

OFFICE OF CHUUK STATE PUBLIC AUDITOR PERFORMANCE REPORT

1 March 2021



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Abbreviations and Acronyms

AG	Auditor General
CGAP	Certified Government Auditing Professional
CPA	Certified Public Accountants
EU	European Union
GAGAS	Generally Accepted Government Auditing Standards
IDI	INTOSAI Development Initiative
INTOSAI	International Organisation of Supreme Audit Institutions
ISSAIs	International Standards of Supreme Audit Institutions
OCPA	Office of the Chuuk State Public Auditor
PASAI	Pacific Association of Supreme Audit Institutions
UNDP	United Nations Development Programmes

Foreword

The Office of the Chuuk State Public Auditor (OCPA) is the Supreme Audit Institution (SAI) of Chuuk State of the Federated States of Micronesia (FSM).

This performance report describes the assessment results of OCPA'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 OCPA 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 an independent team comprised of two members: Mrs Sinaroseta Palamo-Iosefo, PASAI's Director of Practice Development (Team Leader) and Ms Alice Etse from the FSM State of Pohnpei Office of the Public Auditor (POPA).

The assessment team expressed its gratitude to the Public Auditor, Mr Manny San Jose Jr. and his staff for their cooperation and assistance throughout the assessment. We would also like to acknowledge the invaluable and ongoing support of PASAI's development partners.

a) Executive Summary

The Office of the Chuuk State Public Auditor (OCPA) is the Supreme Audit Institution (SAI) of the State Chuuk of the Federated States of Micronesia (FSM). The OCPA expressed its interest in assessing its performance against international standards and best practices to identify areas for improvement to enable the SAI to deliver its mandate and respond to the needs of its stakeholders as well as provide guidance on strengthening OCPA's independence and legal framework. The report will be used mainly by the OCPA as well as the development partners who have supported the OCPA in conducting this assessment.

OCPA is established as an independent institution through the Chuuk State Constitution as well as the independence of the Public Auditor. However, the Public Auditor does not have the authority to make decisions on most human resource matters nor the financial independence to submit his budget proposal directly to the legislature to avoid any undue influence by the Executive to reduce or limit the financial assistance requested by the SAI. The limited resources made available to the OCPA is exacerbated by the limited funding the State has and the less economic activities to generate local revenue.

The resourcing of the OCPA is significantly affected by the economic development of the Chuuk State and therefore affects the OCPA's ability to fulfil its mandated responsibilities to a wider extent. With only two staff, there is very limited impact that can be achieved. OCPA is required to adopt GAGAS and these standards also refer to compliance with guidance on financial audits issued by the American Institute of Certified Public Accountants (AICPA). OCPA's audit manual 2014 provides guidance on general standards applicable to all types of audit and services it performs, including financial audit, performance audit, attestation engagement, special reviews, and follow-up audits.

Chuuk State is highly dependent on funding from the Compact agreement between the US and the FSM governments. Chuuk State Financial Regulations require that the public financial systems should be managed and maintained in accordance with GAAP as promulgated by the American Institute of Certified Public Accountants (AICPA) and the Government Accounting Standards Board (GASB). The Compact funding agreement stipulates audit requirements for government entities receiving funding above a certain threshold. As such, the financial statements of government ministries and SOEs which receive funding from the Compact agreement and are above the stated threshold, are audited annually by an external auditor, although the SAI has the mandate to audit all government financial activities. The outsourcing process for the external auditors is administered and managed by the FSM Office of the National Public Auditor.

OCPA's leadership has played a significant role in developing the SAI's capacity as an organisation as well as staff capacity. Having a qualified Head of SAI also contributed to the development of the SAI and alleviates the effect of having insufficient resources and less qualified staff. OCPA has performed reasonably well given the number of staff and the external factors beyond its control, which impacts its performance. OCPA through the handful of audits it managed to complete in the past three years, highlighted critical weaknesses such as lack of proper documentation, lack of compliance with procurement procedures, abuse of government assets, and unaccounted assets in the public entities and programs they have audited. OCPA disclosed misuse, abuse, and potential fraudulent transactions in an audit of a \$1.3 million donor-funded project they conducted in 2018 which eventually led to the withdrawal of funding for this project.

OCPA has conducted high-quality audits in accordance with the standards they are required to comply with. The Public Auditor is involved throughout the audit process, leading the audits, and providing on-the-job training and mentoring for staff to ensure the audits are performed according to the prescribed audit methodology. Thus, having a good audit manual coupled with the knowledge, skills and experience of the Public Auditor help ensure the quality of audits.

With a small SAI, the Public Auditor is responsible for the quality of audits performed and ensuring that audit reports are submitted and published in a timely manner. Despite, the lack of media outlets in Chuuk, the OCPA has utilized other platforms such as the PASAI website to ensure their audit reports are publicly available to a wider audience. One area where OCPA has not performed well in is following up audit recommendations raised in previous audits.

Lack of manpower and qualified staff are the underlying causes of weaknesses in OCPA's performance. There is great potential for OCPA to widen the audit coverage of its mandate if it is given the budget to recruit a fully resourced SAI of six staff as proposed in its 2018 budget. Funding and the ability to recruit qualified staff are beyond the control of the Public Auditor. The limited funding available to the Chuuk State is another external factor which severely impacts the possibility of OCPA getting a sufficient budget.

The lack of awareness raising activities regarding the OCPA's role and the benefits it provides to stakeholders and citizens does not aid with OCPA's efforts to garner financial support. The OCPA needs to engage with key stakeholders actively and continuously regarding its planned work, the benefits to government and citizens, and the resources it requires to deliver its planned work. Furthermore, the lack of proper planning at the strategic and operational level can undermine efforts to lobby for adequate and stable funding for the foreseeable future of the OCPA.

External factors and the environment that OCPA operates in are systemic issues beyond its control and are challenging to address. However, OCPA continues to work with PASAI and other institutions to develop its organisational capacity and develop the capabilities of its staff to be able to perform whatever audit it can complete and be able to respond to the needs of the government of State Chuuk and make a difference in the lives of Chuuk citizens.

b) Quality Assurance Statement

SAI Performance Report of the Office of the Chuuk State Public Auditor dated 1 of March 2021

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 27. November 2020 in agreement with the Auditor General.

This SAI Performance Report (SAI-PR) was prepared by Ms Sinaroseta Palamo Iosefo (PASAI's Director of Practice Development) as team leader, supported by Ms. Alice Etse (FSM State of Pohnpei Office of the Public Auditor) as team member. The team leader and the team members together are considered to have the appropriate skills and experience to produce a high-quality assessment.

The independent reviewers were selected by IDI. The design of the independent review process was included in the assessment Terms of Reference and approved by the Head of the Office of the Chuuk State Public Auditor. The Terms of Reference for the assessment was also sent to IDI for comment. 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 Head of the 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 Ingvald Heldal. The reviewer had no responsibility for preparing the SAI-PR and have 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 1 of March 2021.

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

Prepared by: Ms Irina Sprenglewski (IDI)

Date: 04 March 2021

c) Observation on the SAI's Performance and impact

(i) Integrated assessment of SAI performance

The OCPA is established under the Truk State Law with the head of the Office designated as the Public Auditor. State law provides for the independence of the Public Auditor from the Executive branch and exemption from the provisions of the State Public Service System. The roles, powers, and duties of the OCPA are laid down in the Constitution and the State law. These legislative provisions give sufficient autonomy to the OCPA to deliver its mandate. However, the limitations on OCPA's financial independence and ability to decide on all human resource matters hinder the OCPA's full potential to perform at a higher degree than what they have accomplished so far.

The OCPA's performance is demonstrated and reflected in the quality of its audit, how well it has covered its mandate and the selection of focus areas for its performance and compliance audits, the timely submission and publication of its audit reports as well as its efforts to ensure audit recommendations raised in previous audits have been implemented by the audited entities. The quality of OCPA's audit reports is very good and complies with the SAI's reporting standards and requirements. This level of performance is due to various factors. The head of the SAI is well-qualified and experienced and is responsible for ensuring the quality of work carried out by his staff through close supervision and coaching throughout the audit process. The OCPA also has a comprehensive audit manual which describes the quality control review standards and policies the staff need to comply with at every stage of the audit.

OCPA managed to fulfil its obligations in relation to completing a high number of financial audits with the assistance of external auditors. The financial audits of government accounts and government entities that are governed by the requirements of the Compact funding agreement between the FSM and US governments are outsourced. The outsourcing process and the appointment of the external auditors for outsourced audits are not within the direct control of the OCPA but are managed by the FSM Office of the National Public Auditor. Financial audits of other entities which are not subject to the Compact

funding agreement are not outsourced. But due to the lack of manpower and qualified staff, the OCPA was not able to conduct any financial audit.

The SAI had a low coverage of performance audit and compliance audit due mainly to the limited staff capacity it has and the lack of staff capability in these audit disciplines. Furthermore, the lack of proper planning and the absence of a systematic approach to selecting entities to be audited or selecting audit topics contribute to inadequate coverage of potential areas which OCPA can focus its audits on.

The performance of OCPA is critically hindered by the lack of manpower. OCPA’s ability to recruit more qualified staff is hampered by institutional factors and factors beyond its control. Every year the Public Auditor requests for budget to recruit additional staff but these requests have always been rejected. Even if a budget was granted to recruit additional staff, OCPA has another hurdle to overcome - the lack of qualified accountants and auditors in Chuuk and other FSM states that it can recruit from. The lack of economic developments in country exacerbates OCPA’s chances of ever getting additional financial support which could help them recruit qualified staff from overseas, as an option to complement local staff to assist in delivering a wide range of audits.

OCPA performed reasonably well when it comes to the submission and publication of its audit reports. In the last three years, OCPA managed to submit its report within the stipulated time required by the legislation. Because OCPA has the right to publish its reports as soon as they are submitted to the legislature, the reports are made available for the public in a timely manner. Although the Chuuk government and OCPA do not have their own websites to facilitate the publication of these reports, and despite the lack of media outlets in Chuuk, OCPA has utilized other platforms such as establishing a distribution list (including all Heads of government entities, key stakeholders and interested parties) for circulation of reports and publishing its reports on the PASAI website. The Public Auditor takes full responsibility for the timely submission and publication of its reports. Recently (in April 2020) the SAI has established a social media account on facebook as a forum to increase awareness of the public and stakeholders about the work of the OCPA and increase visibility of OCPA’s existence.

OCPA has not performed well in terms of following up audit recommendations issued in previous years’ audits. Again, the lack of staff is the main contributing factor. The SAI will follow up significant findings and recommendations raised in previous audits if they have an impact on the current year’s audit objective(s). They can also initiate a stand-alone follow-up audit but have not done so during the period under review. The lack of follow up efforts by the OCPA is also heightened by the lack of scrutiny of audit reports by the legislature and the absence of a designated committee in Parliament who is responsible for reviewing audit reports. Audit reports are submitted to each member of the Legislature, but the Public Auditor is not aware if Legislature scrutinize these reports as he has never been summoned by the Legislature to explain or clarify findings and recommendations in his audit reports.

OCPA was established as an independent Office in 2014. During the year under review, OCPA had only two staff – the Public Auditor and one audit staff. OCPA was without a Head of SAI and had only one staff in the prior year. The table below summarises OCPA’s achievements in terms of the number of audits completed given its staff capacity in the last three years.

Year	Number of Staff	Number of audits completed
2014	6 (PA, 3 auditors, 2 support staff)	0
2015	5 (PA, 3 auditors, 1 support staff)	3

2016	8 (PA, 5 auditors, 2 support staff)	3
2017	3 (2 auditors, 1 support staff)	1
2018 (year under review)	2 (PA, 1 auditor)	1

OCPA’s performance is constrained to some extent due to factors beyond its control such as the limited budget it receives annually and the lack of manpower and qualified professionals. At the national level, each FSM state has its own legislature and is independent of each other. Accordingly, the office of the Public Auditor for the respective States are independent of each other and have their own mandate and funding. Despite all States receiving funding through the Compact Funding agreement, the level of funding for each State Public Auditor’s office is not the same. Any decision on the level of funding that OCPA receives rests with the legislature of State Chuuk. Charging audit fees to audited entities is not a feasible alternative to funding because all government entities receive funding from the same purse at the State level. Though collaboration between the FSM States and in particular the State audit offices, is vital for their sustainability, this requires leadership (President/Governor, Legislature) decision from the governments because of financial subsidy that it will entail.

There are strong indications that a new Compact Agreement between the FSM and the US will be negotiated and renewed upon its expiration in 2023, or that the portion of the agreement on economic assistance will be extended due to several reasons. First, the FSM is not preparing for any contingency plan related to the expiration of the Compact. Second, the rising influence of China and third, the strategic importance of the US presence in the Pacific region.

The lack of awareness raising activities regarding the OCPA’s role and the benefits it provides to stakeholders and citizens does not aid with OCPA’s efforts to garner financial support. The OCPA needs to engage with key stakeholders actively and continuously regarding its planned work, the benefits to government and citizens, and the resources it requires to deliver its planned work. Furthermore, the lack of proper planning at the strategic and operational level can undermine efforts to lobby for adequate and stable funding for the foreseeable future of the OCPA.

- (ii) The Value and Benefits of Supreme Audit Institutions – making a difference to the lives of citizens.

Strengthening the accountability, transparency and integrity of government and public sector entities

During the last couple of years, the Office of Chuuk State Public Auditor (OCPA) completed several audits that contributed to strengthening and promoting accountability, transparency, and integrity of government entities and processes. These audits had disclosed inefficiencies in the use, misuse, and abuse of public funds.

In 2016, the OCPA completed audits on the Department of Transportation and Public Works, and on payroll process. In the audit of Department of Transportation and Public Works, the audit disclosed several weaknesses like missed billings, employees not showing up for work, abuse in procurement and use of fuel, unaccounted fixed assets, missing supporting documents, purchases without the required number of quotations and others. In management response to the findings and recommendations, the department acknowledged the audit findings and made an assurance and/or has initiated appropriate corrective actions to close the audit findings and recommendations. The audit of payroll process

disclosed several internal control weaknesses prompting the audit to recommend measures to address and protect payroll funds from misuse, and abuse.

In 2017, the OCPA audited aspects of Legislature's operations and an audit of a sample of financial transactions and expenses to provide assurance compliance in processing of representation fund, expense allowance, travel expenses, and fuel expenses. In addition, assets were audited to determine accountability and maintenance. The audit disclosed several findings: lack of proper documentation of payments from members' representation fund, expense allowance was excessive, abuse of fuel, lack of proper documentation and inventory records for fixed assets, and questionable travel expenses. Measures were recommended by the auditor to address the findings and manage the accountability risks. In management response to the audit report, the Legislature made suggestions to enhance the wordings of the report writing but acknowledged the audit findings and recommendations and committed to put in place the financial procedures and processes to improve the weaknesses identified by the auditor.

