civil society organisations where citizens are encouraged to read audit reports and findings are shared with the citizens.

There is no mechanism in place to receive information about government programs, however, the Office website has a section titled "rumours", where anyone can raise a complaint or query. During the year under review, no complaints were received.

The SAI has not carried out any activities to stimulate citizens to access information on public sector audit and the SAI, other than its audit reports. There is no evidence that the SAI has provided opportunities for citizens to provide input to and/or participate in the SAI's work, without compromising its independence. Public debate on public sector improvement is not a practice where the public or anyone contributes to in Kiribati. However, such debates are held in the Legislature and the SAI's contribution is made through its audit reports.

The SAI has not sought feedback from civil society organisations and or members of the public on the accessibility of its reports to use this feedback to improve access to reports in the future. Audit reports are uploaded on the website as soon as it is signed off by the Auditor-General.

Assessment Findings and Scores by Dimension

Indicator score: 1		
Dimension	Findings	Score
(i) Good Practice Regarding Communication with the Media	<p>Criterion e is met. Criteria a, b, c, d, f, are not met.</p> <p>KAO has not held any press conferences nor issue any press releases on its major reports, including any performance audit reports. KAO's website is its main forum for disseminating any information about itself, including its audit reports.</p> <p>KAO does not have a mechanism in place to monitor the media's coverage of the SAI's work. The Auditor General is the designated person who is authorised to and tasked with communicating with the media, on behalf of the SAI. KAO does not have procedures in place for handling requests from the media. All requests from the media are directed to the Auditor General.</p>	1

(ii) Good Practice Regarding Communication with Citizens and Civil Society Organizations	<p>Criteria a, b, f, are met. Criteria c, d, e, h, are not met. Criterion g is not applicable.</p> <p>The SAI has published its mandate and summaries of audit reports on its website.</p> <p>The SAI has not encouraged relevant civil society organisations to read audit reports nor stimulated citizens to access information on public sector audit. The SAI has not sought feedback from CSOs and members of the public on accessibility of its reports.</p> <p>Public debate on public sector improvement is not a practice in the Kiribati where members of the public, including the SAI will contribute to. However, these debates take place in Parliament and KAO contributes to them via its audit reports.</p>	1
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Chapter 5: SAI Capacity Development Process

5.1 Recent and On-going Reforms

The KAO's capacity development requires concerted efforts by the SAI and its key stakeholders. The Head of the SAI assumed duties in January 2019 and has been in office for eight months at the time of the assessment. The most recent reforms or activities carried out since in office included:

- (i) the restructuring of the office and upgrading of staff's salaries.
- (ii) the strengthening of State-Owned Enterprises (SOEs) financial auditing; and
- (iii) the agreement for an independent assessment of KAO's performance using the INTOSAI SAI PMF framework.

Restructuring of KAO and Upgrading Staff Salaries

During the time of review, KAO submitted to Cabinet a proposal to restructure and upgrade salaries of SAI Kiribati. The proposal was approved and a submission to Parliament in terms of financial assistance or supplementary budget was made.

In terms of strengthening SOEs' financial auditing methodology, PASAI'S Director of Technical Support, A'eau Agnes Aruwafu, provided onsite support to the SAI in October 2019 by reviewing the SAI's financial audit methodology for SOEs, and providing on-the-job training to financial auditors. The assistance was in response to SAI Kiribati's request to strengthen and improve audit quality for SOEs especially those SOEs like Air Kiribati Limited, where the Government of Kiribati has recently increased their investment in.

The Head of the SAI is also looking forward to the SAI Performance Report. Gaps identified will help inform the new SAI strategic plan (2019-2023) and it will also be used as the basis for the SAI to seek assistance from development partners in developing the capacity of staff

and the office. In terms of ISSAI compliant, going forward the SAI will be working on complying with ISSAIs.

5.2 Use of SAI Results by External Providers of Financial Support

The SAI participates in PASAI regional projects and IDI global projects usually delivered in partnership with PASAI and INTOSAI. The SAI's audit reports is also used by external financiers such as the World Bank as the SAI is the only audit service provider in Kiribati.

Annex 1: Performance Indicator Summary

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

Annex 2: Sources of Information and Evidence to Support Indicator Scoring

Documents reviewed

The Constitution of the Republic of Kiribati, 1979
The Constitution (Amendment), 1995
Kiribati Audit Act 2017
KAO's Manual of Audit Instructions, 2000
Public Finance (Control and Audit) Act 1981
State Owned Enterprises Act 2012
Local Government Act 1984
KAO Strategic Plan 2016-2019
National Conditions of Service, 2012
Divisional Annual Work Plans
KAO Annual Progress Report 2018
Minutes of Audit Board meetings
Job descriptions
Selected personnel files
Management reports
Financial circulars and memorandum
Draft IT Strategic Plan

Website reviewed

- www.kao.gov.ki
- www.kiribatitourism.gov.ki
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Audit files reviewed

Financial Audit

1. Central Government Accounts 2017 – Part I
2. Kiribati Housing Corporation 2017
3. Tabiteuea Island Council Audit 2017
4. Kiribati Outer Island Food and Water Project Accounts – 31 December 2017

Compliance Audit

1. Special Investigation on Meleang Tabai Secondary School

Interviews conducted

1. Auditor General
2. Heads of Divisions
3. Chairman of the Audit Board
4. Audit team leaders for audits selected to be reviewed
5. Selected staff of KAO

Annex 3: Composition of the Government Annual Accounts

According to section 40 of the Public Finance (Control and Audit) Act, the Government Public Accounts (Annual Accounts) comprise of the following:

- (i) A Balance Sheet
- (ii) A Statement of Receipts and Payments
- (iii) A Comparative Statement of Actual and Estimated Revenue
- (iv) A Comparative Statement of Actual and Estimated Expenditure
- (v) A Statement of Special Funds' Balances
- (vi) A Statement of Other Ledger Balances / Cash at Bank and on Hand
- (vii) A Statement of Balances on Advances from the Consolidated Fund
- (viii) A Statement of Balances on Deposits Accounts
- (ix) A Statement of Contingent Liabilities
- (x) A Statement of Investments
- (xi) A Statement of Outstanding Loans made from the Consolidated Fund
- (xii) A Statement of the Public Debt
- (xiii) A Statement of Arrears of Revenue
- (xiv) Tabulated Summaries of Unallocated Stores and Manufacturing Accounts
- (xv) A Statement of the Balance on Development Fund Account
- (xvi) A Statement of Balances on Suspense Account
- (xvii) A Statement of Unauthorised Expenditure
- (xviii) A Statement of Balances on Remittance Account
- (xix) Revenue Equalization Reserve Fund (RERF)