In 2018, the OCPA conducted a performance audit on a \$1.3 million grant-funded project on education, which was implemented by a non-governmental organization (NGO). The audit disclosed that the funds given to the NGO were expended unproductively and not fully compliant with laws, financial regulations, and grant agreement. Further, the audit disclosed that funds were exposed to misuses, abuses, and potentially fraudulent transactions. In addition, the audit disclosed that the project did not achieve its desired outputs and outcomes for the student learning in terms of academic achievement and change of student's behaviours and attitudes. The funding was later withdrawn for this inefficient and unproductive project because of the audit findings.

There is significant impact if the SAI is well-resourced to fully deliver its mandate. However, this is not possible due to lack of manpower. The OCPA cannot optimize its productivity especially in performance audit and is not responsive enough to help the government achieve its transparency and accountability goals. With limited manpower, very low number of audits could be initiated and completed every year and consequently, the OCPA is not able to fully identify where the government services are under-performing and where public funds are at risk. In the end, the level of OCPA's audit work may not be sufficient to fully strengthen the citizen's trust by holding governments to account for the programmes and services they deliver. In addition, the limited scope and audit coverage area cannot produce the desired benefits that may accrue to the citizens.

Improvement is however needed in establishing internal governance mechanisms such as having a proper strategic and operational plan. Effective planning allows the OCPA to allocate and utilize the available limited resources in the best possible manner. Improved communication with stakeholders will increase awareness and visibility of the SAI's good work and intensify collaboration to strengthen accountability and good governance across the public sector.

Weaknesses in the legal framework regarding SAI independence needs amending to provide greater financial independence. Greater financial independence coupled with the right resources and right number of qualified and trained manpower, enables the OCPA to effectively deliver value and benefits, reasonably make a difference to the lives of Chuuk State citizens through contributing to strengthening accountability, transparency, integrity, to fight against corruption, stay relevant and lead by example. Furthermore, OCPA would be able to realize its objective of being a professional institution and perform quality and timely audits.

Demonstrating ongoing relevance to citizens, Parliaments, and other stakeholders

The following examples demonstrated how the OCPA has been responsive to events and issues of concern in Chuuk State using effective and proactive communication and supporting change in government and public funds:

1. The OCPA did not have in place a formally developed strategic plan to support prioritization of areas that would be the focus of its audit. Nevertheless, the OCPA is maintaining a priority list of audits which is updated annually by considering the current issues, concerns and risks in the public sector arena.
2. The OCPA in its decision to initiate every audit, give due consideration to emerging risks. For example, when the OCPA audited the Department of Transportation and Public Works, there were internal control issues and concerns raised about the revenue billing and collection, employees time records, abuse in fuel, maintenance of fixed assets records, and proper procurement. Because of the responsiveness of the OCPA to such issues and concerns, relevant findings on issues and concerns were disclosed in the audit report and appropriate actions on audit recommendations supporting change through enhancement of internal controls were implemented by the entity.
3. The audit reports providing audit recommendations were effectively discussed and communicated (for actions) to concerned stakeholders like management of the audited entity, Governor, and the Legislature.

Being a model organization through leading by example

OCPA demonstrates being a model organization in various aspects. In governance, the OCPA's performance as an institution is periodically subject to an independent review and assessment. For example, the audit works and the performance of the OCPA were subjected to a peer review in 2018 by auditors from other Public Auditor's Offices in Federated States of Micronesia. The purpose of the peer review was to determine whether the OCPA's internal control quality control system is operating to provide reasonable assurance of complying with the requirements of the U.S. Generally Accepted Government Audit Standards (GAGAS). According to the opinion of the peer reviewers, the internal quality control system of the OCPA was suitably designed and operating effectively to provide reasonable assurance of compliance with GAGAS for audits and attestations engagements. In addition, the OCPA is subjected to a performance assessment by PASAI Team, this time using the international standard tool called Performance Management Framework (PMF) to assess institutional performance. These peer review and independent assessment have been promoting a culture of ensuring quality performance and continual improvement.

Furthermore, the management and staff of OCPA are taking seriously their audit responsibilities for making an objective assessment of the effectiveness, efficiency, and economy of government programs and delivering quality and timely audit reports. The OCPA communicates their findings and recommendations to interested stakeholders. Through the audit works, the OCPA helps build integrity, transparency, and accountability of the audited public entities. The OCPA can be trusted with managing efficiently and effectively its own resources. In the past, it generally has been spending resources within its approved budget.

The OCPA leads by example in transparency and accountability by being transparent and open in disclosing information, rules, plans, processes, and actions to public through its annual reports and audit reports. All peer review reports are submitted to legislature and made available to the public thus demonstrating that OCPA is accountable for what it is mandated to deliver and is being transparent about making its performance assessment results readily available for the public and any interested party. The OCPA intends to publish the results of this SAI PMF assessment as well.

The behaviours and actions of the OCPA management and staff are consistent with a set of moral or ethical principles and standards. In every audit, the OCPA has been implementing Code of Ethical Standards and Independence Statement Certification for the Public Auditor and staff to comply. All employees are required to report any impairment so that appropriate mitigation measures could be implemented to address such impairment.

As a matter of policy, the OCPA management and staff follow its policies and procedures on internal control and quality system. All staff members play a role in effecting control and are required to report

problems with operations, non-compliance with the code of conduct, or violations of policy which result in a lack of integrity, transparency, accountability. This practice is closely monitored by the Public Auditor and in effect promoting a culture of quality and continual improvement in performance.

- (iii) Analysis of the SAI's capacity development efforts and prospects for further improvement

OCPA's leadership has played a significant role in developing the SAI's capacity as an organisation as well as staff capacity. Having a qualified Head of SAI also contributed to the development of the SAI. When OCPA was established in 2014, the first Public Auditor developed audit manuals and have policies and procedures in place to assist the Office with performing its audit responsibilities. The incumbent Public Auditor, a certified public accountant, continued the efforts of developing the Office's capacity by training his staff and enrolling them in any available training opportunity, whether locally or internationally.

The capacity development of the SAI is hampered by the country's lack of economic development. FSM states including Chuuk, are dependent on funding from the Amended Compact agreement with the US. The current agreement between the FSM and the US expires in 2023 which puts a lot of financial uncertainty on the FSM and State governments. As such, the SAI's financial and human are impacted and so is the fulfilment of its mandated responsibilities. Apart from the Compact agreement, the US Department of Interior Office of the Insular Affairs provides funding to APIPA for its capacity development programs which the OCPA benefits from.

Despite the financial and human resource challenges faced by the OCPA, its active participation in current trainings offered by APIPA and PASAI (which bears no financial cost for OCPA) helps strengthen its organisational and staff capacity. The OCPA has established a facebook account, which is a quicker and cheaper way to raise awareness about its work and create visibility to a wider community of stakeholders and interested parties.

d) SAI Management Use of Assessment Results

The Performance Management Framework (PMF) assessment enabled the SAI Management and staff to become aware of how the SAI operations are functioning against the international audit standards and best practices. Thus, the results of the PMF assessment will provide useful and objective information that will assist the SAI in identifying specific areas and performance that need improvement and determining the necessary actions to address the weaknesses identified.

The OCPA management will use the results to inform the development of its strategic plan and to justify any proposal for support in developing its organizational and staff capacities to enable it to perform quality and timely audits, inspections, and investigations to benefit and make a difference in the lives of the Chuuk citizens.

Chapter 1: Introduction

The Office of the Chuuk State Public Auditor (OCPA) is the Supreme Audit Institution (SAI) of the State Chuuk of the Federated States of Micronesia (FSM). The OCPA 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 will use 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 Chuuk will own the assessment product and publishing of the assessment report is subject to the discretion of the Public Auditor (PA) or Head of the OCPA.

The specific objectives of this assessment are:

- 1) To assess the SAI's performance against international auditing standards and best practices.
- 2) To identify areas for improvement to enable the SAI to deliver its mandate and be responsive to the needs of its stakeholders.
- 3) To establish the right manpower size considering the SAI's scope of work.
- 4) To provide input to modify the existing SAI's Public Act to strengthen independence and legal framework.

The regional initiative facilitated by the IDI and PASAI, adopted a peer review approach to assess OCPA's performance and achieve the objectives listed above. The external assessment team comprised of Mrs Sinaroseta Palamo-Iosefo, PASAI's Director Practice Development (Team Leader) and Ms Alice Etse, Audit Manager, Pohnpei Office of the Public Auditor.

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. Etse 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 and has participated in the first round of assessments conducted in the region in 2017.

The assessment covers all areas of the OCPA operations. All domains and indicators set out in the SAI PMF endorsement version will be covered except SAI-5 and SAIs 18 to 20. SAI-5: Outsourced Audits is excluded because the SAI is not responsible for the process to outsource audits and managing these audits. SAIs 18 to 20 are not applicable to OCPA because it does not have jurisdictional functions. The assessment was based on work carried out by OCPA during the calendar year 1 January to 31 December 2018.

OCPA is mandated to conduct financial audits of all government activities. The financial audit of whole of government accounts and certain government agencies are outsourced to external auditors because of a funding requirement under the Compact Funding Agreement between the United States of America and the Federated States of Micronesia governments. During the period under review, the OCPA has not conducted any financial audit except the financial audit of government accounts which were conducted by the external auditors. The assessment team reviewed the financial audit indicators because the OCPA has a mandate to conduct such audits, even though they have not conducted any financial audit during the period under review.

OCPA does not perform stand-alone compliance audits but conduct them as part of performance audits and follow the guidance from the generally accepted government auditing standards (GAGAS) issued by the US Government Accountability Office (US GAO).

Chapter 2: Methodology

As part of a regional initiative, the planning for this assessment took place during a planning meeting held in Fiji from the 6 to 10 of May 2019 to train and prepare members of assessment teams to conduct the assessments of the five SAIs including the Office of State Chuuk Public Auditor (OCPA). This assessment was conducted over three phases in line with the terms of reference (TOR) approved by the AG.

Phases	Outputs
<p><u>Phase 1 (May 2019)</u></p> <p>Gather basic information about the SAI and its environment including constitutional and legal framework, mandate, strategic and operational plans, recent 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
<p><u>Phase 2 (September 2019)</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 OCPA 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 OCPA leadership and staff (17 September)
<p><u>Phase 3 (October 2019)</u></p> <p>Assessment team prepares first draft of assessment report.</p> <p>SAI quality control check of facts in Chapter 4 – indicator-led assessment.</p> <p>Assessment team revise first draft considering feedback from the OCPA</p>	<ul style="list-style-type: none"> • First draft report submitted to OCPA for quality review of facts. • OCPA comments submitted to assessment team
<p><u>Phase 4 (November 2019 - February 2020)</u></p> <p>Assessment team prepares first draft of the SAI Performance Report (SAI-PR) for independent review.</p> <p>Independent review and feedback by IDI</p>	<ul style="list-style-type: none"> • First draft of the assessment report to the SAI for quality control of facts. • Finalise SAI-PR including feedback from SAI and independent review. • Final report and IR statement for the SAI.

The assessment fieldwork was conducted on 9-18 September 2019 at OCPA 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 State Chuuk (Constitution), Truk State Law 6-21, 1987 and other relevant Acts and regulations, the OCPA Audit Manual 2014, audit reports, audit files, annual reports, and other relevant documents. The assessment team also conducted interviews with SAI staffs. The scoring of the criteria was based on the assessment of these evidence.

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. There was only one audit completed during the period under review and this was the only audit file reviewed. The audit had two objectives, a performance, and a compliance audit objective. The same audit file was the basis of the review of OCPA's performance and compliance audit practices.

The period of the review was limited to one year, which is the year in which the current head of SAI assume his position. This means the assessment covers the most current practices of the OCPA under the new management and ensures the results will provide relevant baseline information for the current management.

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 conducted a root-cause analysis of the indicator results with focus on identifying the strengths and weaknesses of the OCPA relating to the key performance indicators – audit coverage, audit quality and timeliness, follow up of audit results and other core work. The results of this root-cause analysis are the basis for the integrated assessment of the OCPA's performance.

To ensure 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 OCPA for its quality review to confirm the assessment results and findings. The final report was independently reviewed by IDI for quality assurance purposes.

Chapter 3: Country and SAI Background Information

3.1 State Chuuk Country Context and Governance Arrangements

The history of Chuuk mostly coincides with the other sister states of the Federated States of Micronesia (FSM). Like the rest of Micronesia, Chuuk State has a rich history of settlement, annexation, and war. After WW II, the US Navy took control of Micronesia including Chuuk for a brief period. Chuuk along with many of the islands were still looking for their sense of direction since they are no longer under the ruling of another country.

In 1957 the United Nation appointed the United States of America to administer the development of islands in Micronesia (Marshalls, Pohnpei, Chuuk, Yap, Marianas Islands and Palau) known as the Trust Territory of Pacific Islands (TTPI). The main objective was to assist the islands in their quest for self-determination. The Congress of Micronesia was formed to assist the indigenous people of Micronesia to choose the way they wish to be governed. This resulted in the creation of the Commonwealth of the Northern Mariana Islands (CNMI), Republic of the Marshall Islands (RMI), Republic of Palau (RP) and the FSM.

In 1978, 3 districts (Chuuk, Pohnpei and Yap) came together and enacted a Constitution to form the Federated States of Micronesia. Kosrae the 4th state in FSM split from being part of Pohnpei and became a State in the federation. FSM is an independent country with US ties.

State Chuuk is the most populous of the FSM States with a population of 48,564 according to the 2010 Census and land area of about 122 square kilometres. More than 50% of the population of the FSM reside in Chuuk. Election cycles for the Senate is every four years while the House of Representatives is every two years.

Compact of Free Association (COFA) with the United States of America

The Compact of Free Association Act of 1985 (Public Law 99-239) set forth a joint resolution between the United States and the Republic of the Marshall Islands and the Federated States of Micronesia (RMI/FSM) regarding the termination of the U.S. trusteeship over the former Trust Territory of the Pacific Islands (TTPI). The resolution further established the FSM and the RMI as independent nations and established a special relationship between the United States and these nations. The Compact between the United States and the FSM took effect on November 3, 1986. The second Compact of Free Association Amendments Act of 2003 (Public Law 108-188) (COFA 11) amended the Compacts in several significant ways, including changes to the immigration provisions. The Compacts, as amended, became effective for the FSM on June 30, 2004.

The national government of the FSM receives compact funds from the US and distributes this funding proportionally to States based on population.

Governance arrangements

Governments of the FSM and its states are modelled after the United States system of government. Like the national and other state governments, Chuuk has its own executive, legislative and judiciary bodies. The FSM established its state governments with the authority to run their own respective state matters autonomously.

Executive Branch:

The head of the Chuuk State Government is the Governor. A joint ticket of Governor and Lt. Governor is elected by 50%+1 votes from Chuuk State registered voters. They can serve office for no more than two terms. Each term-duration is 4 years before re-election. Recent restructuring of state government departments has reduced the number down to 8 major departments: Administrative Services, Agriculture, Marine Resources, Health Services, Education, Public Safety, Attorney General Office, and Transportation.

Legislative Branch:

Chuuk State is the only state in the FSM that has a bicameral legislature (The Senate & The House of Representatives). There are 10 senate members, two members per region - five regions all together. The House of Representatives aka 'The House' is comprised of officials elected within their respective districts. There are 13 districts total and the number of official seats for each district is based on its population size. All together there are 28 members of the House.

Judiciary Branch:

The judiciary system is the state court system with 5 seated State Justices including the State Chief Justice. Its appellate and state supreme courts are under same system but not inclusive of the municipal courts, which are sometimes apparent in some municipal governments.

Municipal governments:

Chuuk State has 40 municipalities¹ with their own municipal governments. Each municipality has an elected mayor who acts as the executive body. The legislative side is with the municipal council. And the judiciary branch is with the municipal court, which usually has one or two presiding judges.

¹ State Chuuk Budget Division

Traditional Council:

Each inhabited island in Chuuk has a traditional leader known as “Soupwun” who comes from a clan that ruled the island supposedly from the beginning of its settlement. These Soupwuns are equivalent to a chief. Chuuk State has a council of traditional leaders comprised of 42 active Soupwuns. This council is the strong hold of customs and traditions with great influence in the political process.

Economic background

The current Compact funding agreement will cease by the year 2023. As a result, there is great uncertainty about what will happen following this. The financial support may not be as high as it was before. Chuuk and the whole FSM must prepare themselves to face the impending fact that resources may become difficult therefore development process must take place to attain self-sufficiency.

Chuuk State Revenue

The Chuuk State Revenue comes from local tax and revenue, COFA Sector grants, Infrastructure grants, US Federal grants, Foreign Assistance and CFSM grants. The local tax and revenue represent revenue shares, sales & service taxes, and fees. If the COFA is not renewed, the FSM (including Chuuk State) will no longer receive COFA grants and will rely instead on annuities from COFA Trust Fund and FSM Trust Fund.

The table below summarizes the Chuuk State local tax and revenue collections from FY2014 to FY2018.

Description	2014	2015	2016	2017	2018
Local Revenue	\$8.3M	\$8.2M	\$9.2M	\$10.5M	\$10.3M

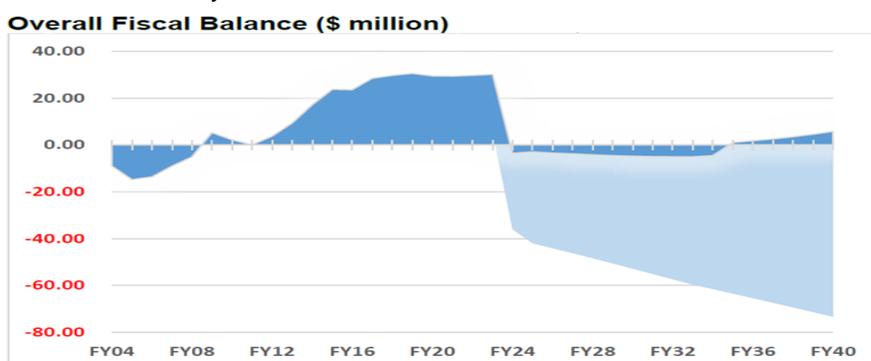
Source: Chuuk State Government Audited Financial Statements

On the other hand, the table below summarizes the COFA Sector grants from FY2014 to FY2018. For purposes of this table, the grants grouped under COFA consist of allocated grants for Education, Health, Environment, Public Sector Development (PSD), Public Sector Capacity Building (PSCB), and Enhanced Reporting and Accountability (ERA).

Description	2014	2015	2016	2017	2018
COFA Sector Allocation	\$23.5M	\$25.3M	\$25.9M	\$27.6M	\$26.2M

Source: Chuuk State Government Audited Financial Statements

Chuuk's Economy



Fiscal Cliff Chuuk - ©Chuuk Budget Office

COFA11 began in 2004 and the State of Chuuk experienced recession for the next 5 years. By 2008, Chuuk's GDP went as low as \$67 million. This was the lowest since the 1980s and was a result of the decline in public sector spending and private sector activities.

After 2008, Chuuk State began to see an increase in its Gross Domestic Product (GDP). This was due to the improvement of the sectors grants allocations under COFA11. Chuuk State adopted and implemented the Long-Term Fiscal Framework (LTFF) requirements of COFA11 which allowed Chuuk to fully utilize funding sources from the Compact.

By 2010, Chuuk experienced 3 per cent growth in its GDP. There was an increase in spending from both public and private sectors. Chuuk's economy grew at 1.1 percent. It experienced an expansion in the public sector by 4.4 percent and the numbers of hours worked by civil servants increased. Note: The World Market recession of that year limited private sector growth.¹

In subsequent years, Chuuk experienced very little growth. Analysts have forecast the gradual decline in compact funding (\$1.7 million every three years) to hinder government spending with little private sector growth.

Although there may be a strong suggestion of growth in the economy based on increase of activities in construction, the fact remains - sector funding will continue to decline over the coming years. FY 2017 approximately \$1.7 million will decrease in its sector funding and another \$1.7 million in 2020.

After 2023, Chuuk will need to find other source(s) to fund the nearly \$30 million budget deficit it will incur after compact sector funds cease. In the LTFF, Chuuk State government is mandated to steadily reduce its operational costs hoping the impacts would be less severe. RIF (Reduction-in Work Force) would be mandatory for many sector areas such as Education and Health. Experts have already predicted the devastating impact it would have on the economy as reductions affect government spending and disposable incomes.

Development Areas

Trades (Exports vs. Imports)

Chuuk has grown too dependent on imported goods. The FSM itself has a trade deficit of over \$160 million. In 2013, statistics showed Chuuk exports at \$2.4 million while imports were at a staggering number of over \$50 million. Fisheries, commercial agriculture, and other manufacturers are chosen to be the main industries in the pursuit of export expansion in Chuuk.

Chuuk State Strategic Development Plan (2018-2023)

Because of this fiscal imbalance, a commission was put together to focus on the development of Chuuk and the Chuuk Economic Policy Development Commission (CEPDC) was created. Members of the group include those in the private and public sectors. Through its effort and work, the commission has developed a Strategic Development Plan for Chuuk State. The Chuuk State SDP has two components:

1. The formulation phase, where development sectors and their specific priorities are identified; and
2. The implementation phase, where Chuuk State will develop the necessary plans of action and acquire necessary data for assessing progress and success.

As 2023 draws near, Chuuk State must become mindful of how it will utilize its resources to their full extent. Having limited resources, Chuuk State must look at the essential activities and initiatives it must carry out to maximize benefits. High productivity and effectiveness of resource allocation are the focus of the State SDP.

Development Areas identified under the SDP include:

- Fisheries export – efforts are done with mainly near shore fishing which majority being reef and deep-sea fishes along with invertebrates.
- Commercial agriculture export - this is very small. Cooked local foods are the main sources of export in agriculture sector. It too targets niche market of Chuukese residing in Guam and Hawaii.
- Manufacturers – this area constitutes 15% of exports in Chuuk. This includes exports made from sewed garments usually dresses and skirts, handicrafts and so forth.
- Tourist spending - majority of tourists coming to Chuuk have always been divers. Chuuk's own enclosed lagoon is home to the world largest WWII underwater wrecks. Unless more investments are done to support the improvement of accommodations and infrastructures, Chuuk will not fully benefit from this very prestigious attraction. And this cachet attraction will not be around for long as a study shown, its life span is 25 years or less.

With its main attraction slowly deteriorating, Chuuk needs to develop other attractions to make visitors want to come to the islands. Chuuk Visitors Bureau in collaboration with Chuuk State Division of Commerce and Industry have identified historical/cultural & natural attractions as alternate areas to develop for different tourist markets. Chuuk State priorities and specifics have been inserted into the National Tourism Plan. Recreational/sports tourism is also being considered.

Chuuk State tourist number per annum makes up just above 50% of the total annual tourists to FSM. Growth in the tourist industry for all states in the FSM has been meagre with average decrease of -1.7 annual growth rates. The FSM has in 2013, 12,714 compared to 16,058 in 1997.

Development Areas Tourism impact on economy = 6,000 x \$1,000 x 1.3 21. Technically tourism generate close to \$5 and \$8 million in earnings for Chuuk State. Chuuk visitors' markets include US, Japan, Australia, and Europe.

Investment

Grants

Chuuk State like all the other states in FSM is eager to take advantage of the available development grants. Grants supporting certain projects and activities for the State include:

- a) US Federal grants funnelled through the National Government
- b) JICA grants which funds technical supports and equipment purchases (Goods and Services)
- c) SGP program from UNDP funding environment and community support activities and projects and
- d) Australian and Canadian grants which emphasize development at the grass root level.

Overseas Development Assistance (ODA) office has developed a list of grants available to the FSM and its states. National and all the states governments have collaboratively worked together to identify their current specific areas for development. Chuuk State has identified two specific areas.

Taxes and levies

Generally, taxes and levies are the main sources of income that help fund government operations. For the Chuuk State's local revenue this has not been the case with only an average of \$7 million per annum. Chuuk State needs around \$30 million to fund government operations on an annual basis. The bigger the economic base the bigger the revenue generated from taxes and perhaps licensing as well. According to a statement made by the Chuuk Tax and Revenue Division, it is important that Chuuk improves its tax collection effort.

Educational opportunities available in FSM State Chuuk

There are very limited educational opportunities and resources in FSM/Chuuk. Currently, there are three colleges in Chuuk—Faithwalk Christian College (FCC), Caroline College & Pastoral Institute (CCPI) and the College of Micronesia-FSM (COM-FSM). FCC is a four-year institution based in Tol that offers Associate of Arts Degree and certificates in Biblical Studies to its students upon completion. CCPI is a college branch of the Chaminade University in Hawaii offering its students a Bachelor of Arts Degree in Education for Oceania and an Associate of Arts Degree in Liberal Arts. COM-FSM has school campuses in each of the four states along with a Career & Technical Education Centre (CTEC) in Pohnpei and a FSM Fisheries and Maritime Institute (FSM-FMI) in Yap.

The FSM College of Micronesia (COM-FSM) awards [associate degrees](#) to students who complete a prescribed two-year program of study as well as third-year certificates and other certificates of achievement. The College has [articulation](#) agreements with several online and conventional institutions. The College offers very limited bachelor's degree level program choices. The only bachelor's degree level being offered is for elementary education. One must enrol at a school off island if one wants to graduate with a bachelor's degree in other fields. Of the three colleges, only COM-FSM offers courses in accounting but not the four-year accounting course. One must go to Guam, US mainland or other countries to complete a full degree in accounting, auditing, or related discipline.

Migration

The FSM has been experiencing an upward trend in migration throughout the years. According to the report, *Migration in the Federated States of Micronesia –A Country Profile 2015*, the number of FSM emigrants increased from approximately 12,000 in 1995 to 49,840 in 2012 (International Organization for Migration [IOM], 2016, p.38). The 2012 migrant survey shows that there were several reasons for the migration. The results indicated that the migrants moved due to employment, relative of employed person, family reasons, education, medical reasons, visiting/vacation, and others (p. 47). Furthermore, it is determined that the key driving factor is the limited opportunity for employment and the ease of moving to and accepting employment in the U.S. (p. 21) provided by Title I Article IV of the Compact, as Amended.

Capacity constraints in the country due to limited population base

Because of migration of Chuuk State citizens to the US, the Chuuk State is experiencing a reduction in available human resources and possibly qualified people that OCPA can draw resources from; only a handful is applying for positions in the SAI. Thus, the SAI are unable to recruit qualified staff to deliver its mandate and complete work it plans to carry out during the year. Another constraint contributing to hiring qualified staff is the salary. It is not attractive to local qualified applicants both from Chuuk States and from other FSM States. Furthermore, an additional limitation of recruiting applicants from other FSM States, if ever they are interested, is the budget for the housing allowance, which needs to be provided for if the employee is not from Chuuk.

Strength of media and civil society

The Kaselehlie Press - a Pohnpei-based newspaper is the only print media that operates and covers stories throughout the FSM. It is published every two weeks. The news is also available online. The SAI sends copies of its completed audit reports or press releases to the Press, but it is up to them whether to publish it.

The Facebook Pages—*Ran Annim News/Chuuk* and *Chuuk News Update* also covers stories in the FSM but is mostly focused on news about Chuukese living abroad as well as those residing in Chuuk. As to broadcast media, there is a government-operated local radio station as well as a private radio station operated by the Bible Baptist Church. The local station covers news and announcements in Chuuk while the private station broadcasts worldwide news from time to time.

A known Non-Governmental-Organization (NGO) in Chuuk is the Chuuk Youth Council (CYC), an umbrella youth NGO in Chuuk, Federated States of Micronesia. The activities of the CYC include organizing and hosting youth leadership conferences, community awareness, youth health, women empowerment campaigns and partnerships.

3.2 State Chuuk's Public Sector Budgetary Environment and Impact on SAI performance

Structure of the Public Sector

The Chuuk public sector comprised of the following:

- a) 10 Government ministries and departments
- b) 3 State-owned enterprises (SOEs)
- c) 11 Commissions, Boards, and other agencies
- d) 40 Municipalities
- e) Traditional Councils

The financial statements of government ministries and SOEs are audited yearly by an external auditor who is contracted and managed by the FSM Office of the National Public Auditor. This arrangement is part of the COFA between the FSM and the US, where the ONPA is responsible for engaging and oversight of the outsourced audits of State government entities. The OCPA conducts performance/compliance audits and inspections on departments and/programs but the scope or extent or number is dependent on OCPA's limited manpower.

Municipalities do not prepare separate financial statements. Funds for municipalities are generally provided through appropriation from the General Fund. Their expenditures are accounted for as part of the General Fund under the Chuuk State Government financial statements, which are audited yearly by Deloitte. These entities are also included in OCPA's mandate and may carry out performance or financial audits in these entities but has not conducted any audits of municipalities due to lack of manpower.

Traditional councils do not prepare separate financial statements. However, if ever, they are appropriated with funds, it is accounted for as part of the General Fund which is audited yearly by Deloitte.

Public Financial Management (PFM) environment

Chuuk State's Financial Management Act

The Chuuk State Financial Management Act provides for the creation of a General Fund of the State as an account or accounts in the State Treasury maintained and controlled under the Director of the Department of Administrative Services (Finance).

Public money raised or received by the State, from whatever source derived, including but not limited to all grants and assistance from foreign aid, the United States of America (Compact funds), all state tax and revenue laws, receipts from revenue sharing with the national government, fines, fees, interest loans to the State, gifts, or rents, unless otherwise provided by law, shall be deposited into the general fund of the State. The Director of the Department of Administrative Services (DAS) shall generate forms for the transmission of revenue from state agencies to ensure that internal revenue is deposited in a timely manner, and to provide checks on agencies which may be delinquent in transmittal.

Source: TSL 5-44, § 4, modified.

Financial Management Systems and Regulations

Part 2, Section 2.4 of the Chuuk State Financial Regulations require that *...in maintaining the books and records of the State of Chuuk, the Director shall employ Generally Accounting Principles (GAAP) as promulgated by the American Certified Public Accountants (AICPA), the Financial Accounting Standards Board (FASB), and the Government Accounting Standard Board (GASB).*

Each State Governor shall submit a report to the national Congress providing a full accounting of each line item, no later than May 1 of each year. There is no specific legislative committee that has oversight role on the public auditor's reports.

In addition, the Chuuk State has also adopted the requirements in the National Public Auditor's Act. Section 507 of the FSM National Public Auditor's Act requires that the Public Auditor shall perform audits in conformity with generally accepted audit standards as established by the AICPA.

External assessment of Chuuk State Performance

Planning for PFM reforms is a complex and challenging process. Most countries need to focus on improving basic processes around core PFM areas and ensure that they are a normal function of operations, such as:

- Budget preparation process, classification, and documentation.
- Cash Flow Management.
- Controls on all expenditure (payroll and non-payroll); and
- Fiscal reporting.

Public Expenditure and Financial Accountability (PEFA) assessments rate country performance against a set of key indicators. The Federated States of Micronesia (FSM) has undertaken two PEFA assessments. However, these are at a national level and provide little information on the performance of individual States such as Chuuk. There has been no external assessment conducted on the performance of the Chuuk State government.

Local administration and state-owned enterprises

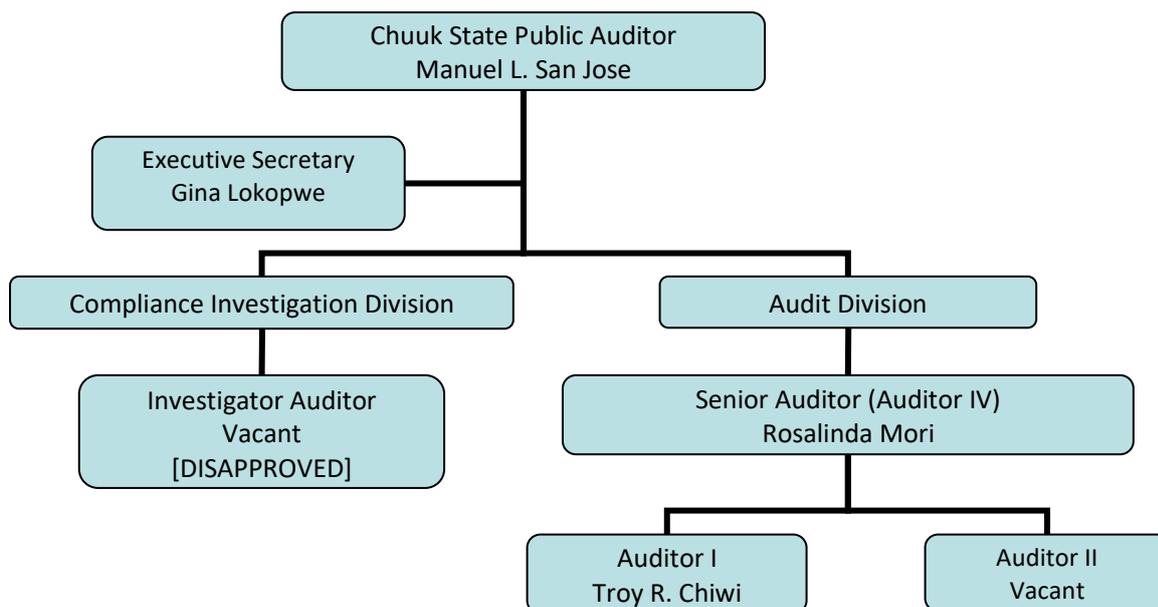
The state-owned enterprises (component units) of Chuuk State include:

1. Chuuk Health Care Plan
2. Chuuk Public Utility Corporation
3. Chuuk Housing Authority

The financial audits for these component units are outsourced through the supervision and management of the FSM Office of the National Public Auditor (ONPA). ONPA is responsible for the outsourcing process. OCPA does not review the quality of these outsourced audits. The audit opinions for these audits are signed by the external auditor and copies of signed audited accounts are submitted to the FSM ONPA and to State Government. The State Finance Department distributes the audit report to the Governor, Legislature and to other offices/department like the Office of the Chuuk State Public Auditor.

3.3 State Chuuk Office of the Public Auditor's Legal and Institutional Framework, Organisational Structure and Resources

Structure and responsibilities of the SAI



The Office of State Chuuk Public Auditor (OCPA) is the supreme audit institution (SAI) in the State of Chuuk, FSM. The OCPA was previously managed remotely by the Office of the National Public Auditor of the FSM, which is in the FSM State of Pohnpei. In December 2014, OCPA opened its own Office in Chuuk and managed by an appointed Public Auditor. OCPA lack resources - financial, human, and capital when it was established and had only one staff when the previous Public Auditor completed his term in December 2016. The current Public Auditor was appointed in October 2017 but assumed duties in February 2018 increasing the number of staff in the OCPA to two. The Office recruited two more staff in 2019 and OCPA now has a total of four staff comprising of two auditors, the Secretary, and the Public Auditor, who is the head of the SAI.

The mandate for the function of the OCPA is provided by the Constitution of the Chuuk State under Article 8, Section 9, and the Truk State Law 6-21. The Constitution of the State of Chuuk Article VIII Section 9 states that:

- (a) There shall be an independent Public Auditor appointed by the Governor and confirmed by the Senate. The Auditor shall serve for a 6-year term and until a successor is confirmed. The Auditor shall be a certified public accountant with auditing experience.
- (b) The Auditor shall conduct audits of all financial transactions of all branches, departments, offices, agencies, and instrumentalities of the government, and of all accounts kept by or for them. The Auditor shall certify the accuracy of all financial statements issued by the State Government. The Auditor shall annually report findings and recommendations to the Legislature, the Governor, and the municipalities, and shall provide additional reports and information as may be required by law or as the Auditor deems appropriate.
- (c) If the Auditor discovers that any public monies have been misused or misappropriated, the Auditor shall report such misuse or misappropriation to the appropriate prosecutor's office.
- (d) The Auditor may be removed for cause by the vote of 2/3 of the members of the Senate. Upon the removal, resignation, or incapacity of the Auditor, the Chief Justice of the State Supreme court shall appoint within one month an Acting Public Auditor having the qualifications required for a full term. The Acting Public Auditor shall serve until a successor is confirmed. The Governor shall appoint, and the Senate shall confirm a successor Auditor within 6 months.

In May 1987, the Truk State Law Title 20 was amended to include Chapter 20A which is read as follows: Truk State Law No. 6-21.

Section 1. Office of Fiscal Accountability

There is hereby created the Office of Fiscal Accountability for the State of Truk which shall be headed by a person known as the State Auditor. The position of the State Auditor shall be exempt from the provisions of the Executive Branch Organization Act of 1980 (TSL No. 3-25, 3rd. Regular Session, 1980); as amended by TSL No 5-46, 1st Regular Session, 1982); and exempt from the provisions of the Truk State Public Service System Act (TSL No. 3-34, 3rd. Regular Session, 1981), as provided in Section 8(d), of that Act.

Section 2. State Auditor, Selection, Appointment

- (a) The State Auditor shall be selected based on merit and qualifications.
- (b) No person shall be appointed State Auditor unless that person:
 - (i) Is a certified public accountant, and
 - (ii) Has a minimum of five years' experience in auditing and accounting and government finance.
- (c) The Speaker shall name a committee of three Senators which shall be charged with the responsibility to advertise, recruit and interview applicants for the position of State Auditor. The committee shall make a report and recommendation to the Legislature of the top three candidates for the position and their qualifications. The Legislature shall select the State Auditor by majority vote and confirm by Resolution.
- (d) The State Auditor shall serve for a term of four years. No person may serve as the State Auditor for more than two consecutive full four-year terms or the balance of an unexpired term plus two full four-year terms.

Although there is inconsistency between the Constitution and the State Law regarding the term of the PA's appointment, the provisions of the Constitution as the supreme law will prevail.

Section 3. State Auditor – Removal

- (a) The State Auditor may, at any time, be removed from office for good cause, shown by a vote of fifteen (15) members of the Legislature. In that event the Committee appointed by the Speaker pursuant to 2(s) shall select an acting State Public Auditor for ninety (90) days. If necessary, this appointment may be extended once for an additional ninety (90) days.
- (b) The State Auditor shall be independent of administrative control except that he shall report at least once a year to the Legislature on the full activities of his office. His salary shall not be reduced during his term of office.

Section 4. State Auditor-Staff

The State Auditor may hire such employees as are required to assist in performing the duties of the Office of Fiscal Accountability and shall be able to expend money for necessary expenses of the Office, subject to budgetary appropriation and applicable salary acts, including the State Financial Management Act. The State Auditor may remove employees in the Office subject to the provisions of the State Public Service System which shall apply to employees and staff of the Office.

Section 5. Powers and Duties of State Auditor

- (a) The State Auditor shall be responsible for an annual inspection and audit of:
 - (i) Each department and office in the Executive Branch of the State Government.
 - (ii) The Truk State Legislature.

- (iii) The Truk State Judiciary.
 - (iv) Each authority, commissions, bureau, municipality, or other agency created by Truk State Law.
 - (v) Any other recipient of funds otherwise appropriated by the State including, but not limited to, other public legal entities or non-profit organizations receiving public funds from the State.
- (b) If there is a reasonable suspicion of misuse of government funds or other fiscal improprieties, the State Auditor shall investigate all relevant information and report the findings to the Legislature.
 - (c) Any public or private entity receiving State funds shall submit to an audit of those funds by the State Auditor, at the State Auditor's discretion. Failure to comply with reasonable requests for information from the State Auditor shall be cause for the cancellation of any contracts or agreements with the State and for the withholding of State funds already allocated or appropriated.
 - (d) The State Auditor shall review the system of accounts proposed to be established by any branch, department, office, agency, or instrumentality of the State, including public corporations.
 - (e) The State Auditor shall have access to all books, accounts, financial records, reports, files, and property belonging to or in use by the entities listed in section 5(a) so long as they are within the scope of the financial audit. The State Auditor shall have the right to subpoena through the Legislature the production of things if they are not provided by the entities listed above.
 - (f) The State Auditor shall monitor and investigate all contracts to which the State is a party to ensure compliance with all State bidding laws.
 - (g) The State Auditor shall inform the Attorney General and any other legal entity of all cases of suspected misuses of government funds, including but not limited to bidding violations, violations of Budget Law, and violations of the State Financial Management Act. The State Auditor shall, if requested, cooperate in further investigation and prosecution of such cases.
 - (h) The State Auditor shall submit to the Legislature at least thirty (30) days prior to its budget setting session, the annual budgetary requirements of the Office of Fiscal Accountability.
 - (i) The State Auditor shall inform the Truk State Legislature of such legislation as is necessary to ensure the proper accountability of government funds.

Section 6. State Auditor: Government Contract

The audit duties and responsibilities of the State Auditor shall extend to persons, partnerships, corporations, associations, or other entities having contracts with Truk State with respect to all books, accounts and other relevant materials arising from or related to such contracts. If a Contractor fails to make available to the State Auditor, or to his representative, such information as requested, such contract with the State, shall cancelled immediately by the contracting authority or by the Attorney General. No contract may be executed on behalf of the State unless it contains a provision, acceptable to the Attorney General as to form and the State Auditor as to substance authorizing the audit of books and accounts of the contractor by the State Auditor or his representative.

Section 8. Office of Fiscal Accountability: Rules and Regulations

The Office of Fiscal Accountability may adopt rules and regulations not inconsistent with law regarding those matters within its jurisdictions.

Audit Clients

The following entities are audited by the OCPA:

- 21 Government Ministries and Departments as listed in Annex A
- 3 State Owned Enterprises as listed in Annex B
- 40 Municipal councils as listed in Annex C

Others

Other unusual responsibilities included in the SAI’s mandate and operations include the following:

- The State Auditor shall monitor and investigate all contracts to which the State is a party to ensure compliance with all State bidding laws.
- The State Auditor shall inform the Attorney General and any other legal entity of all cases of suspected misuses of government funds, including but not limited to bidding violations, violations of Budget Law, and violations of the State Financial Management Act. The State Auditor shall, if requested, cooperate in further investigation and prosecution of such cases.

The OCPA has a wider mandate to audit all financial activities of government entities but the OCPA is not well-resourced to deliver its full mandate and have a reasonable coverage of the audit work it plans to perform annually. OCPA does not have full control of human resource matters; all staff of OCPA are subject to government personnel regulations, terms and conditions regulated and administered by the Public Service Commission, an independent commission of the Chuuk State Government.

OCPA’s Budget (in USD dollars)

	2017			2018			2019		
	Proposed	Approved	Actual	Proposed	Approved	Actual	Proposed	Approved	Actual
Revenue									
Expenditure	304,533	283,897	138,219	296,352	285,960	168,552	384,401	205,429	192,370
# of Staff	6	6	3	6	6	2	8	6	4

Chapter 4: Assessment of the SAI’s Capability and 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.

ISSAI 1: The Lima Declaration and ISSAI 10: The Mexico Declaration provides guiding principles for SAI independence. The SAI’s independence and legal framework is assessed in relation to the following performance indicators.

- SAI-1: Independence of the SAI

- SAI-2: Mandate of the SAI

Overall Indicator and Dimension scores are provided in the table below.

Domain A: Independence and Legal Framework		Dimension				Overall Score
Indicators	Name	(i)	(ii)	(iii)	(iv)	
SAI-1	Independence of the SAI	3	2	3	2	2
SAI-2	Mandate of the SAI	3	4	3		3

SAI-1: Independence of the SAI

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 dimensions to be assessed are:

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

Indicator score: 2		
Dimension	Findings	Score
(i) Appropriate and Effective Constitutional Framework	<p>Criteria a, b, c, d, and g are met. Criteria e, f, are not met.</p> <p>The SAI and its independence are not established in the Constitution. However, the Constitution established the independent position of the Public Auditor (or State Auditor). The SAI's independence is established in the Truk State Law No. 6-21. The appointment, term and removal of Head of the SAI is provided in the Constitution.</p> <p>There is no provision regarding legal protection against any interference with the SAI's independence. The SAI has strived to promote, secure, and maintain an appropriate legal framework.</p>	3
(ii) Financial Independence / Autonomy	<p>Criteria a, b, d, e, g, are met. Criteria c and f are not met.</p> <p>The legal framework explicitly provides for the SAI's financial independence. The SAI's budget is approved by the Legislature. However, in practice the SAI does not submit its budget directly to the Legislature; the SAI's budget is submitted to the Executive (via Budget Review Committee (BRC)).</p> <p>The SAI is entitled to use its approved budget and the Executive does not control the SAI's access to its budget. Through supplementary budget, the SAI has the right of direct appeal to the Legislature if the resources provided are insufficient. The law does not explicitly state that the SAI has the 'right of direct appeal'. During the past three</p>	2

	years, the SAI's budget has been reduced and the Public Auditor is never informed of the reasoning for the reduction in his budget.	
(iii) Organisational Independence / Autonomy	<p>Criteria a, b, c, e, f, are met. Criteria d and g are not met.</p> <p>The legal framework ensures the SAI has functional and organizational independence. The SAI has the power to determine its own rules and procedures for managing its operations and delivery of its mandate. In practice the SAI is free from Legislature or Executive interference.</p> <p>The Head of SAI is not free to independently decide on all human resource matters. For instance, on hiring, the PSC determines the salary grade levels. Recently, the BRC reviewed and amended the salary grades, minimum educational qualifications, and experience for all positions without consulting the Public Auditor.</p> <p>There are no specific provisions in the legal framework empowering the SAI to engage external expertise.</p>	3
(iv) Independence of the Head of SAI and its Officials	<p>Criteria a, e, f, are met. Criteria b, c, d and g are not met.</p> <p>The legal framework specifies the conditions for appointments, reappointments, and removal of the Head of SAI. The Head of SAI is given a sufficiently long and fixed term to enable him to deliver his mandate without fear of retaliation. There have been periods longer than three months during which there was no properly appointed Head of SAI. The appointment of the current Head of SAI was through a transparent process.</p> <p>During the last three years, there were no cases where the Head of the SAI was removed through an unlawful act. There is no specific provision in the legal framework to ensure the audit staff of the SAI are not influenced by the audited entities. The Head of SAI is not immune to any prosecution resulting from the normal discharge of his duties.</p>	2

(i) *Appropriate and Effective Constitutional Framework*

The establishment of the SAI is not explicitly laid down in the Constitution. However, section 9 of the Constitution provides that “there shall be an independent Public Auditor appointed by the Governor and confirmed by the Senate”. Furthermore, section 1 of the Truk State Law No.6-21 established the SAI (then known as the Office of Fiscal Accountability) which is headed by person known as the State Auditor. The State Auditor is exempt from the provisions of the Executive Branch Organization Act of 1980 and exempt from the provisions of the Truk State Public Service System Act 1981, as provided in Section 8(d), of that Act. Therefore, the provisions in the Constitution and the Truk State Law No.6-21 complement each other and ensure the SAI and its independence is well-established. The role, powers and duties of the SAI are prescribed in section 9(b) of the Constitution and in section 5 of the Truk State Law No.6-21.

The independence of the SAI established in section 9 of the Constitution and section 1 of the Truk State Law No.6-21 guarantees a very high degree of initiative and autonomy. This is affirmed by the fact that the State Auditor or the Head of the SAI is exempt from the Executive Branch as well as the State Public Service system. In addition, section 3(b) of the Truk State Law No.6-21 provides that “the State Auditor shall be independent of administrative control”.

The appointment, tenure and removal of the Head of the SAI is regulated by the Constitution and the Truk State Law. The Public Auditor (PA) is appointed by Legislature based on recommendations from the Committee responsible for implementing the recruitment due process. This Committee consists of three Senators appointed by the Senate President, who has the responsibility to advertise, recruit and interview applicants and recommend the successful candidate to Legislature. According to the Constitution, removal of the PA is by a two-thirds majority of the Senate.

The Constitution and Truk State law do not have any specific provisions regarding legal protection by supreme court against any interference with the SAI's independence. In addition, there are no specific provisions in the Constitution or Truk State Law allowing the SAI to report on any matters that affect its ability to perform its work according to its mandate. However, as independent entity within the government, the Public Auditor said that he can report any scope or access limitation that may restrict the performance of its function.

The SAI has taken actions to promote, secure and maintain an appropriate and effective legal framework. A letter by the former Head of SAI dated 15 December 2016 and addressed to Chuuk State legislature requested consideration for amendments to the State legislations governing the State Auditor's role, powers, functions, and responsibilities. The OCPA has received support from PASAI through a legal expert, to review its legislation. In April 2020, the incumbent Public Auditor submitted the proposed legislative amendments to the Legislature and is awaiting a response from Legislature regarding the request.

(ii) *Financial Independence / Autonomy*

Section 5(i) Truk State Law 6-21 provides that the State Auditor shall submit to the Legislature at least 30 days prior to its budget setting session, the annual budgetary requirements of the SAI. However, in practice, the OCPA submits its budget through the Budget Office under the Department of Administrative Services (equivalent of Ministry of Finance) and follow the same budgetary process that applies for all government entities. The SAI's budget is approved by Legislature as part of the whole government's budget.

The SAI is not free to propose its budget to the Legislature without interference from the executive. Although section 5(i) of Truk State Law 6-21 requires the SAI to submit its budget to the Legislature, this is not the practice. According to the Head of the SAI, the SAI's budget is submitted to the Budget Office in the Department of Administrative Services (DAS) and presented to the Budget Review Committee (Governor appointed). Although the Public Auditor (PA) discusses the SAI's budget with the BRC, the Committee will sometimes reduce the SAI's budget and/or the requested personnel without discussing with the Public Auditor. The government budget (including the SAI's budget) is then submitted to the Congress and Senate for Legislature appropriation. Once Legislature appropriation is finalised and approved, the budget is then signed by the Governor for implementation.

The SAI is entitled to use the funds allotted to them as they see fit. After the SAI's budget has been approved by the Legislature, the Executive does not control the SAI's access to these resources. The PA confirmed that there are no issues with using its approved budget and in practice, the DAS reviews every request for payment by the OCPA to check if the payment is budgeted for but does not have control over the SAI's access to its approved budget.

According to the PA, he has the right to appeal to both Houses (the Senate and the House of Representatives) if his budget is cut by the Budget Review Committee (BRC). The appeal is submitted by way of supplementary budget to the Governor and follow the same process when the original budget was submitted to the Budget Office and BRC. However, it is rare that supplementary budget submitted by SAI is approved.

According to the PA, during his two years in Office, his budget has been reduced by the BRC; however, it is not clear whether the reduction is due to "interference" or due to financial constraints within the Chuuk State Government because the reason for such reduction was never discussed with the Public Auditor.

(iii) *Organisational Independence / Autonomy*

The legal framework ensures that the SAI has the functional and organizational independence required to accomplish its tasks. Truk State Law 6-21, section 8 states that the SAI may adopt rules and regulations consistent with law regarding those matters within its jurisdiction. According to the PA, there is no interference from Executive on the management of the SAI.

The staff of the OCPA however are subject to the State Public Service system administered by the Public Service Commission (PSC) which is an independent Commission. This means the recruitment of OCPA's staff are administered and managed by the PSC. The Head of the SAI is not free to independently decide on all human resource matters, including appointments of staff and establishment of their terms and conditions. Although the Truk State Law 6-21 section 4 empowers the PA to hire employees, but this is not the case in practice. If OCPA wants to recruit staff, the position should be approved by Legislature as part of the budget then communicate with the PSC regarding the recruitment process. Shortlisted applicants will be submitted to PA and a representative of the OCPA is a member of the interviewing panel. The final selection and approval rests with the Head of the SAI.

The relationship between the SAI and the Legislature and the Executive is clearly defined in Truk State Law 6-21, section 3(b) which prescribes that the PA shall be independent of administrative control. The same section requires the PA to report at least once a year to the Legislature on the full activities of his Office.

Truk State Law 6-21, section 4 empowers the PA to hire such employees as are required to assist in performing the duties of the SAI. However, this authority does not explicitly include the power to call on and pay for external expertise, as necessary.

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

The Constitution Article VIII, section 9 prescribed that an independent Public Auditor (PA) should be appointed by the Governor and confirmed by the Senate. The PA's term is for 6 years. The PA should be a certified public accountant with auditing experience. According to Truk State Law 6-21 section 2, the PA should be a Certified Public Accountant (CPA) with minimum of 5 years' experience in auditing, accounting, and government finance. The appointment of the PA is through a due process; a Committee of 3 Senators appointed by the Speaker will advertise, interview, and submit recommendation of 3 top candidates to Legislature to make the final selection for the preferred candidate. The position was advertised in media outlets in the FSM National and State governments and five applications were received. After going through the recruitment process, a Senate resolution confirmed the appointment of the incumbent PA.

The Constitution Article VIII, section 9, the PA's term is for six years while the Truk State Law 6-21 Section 2(d) states the term is four years, and no person may serve as PA for more than two consecutive full four-year terms. According to the Constitution, the PA is removed by two-thirds of members of the Senate. While the current PA's term of six years is fixed and sufficiently long, allowing him to carry

out his mandate without fear of retaliation, certain provisions in the employment contract that was prepared (by the Attorney General’s Office) and signed by the Public Auditor provide a threat to the security of tenure on the employment of the PA because of the following provisions in the contract:

1. The employment contract maybe cancelled by either party, without cause, on the giving in writing to the other party of 60 calendar day of notice of cancellation.
2. The employee salary per annum, all funds for educational cost, reimbursement for travel, and per diem to maintain the Continuing Professional Education (CPE) shall be subject to available funds appropriated by the Chuuk State Legislature.

The implications of these provisions can affect the security of the term of the Head of the SAI. Despite the security of the PA’s tenure provided for in the Constitution and Truk State law, the terms and conditions of the PA’s employment contract are not aligned with these founding legislations.

Both the Constitution and Truk State Law 6-21 do not have explicit provisions on any legal protection for the PA for any prosecution that results from the normal discharge of his duties, Although the independent relationship between the SAI and the Legislature and the Executive established in Truk State Law 6-21, section 3(b) where the PA shall be independent of administrative control, this is not sufficient to give the PA immunity to any prosecution.

Within the past three years there was a period longer than three months during which there has been no properly appointed Head of SAI with tenure. The first and former PA's term expired in December 2016. The current PA assumed Office in February 2018 and was appointed through a transparent process in accordance with the requirements of the Constitution.

During the last three years, 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 former PA was not removed from Office but resigned before the end of his term.

The Truk State Law 6-21 Section 3(b) prescribed that the PA shall be independent of administrative control, but this requirement does not specifically extend to the staff of the SAI. Therefore, there is limited and specific provisions in the legal framework to ensure that the audit staff of the SAI, in their professional careers, are not influenced by the audited organizations and must not be dependent on such organizations.

SAI-2: Mandate of the SAI

The dimensions to be assessed in this indicator are:

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

Indicator score: 3		
Dimension	Findings	Score
(i) Sufficiently broad mandate	Criteria a, c, d, e, f, g, h, are met. Criterion i, is not met. Criterion b is not applicable.	3
(ii) Access to information	Criteria a, b, c, e, are met. Criterion d is not applicable. The Truk State Law 6-21 provides OCPA with unrestricted right of access to records, documents, and information. In the event where access to information required for the audit is restricted or denied,	4

	the OCPA has the right to subpoena through the Legislature the production of information. SAI staff have right of access to the premises of audited entities.	
(iii) Right and obligation to report	Criteria a, b, c, f, g, are met. Criteria d and e are not met. The SAI has the right to publish its annual audit reports. The legal framework does not explicitly state that the SAI is free to decide on the content of its audit reports, however, in practice the SAI has exercised its discretion to determine the content of its audit reports. There is no legislative provision on the timing of audit reports. In the past three years, there were no interference in the SAI's decision on the content of its audit reports and the SAI's efforts to publish its audit reports.	3

(i) Sufficiently Broad Mandate

The Constitution Article VIII, Section 9(b) requires the SAI to “conduct audits of all financial transactions of all branches, departments, offices, agencies and instrumentalities of the government, and of all accounts kept by or for them”. The Truk State Law 6-21 Section 5 describes the vast powers and duties of the SAI which includes an annual inspection and audit of all departments and offices at the Executive branch, the Legislature, Judiciary, authority, commission, bureau, and municipality created by Truk State law. The SAI is also required to audit any organization public or private, receiving State funds. With these legal provisions, the SAI’s mandate specifically ensures it is responsible for the audit of all central government activities.

Some audits are outsourced to external auditors, but these are limited to the financial statement audits of the Chuuk State government and two state-owned enterprises. The financial audits of other entities like the municipalities/programs or projects funded by donors, NGOs receiving fund from Chuuk State are subject to the OCPA’s mandate. In addition, the OCPA is mandated to conduct contract audit. Due to the limited resources and manpower, the OCPA is not able to conduct some of these audits.

The Truk State Law 6-21 Section 3(b) prescribed that the PA shall be independent of administrative control. Furthermore, section 8 of the same Act gives authority to the SAI to adopt rules and regulations consistent with law regarding those matters within its jurisdiction. These legislative provisions ensure the SAI is free from any direction and interference in the selection of audit issues, planning, conduct, reporting and follow-up of its audits. In practice, the SAI is free to carry out its audit responsibilities in accordance with the appropriate auditing standards and legal framework.

During the past three years, the OCPA has not been given and has not taken any tasks which influence the independence of its mandate. The PA has the discretion to reject any audit that will affect its independence by considering risk factors and the importance of the requested audits to the State and public interest. The OCPA received three audit requests from legislature during the year and has accepted the requests because they did not affect the SAI's independence and these audits were critical to the State.

There were 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.

The SAI is empowered to audit the legality and regularity of government entities and any entity receiving public funds. The SAI is also required to audit the quality of financial management and

reporting, which is fulfilled through the financial audits of government accounts conducted by the external auditors. There is no specific legislative requirement to audit the economy, efficiency, and effectiveness of public entities' operations, however in practice, this is predominantly the type of audits conducted by the OCPA.

(ii) Access to Information

The Truk State Law 6-21, section 5(e) provides the SAI with unrestricted right of access to all books, accounts, financial records, reports, files, papers, and property belonging to or in use by the government entities, so long as they are within the scope of the financial audit. This same legislative provision gives the SAI the right to decide which information it needs for its audits. Furthermore, section 5 (e) gives the Public Auditor the right to subpoena through Legislature the production of information if access is limited or denied by the audited entities. The OCPA's staff have right of access to the premises of audited bodies to carry out the audit fieldwork the SAI deems necessary, by virtue of section 5(e) of the Truk State Law 6-21.

(iii) Right and Obligation to Report

Constitution Section 9(b); The Constitution Article VIII, section 9(b) requires the PA to annually report findings and recommendations to the Legislature, the Governor, and the municipalities, and shall provide additional reports and information as may be required by law or as the PA deems appropriate.

The Truk State Law 6-21 section 5(f) requires the Public Auditor to make available in a timely manner copies of all audits conducted to the audited entities, the Governor, the State legislature and to the public. In practice, once the PA's audit reports are submitted to Legislature, the reports are also circulated to appropriate stakeholders and interested parties on the OCPA's mailing list and available media outlets. The problem in Chuuk is that media outlets are very limited and not available.

Truk State Law 6-21 section 3(b) requires the PA to report findings on any investigation carried out because of reasonable suspicion of misuse of government funds or fiscal improprieties. Section 3(j) requires the PA to inform the State legislature of any legislation necessary to ensure the proper accountability of government funds.

There are no restrictions or specific provisions in the legislation regarding the content of and the timing of the audit report except that the PA should report annually. The PA decides on the content of the audit reports. The timing of submission of audit reports is dependent on when the audit is completed. In the absence of specific legislative requirement for timing of submission of audit reports, this may lead to delays in submission and publication of audit reports.

In the past 3 years, there were no interference with the content of audit reports issued and the SAI's efforts to publish its audit reports.

4.2 Domain B: Internal Governance and Ethics

The SAI's internal governance and ethics are assessed in relation to the following performance indicators.

- SAI-3: Strategic Planning Cycle
- SAI-4: Organizational Control Environment
- SAI-6: Leadership and Internal Communication
- SAI-7: Overall Audit Planning

Overall Indicator and Dimension scores are provided in the table below.

Domain B: Internal Governance and Ethics		Dimension				Overall Score
Indicators	Name	(i)	(ii)	(iii)	(iv)	
SAI-3	Strategic Planning Cycle	0	0	0	2	0
SAI-4	Organizational control environment	0	1	3	4	2
SAI-6	Leadership and internal communication	3	2			2
SAI-7	Overall audit planning	1	0			0

SAI-3: Strategic Planning Cycle

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

Indicator score: 0		
Dimension	Findings	Score
(i) Content of the Strategic Plan	All Criteria are not met. The OCPA does not have a strategic plan.	0
(ii) Content of the Annual Plan / Operational Plan	All Criteria are not met. The OCPA does not have an operational plan	0
(iii) Organisational Planning Process	Criteria a, b, c, d, e, f, g, h, i, are not met. The OCPA has no documented and clearly defined organizational planning process. With only four staff including the Head of the SAI, communication of organizational plans is not an issue. The office plans are regularly discussed with the staff however there is no record of such discussions. The SAI has not developed a strategic plan since its establishment in 2014. There is no process to monitor progress of implementing planned activities.	0
(iv) Monitoring and Performance Reporting	Criteria a, f, g, are met. Criteria b, c, d, e, are not met. The SAI reports on its operations and performance against its planned activities. According to the annual report 2018, OCPA completed one of the five audits planned for the year. The SAI does not use performance indicators to measure achievement of internal performance objectives; it does not measure the impact of its audit nor assess the value of audit work for its Parliament, citizens, and other stakeholders.	2

	<p>OCPA's peer review report was submitted to the legislature. Auditing standards adopted by the SAI are described in its audit manual and in all its audit reports.</p>	
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i. Content of the Strategic Plan

The OCPA does not have a strategic plan in place but its annual activities are guided by what they have proposed in its annual budget. The OCPA's annual budget proposal is prepared using a standard budget template developed by the Budget Office, a division within the Department of Administrative Services (DAS)². All government entities, including OCPA are required to use the standard template for their budget proposal. The OCPA's annual budget proposal includes a description of its objectives, goals, and activities to be implemented to achieve the identified goals and objectives. From a review of the 2018 and 2019 budget proposals, the goals, objectives, and activities were very much the same.

Despite the SAI using the budget document as guidance on what they plan to deliver in the year, the document is not sufficient to be considered as a strategic plan. There are other elements such as consideration of stakeholders' expectations and timelines for activities that need to be included and defined properly.

ii. Content of the Annual Plan / Operational Plan

The OCPA's planned activities are described in its annual budget proposal and therefore the budget proposal functions as the default operational plan. The activities and timelines are not clearly defined, and responsibilities are not identified as these are normally not included in a budget proposal. There are also other factors such as baseline of current performance, measurable indicators, and milestones for major indicators expected of an operational plan which were not included in the budget proposals.

iii. Organisational Planning Process

The OCPA does not have clearly defined organisational planning processes to guide the development of its strategic and operational plans, overall audit plan as well as professional development and training plan. OCPA is just over five years old and trying to establish its policies and processes for all its functions. It has not developed a strategic plan since the office was established in December 2014. The SAI does not have a process to monitor progress against the planned activities. With only three staff all located in one Office (one room), communication of organizational plans is not an issue. The Public Auditor regularly discusses plans with the staff and any changes that may affect the achievement of these plans. However, these discussions are not documented.

iv. Monitoring and Performance Reporting

The SAI prepared and submitted its annual report to the legislature as required by law. The annual report describes OCPA's performance against its planned activities – what they have achieved, activities not implemented and the reasons for not being able to implement them. According to OCPA's annual report for fiscal year 2018, the SAI completed only one audit during the year and was not able to complete the five audits planned for the year due to the lack of manpower. Only one staff was employed at the SAI in 2018.

In the absence of a properly developed organizational plans, performance indicators were also not developed to measure achievement of internal performance objectives. However, the only measure of the SAI's performance is at the output level, which is measured by the number of audits completed

² DAS is like Ministry of Finance in other jurisdictions.

compared to the number of planned audits. The SAI has not measured or assessed the value of audit work for Parliament, citizens, and other stakeholders. Furthermore, the SAI has not obtained feedback from its stakeholders or external parties on the SAI’s public visibility, outcomes and impact and has not published any statistics or information measuring the impact of the SAI’s audits, such as savings and efficiency gains of government programs. However, the annual report summarised audit findings from the sole audit completed during the year under review which identified areas of significant non-compliances.

As a member of the Association of Pacific Islands Public Auditors (APIPA), OCPA is required to be peer reviewed every three years by other APIPA members. Its latest peer review was in December 2018 and the peer review report was submitted directly to the Chuuk Officials - Governor and Legislature. Chuuk Government and OCPA do not have websites and media outlets are scarce to ensure a wider publicity of the report. The only other media outlet where reports can be published is the FSM newspaper based in the Pohnpei State of the FSM but it is up to the OCPA whether to publish the report in the newspaper. The peer review report was not published in the newspaper. It has also been requesting PASAI to post its audit reports in the PASAI website and social media.

The OCPA’s audit manual 2014 described the audit standards that the SAI adopts, which are the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. The audit reports also described these standards which provides guidance on the audit methodology used by the SAI.

SAI-4: Organizational Control Environment

A SAI should have an internal control system in place to provide reasonable assurance that the SAI manages its operations economically, efficiently, effectively and in accordance with laws and regulations. Furthermore, 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 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

Indicator score: 2		
Dimension	Findings	Score
(i) Internal Control Environment – Ethics, Integrity and Organizational Structure	<p>Criteria a, b, c, d, e, i, j, are met. Criteria f, g, h, k, l, are not met.</p> <p>OCPA has a code of ethics which defines the rules and practices that are aligned with ISSAI 30. The Code applies to all staff including any external experts engaged to carry out work on behalf of the SAI. However, the SAI does not have an ethics control system to monitor and manage any breach of the Code.</p> <p>The SAI’s approved organisational structure clearly shows assigned responsibilities covering all areas of the organisation.</p>	0

	<p>OCPA has not assessed its vulnerability and resilience to integrity violations.</p>	
(ii) System of Internal Control	<p>Criteria b, i, are met. Criteria a, c, d, e, are not met. Criteria f, g, h, j, are not applicable.</p> <p>The SAI's system of internal control is not fully established. It has documented policies and procedures covering its audit functions. Other areas of operations are covered by the government's PSSR system which all government entities, including the SAI are subject to.</p> <p>With only three staff, it is not feasible for OCPA to have an internal audit function or to assign the responsibilities to any staff. Most of the administrative operations are monitored by the DAS.</p>	1
(iii) Quality Control System	<p>Criteria a, b, c, d, are met. Criterion e is not met.</p> <p>OCPA's 'Quality Control System 2018' describes policies and procedures to promote quality in all its work. The Head of the SAI has full responsibility for maintaining and implementing its system of quality control.</p> <p>The SAI does not have a system to prioritize its work by considering the required resources and the need to maintain quality.</p>	3
(iv) Quality Assurance System	<p>All Criteria are met except criterion c which is not applicable.</p> <p>The SAI's manual of "Quality Control System 2018" establishes policies and procedures for quality assurance, including consideration to engage another SAI to carry out an independent review of the SAI's overall system of quality control.</p> <p>The SAI is subject to APIPA's triennial peer review. With its small size, the SAI has leverage on APIPA's peer review as a mechanism to provide ongoing monitoring and review of its quality control system.</p>	4

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

The OCPA has a code of professional conduct (the Code), a standalone document, which sets out the policies, practices and rules regarding integrity, conflict of interest, objectivity and independence, professional conduct and due care, confidentiality, accountability, and the use of public information obtained during employment and through audits. The Code was developed in December 2014 and revised in December 2015. All staff are required to always engage in conduct consistent with the values and principles expressed in the code of ethics. According to the Code, "all staff should familiarize themselves with the content of the Code and should act in accordance with the principles set out in it".³

³ OCPA Code of Professional Conduct, page 1

The code is applicable to all employees, consultants, and contractors of OCPA. Breaches of the Code is subject to disciplinary action. For every engagement, each member of the audit team signs an attestation document indicating that they have read and understood the ethical principles and code of professional conduct. In addition, the audit team members signed an independent statement for every engagement to declare and report any conflict of interest. These documents are filed in the audit file being reviewed.

The code of ethics is not publicly available, and this is due mainly to the limited media outlets and lack of alternative mechanisms such as government or SAI websites, to publish these official SAI documents. There is no ethics control system in place to identify and analyse risks, to mitigate them, to support ethical behaviour and to address any breach to ethical values, including protection of those who report suspected wrongdoing.

The OCPA's does not have an approved organizational structure since it was established but has an annual budget for manpower. As such, the structure and full capacity of the Office is not clear, and the number of staff varies depending on the approved budget. The current structure reflects the number of staff that can be funded with the approved budget and reflects the work it carries out based on its mandated responsibilities. Job descriptions are in place for all positions describing the certified classification of each employee as approved by the PSC and covering the main responsibilities of the SAI. OCPA maintains a personnel file which contains all personnel records and information for employees including any approved salary adjustments because of promotions. With the small size of OCPA, the structure is very simple, and all staff are clear on their tasks and reporting channels.

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 but relies on its Professional Code of Conduct which provides guidance to ensure staff behaviour reflects the principle of integrity.

ii. System of Internal Control

The OCPA was established as an independent Office from the National Office of the Public Auditor in 2014. Its internal control system is still at the development stage with some policies relating to the Office's administration yet to be developed and documented. The SAI adopts the Government's Public Service System Regulations (PSSR) regarding managing staff and other human resource matters. Also, the SAI has in place clear internal controls relating to its audit functions which are described and documented in its "Quality Control Policies and Procedures" and "Description of Quality Control system". Key aspects of the SAI's operations covered includes leadership responsibilities for quality, independence, legal and relevant ethical requirements, initiation, continuance and acceptance of audits, performance of audit and other works and monitoring of quality. These SAI documents and the government's PSSR collectively function as the SAI's system of internal control.

However, the system of internal control does not clearly define mechanisms to monitor and mitigate major operational risks. The system has defined policies and procedures but lacks processes to monitor compliance with established internal controls. OCPA does not maintain an annual process to provide assurance that staff have managed risks while carrying out their responsibilities. The Head of SAI has not signed a statement of internal control nor publish such statement in any of the SAI's annual reports.

Since its establishment in 2014, the OCPA has not undertaken a review of its internal control system. With the lack of qualified staff and limited budget a review is not feasible. The SAI is too small to have its own internal audit function. Most of the administrative operations of the SAI are in accordance with

government procedures and these are monitored and checked by the Department of Administrative Services (equivalent of Ministry of Finance).

The OCPA's Code of Professional Conduct, section XII provides guidance on improper conduct and requires staff to report any violation of the Code to the Public Auditor.

Job rotation is crucial to ensuring the independence of the auditors from the audited entity. The OCPA does not have a job rotation policy. Given the SAI's current capacity (only 3 staff, including the Head of SAI can conduct an audit) and the small community in which the SAI operates, it's a real challenge to rotate any staff, especially the fact that staff has family connections with personnel in government entities. To mitigate this risk, staff are required by the Code of Professional Conduct to declare any conflict of interest and staff are required to sign an "Independent Statement" to this effect, at the start of the audit. If there are cases of conflict of interest, mitigating practices according to the PA is, close supervision by PA of staff concerned. This practice is documented and demonstrated in the audit file being reviewed.

iii. Quality Control System

OCPA's '*Quality Control System 2018*' manual established policies and procedures to promote quality in all services performed. The Public Auditor has full responsibility for the maintenance and implementation of the system of quality control. Given the few staff the SAI has and their limited capabilities, the PA has not delegated the authority to manage the SAI's system of quality control to anyone else.

OCPA has established policies and procedures to consider the risks to quality which arise from carrying out its responsibilities. The '*Quality Control System 2018*' manual, section on "General Standards on Quality Control and Assurance", describes policies and procedures on quality control including leadership responsibilities for quality within the SAI and audit performance, documentation, reporting processes to ensure audits conducted and reported in accordance with professional standards, legal and regulatory requirements. To ensure the quality of the audit, working papers are reviewed throughout the audit process by the Public Auditor, who is also the auditor-in-charge. A 'quality control checklist' is completed at the end of the audit which documents any deviation from the requirement of the audit standard and how these deviations were resolved.

The SAI does not have a structured mechanism or process to prioritize its work in a way that considers the need to maintain quality and considers whether they have resources to deliver its work programme.

iv. Quality Assurance System

Having an established quality assurance system is critical to the SAI's operations. The OCPA's quality assurance system is encapsulated in its '*Quality Control System 2018*' manual with a dedicated section on general standards on quality control and assurance. The 2018 manual requires that the SAI should obtain an external peer review at least once every 3 years to provide a reasonable basis for determining whether, for the period under review, the SAI's system of quality control was suitably designed and whether the SAI is complying with its quality control system to provide the SAI with reasonable assurance of complying with applicable auditing standards.

Given the small size of the OCPA, it has leveraged on the APIPA peer review process as a mechanism to provide ongoing monitoring and review of its quality control system. The APIPA peer review process involves a site visit and reporting. An independent review team consisting of auditors from other APIPA members is assembled and a review agreement is signed between the SAI being reviewed and the review team. The review team examines the SAI's internal control system and a sample of audits carried out by the SAI to determine whether the SAI's internal control system operated to provide reasonable

assurance of compliance with government auditing standards (GAGAS) issued by the Comptroller General of the United States. The review is conducted in accordance with standards and guidelines prescribed by the “Peer Review Guide” published by the APIPA. The quality assurance review results are clearly described and communicated formally by way of a management letter from the peer review team to the Head of the SAI. The letter explains deficiencies identified and relevant recommendations to rectify them. The process allows the SAI to provide written response to the reviewer’s conclusion and these responses are included in the final report which is available on the SAI’s website or upon request if the SAI does not have a website.

One of the issues raised in the peer review was the lack of evidence that reports were circulated to those charged with governance, appropriate officials, and oversight bodies. The PA has addressed this issue by establishing a distribution list including all officials and stakeholders to whom they should circulate audit reports.

The latest peer review of OCPA was conducted by an independent team consists of staff from the FSM Office of the National Public Auditor and State Yap Office of the Public Auditor. The review was completed in December 2018, covering the period from 1 October 2014 to 30 September 2017.

SAI-6: Leadership and Internal Communication

Effective leadership in the SAI is crucial to ensuring that the appropriate tone is “set at the top” to promote integrity and establish an organizational culture that promotes effectiveness, transparency, and accountability. For the SAI to effectively fulfil its mandate, strong leadership and good communication with staff is essential. This indicator measures the following dimensions relating to two main aspects of leadership within the SAI.

- i. Leadership
- ii. Internal Communication

Indicator score: 2		
Dimension	Findings	Score
(i) Leadership	Criteria a, c, d, e, f, g, h, are met. Criterion b is not met. With only four staff (including the Head of the SAI), staff meetings are held from time to time or when necessary. Key decisions made are communicated to staff, though these decisions are not documented. SAI leadership has implemented strategies to incentivise better performance. The Public Auditor has demonstrated initiatives for building ethical culture by leading by example.	3
(ii) Internal Communication	Criteria c, d, e, f, are met. Criterion a, b, are not met. SAI leadership informs and consults employees regularly on key issues related to the organization. The SAI uses appropriate tools to communicate effectively. However, it does not have an electronic communication system such as its own email system.	2

i. Leadership

The OCPA is a very small SAI with three staff and leadership is basically the Head of the SAI and the senior auditor. All staff are in the same Office which is basically in one room and discussions about office plans and activities generally takes place either formally or informally. Given the smallness of the SAI, formal periodic meetings are rare but according to staff, any key decisions affecting work and operations are communicated to them except that these decisions are not documented.

The SAI's values are identified and communicated through its annual reports. The SAI does not have a policy or system for delegating authority. However, its policies and procedures prescribed the responsibilities of all staff including supervisors and audit managers. The PA in most cases, is responsible for monitoring all audit work carried out by the two auditors. The PA sets a tone enabling accountability and strengthening the culture of internal control by diligently following all the requirements on working papers, providing feedback and review comments on all work carried out by staff and response to any issues raised by the auditee. The PA instils a culture of quality by providing on-the-job training and mentoring, counselling, and advising staff whenever a substandard work is submitted. The PA demonstrates through his detailed review that he pays attention to details and this encourages staff to take caution and ensure quality work is performed.

Due to the SAI's limited budget, the Public Auditor has incentivised better performance by encouraging staff to complete professional course towards achieving CPA and approving flexible working hours. The PA does not have the authority to increase staff salary but can only recommend promotions which are subject to final approval by the Public Service Commission.

The Public Auditor leads by example in demonstrating professional attitude towards work and encouraging an open and mutual learning environment where difficult and sensitive questions can be raised and discussed. The PA reports to work early before normal working hours, is available to discuss issues frankly and honestly with staff and is open to hear any complaints from staff and deal with them in a timely manner. Due to the small size of the SAI, the PA is monitoring all work carried out by each staff on a regular basis. The PA regularly monitors work allocated to staff to ensure allocated tasks are completed to expectations. However, monitoring activities are not documented but will only be evident through the completion of allocated tasks.

ii. Internal Communication

The OCPA does not have a communication strategy and has not established principles for internal communication and monitored the implementation of these principles. The SAI's vision and core values are displayed in the Office however the PA has not communicated these clearly to the staff to ensure they understand the core values and are able to implement them daily through their audit work.

From interviews with staff, they confirmed that they are informed and consulted on key issues related to the organization through monthly staff meetings or when necessary. The OCPA uses appropriate tools to promote effective internal communication. Email is the common tool used. Face-to-face meetings, especially during monthly monitoring of staff work, and when necessary are other avenues used for internal communication and open and regular interactions amongst staff and management.

The SAI does not have an electronic communication system such as its own email system. However, the staff use their personal emails to communicate. Internet access is managed by IT personnel in the DAS/Ministry of Finance which is in the same building as the OCPA's office.

SAI-7: Overall Audit Planning

The SAI's overall audit plan defines the audits the SAI plans to conduct for a given period and 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 available 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

Indicator score: 0		
Dimension	Findings	Score
(i) Overall Audit / Control Planning Process	<p>Criteria f and g are met. Criteria a, b, c, d, e, are not met.</p> <p>The SAI does not have a documented process to develop its overall audit plan. Responsibilities for planning, implementing, and monitoring are not clearly defined but by default, but vested in the Head of the SAI.</p> <p>The SAI has considered its expected budget and resources as well as stakeholders' expectations when determining audits to be conducted during the year.</p>	1
(ii) Overall Audit Plan / Control Programme Content	<p>All Criteria are not met.</p> <p>OCPA has not developed an overall audit plan but its annual activities including the audits to be conducted in the year were described and included in its budget proposal.</p>	0

i. Overall Audit / Control Planning Process

During the period under review, OCPA had only two staff - one audit staff and the Head of the SAI. In planning the SAI's overall audit programme for the year, the Head of the SAI and the audit staff discussed potential audit topics, any special requests from legislature, risks involved and available resources. From these discussions a list of audits is prepared. Unfortunately, these discussions were not documented, except the list of proposed audits to be conducted in the next two years.

OCPA does not have a documented process to develop and approve its overall audit plan/control programme. However, the SAI utilizes the standard budget template developed by the Budget Office to plan its annual activities including the number of audits it plans to conduct during the year. The proposed budget is a realistic projection of financial and manpower resources required to achieve annual targeted performance. The planned activities included in the budget proposal reflects the SAI's responsibilities described in its mandate.

Although risks are considered in the discussions when determining audits to be conducted, this process does not follow a documented systematic risk-based approach where potential audits and risk factors are identified and assessed appropriately using relevant criteria.

The responsibilities for planning, implementing, and monitoring the audit plan are not clearly defined. With only two staff, these responsibilities are assumed by the Public Auditor by default.

The OCPA is required to submit quarterly reports to the Budget Office to monitor the status of the budget and the activities completed based on the proposed budget. During the period under review, OCPA was able to complete only one audit and the monitoring activities were part of the audit process which both staff were very much involved in. The annual report is another monitoring mechanism used by the SAI to report on its achievements and results of audits conducted during the year.

The audit plan for the calendar year 2018 considered the SAI's budget and resources. Four audits were planned to be conducted based on the assumption that all proposed recruitment will be fulfilled.

However, none of the four positions advertised in 2018 were recruited in the year and the SAI managed to complete only one audit. Two (1 auditor, 1 secretary) staff were recruited in January and March 2019, respectively. Furthermore, stakeholders' expectations were considered when determining the audits to be conducted. The list includes some audits which were requested by the legislature and others were matters of public and donor interests.

ii. Overall Audit Plan / Control Programme Content

The OCPA has not developed an annual audit program but its budget proposal describes the audits it plans to conduct during the year. Some features of the overall audit plan that are not captured in the budget proposal are the high-level objectives of each audit and a schedule for implementing the audits, identifying who is responsible and the timelines for each audit. Furthermore, an assessment of risks and constraints to the delivery of the planned audits are not described in a budget proposal. Therefore, it is important that the SAI develops a proper overall audit programme separate from but align with its budget proposal.

4.3 Domain C: Audit Quality and Reporting

This domain assesses the core function of the SAI in terms of delivering its mandate through the audits it is required to conduct. The performance indicators covered are as follows.

- SAI-8: Audit Coverage
- SAI-9: Financial Audit Standards and Quality Management
- SAI-10: Financial Audit Process
- SAI-11: Financial Audit Results
- SAI-12: Performance Audit Standards and Quality Management
- SAI-13: Performance Audit Process
- SAI-14: Performance Audit Results
- SAI-15: Compliance Audit Standards and Quality Management
- SAI-16: Compliance Audit Process
- SAI-17: Compliance Audit Results

Overall Indicator and dimension scoring are provided in the table below.

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

SAI-8: Audit Coverage

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 can 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

Indicator score: 1		
Dimension	Findings	Score
(i) Financial audit coverage	The SAI has the mandate to conduct financial audits however the audit of government accounts is outsourced together with other state owned- entities. The OCPA did not report on the non-submission of financial statements that should be audited.	0
(ii) Coverage, Selection and Objective of Performance Audit	Criteria a, b, e, f, g, are met. Criteria c, d and h are not met.	2
(iii) Coverage, Selection and Objective of Compliance Audit	Criterion d is met. Criteria a, b, c, are not met. OCPA does not have an audit plan for the year but the planned audits to be conducted are considered during its budget process. The selection of entities is not based on a systematic process and therefore there is no assurance that all entities within the SAI's mandate are audited in a reasonable period.	0

(i) *Financial Audit Coverage*

The OCPA has the mandate to conduct financial audits of all government entities and public funds, However, the SAI did not conduct any financial audits during the period under review due to the lack of manpower and lack of qualified staff to conduct such audits. A total of three financial statements were received to be audited; these are the Government financial statements (21 Government Ministries) and two state-owned enterprises (SOEs). All three audits were conducted and completed by external auditors on behalf of the OCPA.

The Compact funding agreement which provides funding to Chuuk State prescribes a funding threshold and the related audit requirements for government entities that receive funding above the stipulated threshold. All three audits are captured within these audit requirements which is why these audits were contracted out. The process for contracting external auditors is administered and managed by the FSM National Office of the Public Auditor (ONPA). Therefore, the process and the appointment of the external auditor(s) are not the direct responsibility of the OCPA.

One SOE which is required to be audited did not submit its financial statements but OCPA did not report on the non-submission of these financial statements.

ii. Coverage, Selection and Objective of Performance Audit

OCPA performs its audit work in accordance with the applicable generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States of America. GAGAS prescribes broad and varying performance audit objectives that encompass assessment of program effectiveness, economy, and efficiency; internal control; compliance; prospective analysis. Furthermore, performance audit is the main type of audit conducted by the SAI and all the audit topics listed are for performance and/or compliance audits.

The performance audit conducted during the period under review focused on whether expenditures of the Project complied with FSM and Chuuk laws and regulations and terms and conditions of the grant; and, whether the Project produced the desired results consistent with the project objectives and intended outcomes. As part of this engagement, OCPA also assessed Faichuuk Educational Development and Research internal control system to determine its effectiveness. Recommendations for improvement were provided.

OCPA does its strategic or operational planning as part of the budget planning process. The number of audit projects planned, and audit topic areas are documented in the budget proposal. The number of planned audits depends on the amount approved in the budget. The audit topic covered by this assessment was a request from Chuuk's Legislature. Per inquiry with the Public Auditor and review of the working papers showed extensive research and study on the audit topic. The working papers reflected the auditors' decision to proceed with the audit because of its significance and importance to the Chuuk's Education program, the topic was auditable and among other reasons, because it was requested by the Legislature.

There was no evidence showing that during the planning and selection of audit topics, OCPA solicited or considered stakeholders' expectations and emerging risks. However, OCPA considered Legislature's expectations and took up the engagement. Legislature's concern and emerging risks were factored into the preparation of the audit plan for this engagement.

During the planning process, OCPA conducts preliminary surveys to determine whether the audit should be carried out on the proposed topic. The survey contains questionnaires, interviews, analysis and extensive research and study to determine among other matters, the significance of the audit topic and its importance to the government and citizens of Chuuk.

OCPA also conducts preliminary audit surveys to determine whether audit topic is auditable and within the mandate of SAI.

GAGAS requires and is reflected in the OCPA Audit Manual, that when planning an audit engagement, audit personnel and financial resources capacity as well as the expected impact of the audit are considered. The Public Auditor personally assigns audit personnel on all audit assignments. With only two staff during the year under review, the audit was conducted by the Public Auditor and the sole auditor.

OCPA was established as an independent office in December 2014. Since its inception, OCPA has issued audit reports on public safety, education, revenue collection, public finance, and infrastructure.

iii. Coverage, Selection and Objective of Compliance Audit

The OCPA does its operational planning as part of its budget process. Because the OCPA does not conduct financial audits, generally the proposed audits are either performance or compliance audits. The selection of compliance audits is based on audit topics and not necessarily based on identifying the

entities to be audited. This is because, OCPA is of the view that compliance audit is a type of performance audit that has a “compliance” objective. The proposed audits to be conducted during the year included an audit which covers both performance and compliance audit objectives.

The selection of audit topics and entities to be audited is not based on a systematic and documented assessment of risk and materiality. Although risks, materiality and areas of significance are considered, these are not documented or described in the budget documents. In the absence of a systematic process to selected entities to be audited, there is no assurance that all entities within the SAI’s mandate are audited during a reasonable period.

In the past three years, OCPA has completed a compliance audit on the government’s centralized payroll system.

SAI-9: Financial Audit Standards and Quality Management

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. Although the OCPA has not conducted a financial audit during the period under review, the team assessed the standards and policies in place which will assist the SAI when and if they conduct financial audits in the future.

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

Indicator score: 1		
Dimension	Findings	Score
(i) Financial audit Standards and Policies	<p>Criteria b, c, d, e, i, m, n, o, q, r, t, v, are met. Criteria a, f, g, h, j, k, l, p, s, u, are not met.</p> <p>Financial audit standards and policies are described in various sections of the OCPA audit manual. Auditors are required to reduce audit risk to an acceptably low level and consider materiality appropriately when planning and performing the audit. However, guidance is lacking in relation to some critical aspects of audit planning such as the need to develop an overall audit strategy and assessing risks of material misstatement.</p>	2
(ii) Financial Audit Team Management and Skills	<p>All criteria are not met.</p> <p>OCPA’s manual describes requirements for auditors’ knowledge, skills, experience, and continuous professional development to ensure the audit team collectively has the necessary competencies to conduct the financial audit.</p> <p>There is no guidance or support on developing an overall audit strategy and assessing the risks of material misstatements at the financial and assertion levels.</p>	0

	All criteria are considered not met because the OCPA did not conduct a financial audit during the period under review and as a result there is no evidence to demonstrate that the requirements of the manual have been applied in practice.	
(iii) Quality Control in Financial Audit	<p>Criteria d and e are met. Criteria a, b and c are not met.</p> <p>OCPA's manual requires all work carried out should be subject to review. The Public Auditor is responsible for quality control review throughout the audit process.</p> <p>There are procedures in place for authorizing reports to be issued. However, there are no guidance on how contentious issues are handled and a process on how differences in opinions within the SAI are resolved.</p>	2

i. Financial Audit Standards and Policies

OCPA is required to adopt GAGAS and these standards also refer to compliance with guidance on financial audits issued by the American Institute of Certified Public Accountants (AICPA). OCPA's audit manual 2014 provides guidance on general standards applicable to all types of audit and services it performs, including financial audit, performance audit, attestation engagement, special reviews, and follow-up audits. The following sections of the audit manual collectively provide guidance on standards and policies for financial audit.

- Section II – Guide to General Standards, which are applicable to all types of audits conducted by the OCPA.
- Section V – Guide to Evidence and Working Papers
- Section IX – Guide to Financial Audits
- Section X – Guide to Attestation Engagements

Section II: Guide to General Standards of the audit manual requires the auditors to reduce audit risk to an acceptably low level to obtain reasonable assurance as the basis for a positive audit opinion and apply the concept of materiality when planning and performing the audit.

Section IX: Guide to Financial Audits of the audit manual provides guidance on fieldwork and reporting standards; the types of audit documentation and what needs to be documented to support the audit findings, conclusions, recommendations, and the audit opinion. Auditors are required to prepare documentations that enables an experienced auditor, having no previous connection to the audit, to understand the nature, timing and extent of auditing procedures performed and conclusions reached.

Furthermore, section IX of the manual requires the auditors, including external auditors engaged by the SAI to conduct audits on its behalf, to perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw conclusions on which the audit opinion is based. Accordingly, the audit opinion is based on the evaluation of conclusions drawn from the audit evidence obtained.

Section X: Guide to Attestation Engagements requires the auditors to:

- a) Establish an understanding of the audited entity and its environment, including internal control procedures relevant to the audit.

- b) Determine the appropriate person(s) within the audited entity’s governance structure to communicate with regarding the planned scope and timing of the audit as well as significant audit findings.
- c) Identify and assess the risks due to fraud and obtain sufficient appropriate audit evidence regarding the assessed risks.
- d) Identify the risks due to direct and material non-compliance with laws and regulations and obtain sufficient appropriate audit evidence regarding compliance with those laws and regulations.

The manual does not provide clear and specific requirements for the auditor to perform the following aspects of a financial audit:

- (a) Assess whether the preconditions for an audit of financial statements are in place, for instance, existence of an acceptable financial reporting framework.
- (b) Obtain agreement with management or those charged with governance on the terms of the audit engagement.
- (c) Develop an overall audit strategy that includes the scope, timing and direction of the audit, and an audit plan which directs the audit.
- (d) Plan the audit properly to ensure it is conducted in an effective and efficient manner.
- (e) Assess the risks of material misstatement at the financial statement level and at the assertion for classes of transactions, account balances, and disclosures to provide a basis for performing further audit procedures.
- (f) Develop appropriate audit procedures to address the assessed risks of material misstatement in the financial statements.
- (g) Perform substantive procedures for each material class of transactions, account balance and disclosure.
- (h) The need to accumulate misstatements identified during the audit, and determine whether uncorrected misstatements are material, and communicate with management and those charged with governance as appropriate on a timely basis all misstatements.

The OCPA’s policies and procedures described the requirements for the auditors to ensure timely preparation of audit documents, the form, content, and extent of audit documentation and how these documents should be organized in the final audit file. Section V: *Guide to Evidence and Working Papers* describe the different types of evidence, audit procedures to obtain evidence, the different audit sampling techniques, audit evidence when using the work of internal auditors and external experts. However, there is a lack of guidance on how auditors determine materiality for the financial statements, materiality levels to be applied to classes of transactions, account balances or disclosures. Although guidance is provided for planning, but the procedures are more specific to performance audit process instead of financial audit.

ii. Financial Audit Team Management and Skills

The OCPA’s audit manual prescribes the requirements of the audit team members in terms of knowledge, skills, and continuous professional experience to ensure collectively the engagement team has the appropriate competence and capabilities to perform the audit. The assessment of this dimension requires a review of the OCPA’s audit manual and guidelines as well as the actual practice which is documented in the audit file. However, because the OCPA has not conducted a financial audit during the period under review, this dimension is assessed based on the review of the audit manual alone. As such, all criteria for this dimension are considered “not met” because of the absence of evidence from an audit file to demonstrate the application of the requirements prescribe in the audit manual to an actual audit being carried out. The following paragraphs describe the provisions in the audit manual regarding the financial audit team management and skills.

The 2014 audit manual Section II requires that the Public Auditor and Audit Manager determine the qualifications of staff deemed appropriate for conducting the audit and will assign the team members. Each team member is required to complete a form called "Auditor's Qualification for Assignment", which shows information on total years of business and audit experience, past assignment, relevant education background and professional certifications. CPE hours earned by the auditor will also be included. This practice ensures that the engagement team collectively possess the appropriate competence and capabilities including:

- An understanding and practical experience of audit engagements with similar nature and complexity.
- An understanding of the applicable auditing standards and regulatory requirements.
- Relevant technical expertise including expertise in any specialised areas of accounting or auditing.
- Knowledge of relevant sectors in which the audited organization operates.
- Understanding of the SAI's quality control policies and procedures
- Understanding of the applicable reporting arrangements.

OCPA maintains records of its staff's continuing professional education (CPE). All auditors should complete, every two years, at least 80 hours of CPE that directly relates to government auditing, the government environment, or the specific environment in which the audited entity operates. Through the CPE program, OCPA identifies the knowledge, skills and expertise required for conducting financial audit. With a small SAI, OCPA's organizational structure provides clear reporting lines and allocation of responsibilities within the team are determined when the audit is planned.

The SAI's audit manual provides guidance on how to evaluate the overall internal control environment. However, there is no guidance or support on how to develop an overall audit strategy, including the nature, timing, and extent of planned risk assessment procedures, how to gain an understanding of internal controls relevant to financial reporting, and how to assess the risks of material misstatements at both the financial and assertion levels. Because the SAI has not conducted a financial audit, there is no opportunity to provide on-the-job training on financial audits.

iii. Quality Control in Financial Audit

Section V: Guide to Evidence and Working Papers and *Section II: General Standards on Internal Quality Control* of the audit manual require that all audit work carried out should be reviewed to ensure that all tasks in the audit plan have been completed and provided sufficient evidence for the audit report. These procedures recognized the importance of quality control review at the engagement level. The Public Auditor is responsible for this review throughout the audit process and ensuring that all matters raised during the audit are satisfactorily resolved before the report is issued. *Section VI: Guide to Report Development, Production and Distribution* describes the procedures for authorizing reports to be issued by the OCPA. Because there was no financial audit carried out, there is no evidence to validate the application of quality control procedures as required by the audit manual.

OCPA's manual, however, does not include guidance on how difficult or contentious issues are dealt with. In addition, there is no process for resolving any differences in opinion within the SAI. The Public Auditor or the Auditor-in charge is responsible for ensuring all issues are resolved before the report is issued.

SAI-10: Financial Audit Process

This indicator looks at how financial audits are carried out in practice by the SAI. The OCPA has not conducted a financial audit during the period under review and in previous years. However, because it is required by its mandate to conduct financial audits, all dimensions for this indicator are assessed as zero.

The dimensions covered in this indicator are:

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

Indicator score: 0		
Dimension	Findings	Score
(i) Planning Financial Audits	All criteria are not met.	0
(ii) Implementing Financial Audits	All criteria are not met.	0
(iii) Evaluating Audit Evidence, Concluding and Reporting in Financial Audits	All criteria are not met	0

The SAI has the mandate to conduct financial audits. However, the audit of government accounts is not conducted by the OCPA but is outsourced to an external accounting firm. OCPA is not responsible for the outsourcing process nor managing the work of the external auditors.

During the period under review, the OCPA has not conducted any financial audit because of its limited staff capacity. Because there were no financial audits conducted during the period under review, the dimensions in this indicator are scored zero.

SAI-11: Financial Audit Results

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 included in this indicator 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

Indicator score: N/A		
Dimension	Findings	Score

(i) Timely Submission of Financial Audit Results	Audit reports are submitted directly to the Legislature by external auditors. Therefore, this dimension is scored not applicable.	N/A
(ii) Timely Publication of Financial Audit Results	OCPA is not responsible for the timely publication of financial audit results. Therefore, this dimension is scored not applicable.	N/A
(iii) SAI Follow-up on Implementation of Financial Audit Observations and Recommendations	OCPA is not responsible for follow-up on financial audit recommendations. This is part of the contractual responsibilities of the external auditors engaged to conduct the financial audit of government annual accounts.	N/A

The financial audit of Chuuk State Government annual accounts is conducted by external auditors, Deloitte Touche Tohmatsu Limited (DTTL). The audit report is submitted directly to Chuuk Legislature and a copy to the Public Auditor. Therefore, the OCPA has no direct control or influence over the timely submission and publication of financial audit results nor is responsible for follow up on implementation of financial audit recommendations. Follow up is carried out by the external auditors.

Although the audit is conducted by external auditors, the OCPA reports on this audit in its annual report, as part of its mandate and demonstrates that OCPA is discharging its responsibility as required by mandate (ie. audit and submit audit report to legislature).

The table below shows details for submission and publication of the government annual accounts for the last three years, for which the external auditors were responsible.

Fiscal Year (October-September)	Audit completed	Audit report submitted to Legislature	Audit report made publicly available
2016	30 June 2017	July 2017	July 2017
2017	21 June 2018	July 2018	July 2018
2018	24 June 2019	July 2019	July 2019

SAI-12: Performance Audit Standards and Quality Management

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

Indicator score: 3		
Dimension	Findings	Score

(i) Performance Audit Standards and Policies	Criteria a, b, c, d, e, f, g, h, i, j, k, l, m, n, o, p, q, r, s, t, u, are met. OCPA's audit manuals coupled with GAGAS which they adopt provide comprehensive guidance on standards and policies applicable to performance audit.	4
(ii) Performance Audit Team Management and Skills	Criteria a, b, c, d, e, f, g, h, i, j, k, l, m, n, are met. The SAI has established policies, process, and procedures to ensure that the audit team collectively has the necessary professional competence to perform the audit. The audit manual provides guidance to support the auditors in performing the audit, including how to develop audit objectives, design audit procedures, establish suitable criteria and gather and document audit evidence.	4
(iii) Quality Control in Performance Audit	Criteria a, b, e, f, are met. Criteria c, d, are not met. OCPA's audit manual provides guidance on process and procedures for quality control in performance audit. However, there is limited guidance on a process to handle any contentious matters and resolve differences of opinions within the SAI.	2

i. Performance Audit Standards and Policies

The Chuuk Office of the Public Auditor complies with the generally accepted government auditing standards (GAGAS) contained in the *Government Auditing Standards (GAS)* issued by the Comptroller General of the United States of America in the conduct of its audit work. COPA has developed and adopted an Audit Manual that prescribes guidance, requirement, policies, and procedures to ensure compliance with GAGAS. Specifically, the requirements and guidance set forth in GAS chapters 1 through 3, 6, and 7 are applicable to performance audits.

These generally accepted government auditing standards and COPA Audit Manual generally addresses all the criteria in this dimension, as follows:

- GAGAS 6.10-6.14 requires auditor to identify intended user of report, responsible party, and subject matter of the audit as well as criteria. It also requires the auditor to set a clearly define audit objective that relates to efficiency, effectiveness and/or economy. Section IV of the OCPA Audit Manual ensures adherence by providing guidance on performance audit planning to execution. Audit planning working papers 100– 230 demonstrate adherence by identifying the audit team members and individual member’s responsibilities, auditee management, intended users of the report, subject matter of the audit and the criteria. The forms are complete with audit objectives, potential impact, and audit justification. The Audit Plan reflects the audit approach the auditor takes to carry out the audit.
- GAGAS 6.05 defines audit risk whereas 6.07 and 6.11 require auditors “to plan the audit to reduce audit risk to an appropriate level for the auditors to obtain reasonable assurance that the evidence is sufficient and appropriate to support the auditors’ findings and conclusions”. The requirement is to ensure correct and complete conclusion, providing balanced information that add value to the users of the report.
- GAGAS 6.12e and 6.47 state that auditor should maintain active communication with management, those charged with governance and others as applicable. Auditor is to define content, process, and recipients of the communication. The OCPA Audit Manual Section IV describes the need for effective communication with management and other stakeholders

throughout the audit process. The section also defines and explains the content and process of communication for each audit engagement.

- GAGAS 6.45 and Section III of the OCPA Audit Manual require the audit team to have professional competence to perform the audit tasks assigned. The composition of the team in working paper 210A ensures that the team collectively has that competence.
- GAGAS 3.60 – 3.61 as well as OCPA Audit Manual require that in all audit work, auditor must use professional judgment and scepticism to plan and perform the audit.
- GAGAS 3.82 – 3.92 requires audit work to be properly planned and procedures applied to ensure quality and that work complies with auditing standards. OCPA has incorporated this requirement in its Audit Manual and adheres to it as evidenced by working papers (100 – 230) including Quality Assurance Review Checklist in wp100B. OCPA uses Quality Control and Assurance checklist to ensure that auditing standards are complied with and its policies are met.
- GAGAS 6.04 and OCPA Audit Manual require auditors to apply the “concept of significance” throughout a performance audit. GAGAS define significance “as the relative importance of a matter within the context in which is being considered, including quantitative and qualitative factors”.
- GAGAS 6.79 requires the auditor to properly document the audit work to enable an experience auditor that has no previous connection to the audit, to determine the work performed and arrive at the audit findings, conclusions, and recommendations.
- GAGAS 6.06 - 6.12, 3.89 and 3.93 require the auditor to plan the audit properly to ensure high-quality work that is carried out effectively and efficiently.
- GAGAS 6.56 -6.59 and 6.69 – 6.72 require auditors to obtain sufficient, appropriate evidence to provide reasonable basis for their findings and conclusions. The sections further lay down what auditor should do when assessing evidence to ensure they adequately address the audit objectives and support the findings and conclusions.
- GAGAS 7.03 – 7.05 require auditors to “issue audit reports communicating the results of each completed performance audit” and making the “results available to the public” in timely manner. The sections are further supported by OCPA Audit Manual that describe in detail and provide guidance on how to prepare audit reports that are complete, accurate, convincing, clear, and easy to understand as well as balanced.
- GAGAS 7.28 - 7.29 requires the auditor to provide reasonable and constructive recommendations that is implementable and will address the problem. The OCPA Audit Manual provides guidance on making constructive and feasible recommendations.
- GAGAS 6.36 requires auditor to follow up on previous audit findings and recommendations.
- OCPA Audit Manual Section III page 42 to 50 provides guidance on audit planning and on the selection of audit topics. The section also contains policies and procedures to guide the auditors in analysing and researching audit topics in terms of significance, auditability, and the potential impact of the planned audit. The policies allow flexibility in the planning as to make amendment as appropriate during the audit.
- In OCPA Audit Manual Section IV, page 56 and 57 the analytical process is explained to enable auditors to obtain sufficient and appropriate audit evidence to establish findings and reach conclusions within the context of the audit objectives and questions.
- OCPA Audit Manual Section VI pages 79 to 83 describe and explain the format and content of the audit report. The section contains information regarding the audit objective, criteria, methodology, audit findings, conclusions, and recommendations.
- OCPA Audit Manual Section V, pages 58 to 78 describe the policies and procedures regarding audit documentation. The section contains information designed to guide the auditor in

analysing and obtaining detail, sufficient and complete audit evidence to ensure compliance with GAGAS 6.56 – 6.85. GAGAS also requires that the audit evidence should be sufficient and complete to enable an experienced auditor having no previous connection with the audit to arrive at the audit finds, conclusions and recommendations.

ii. Performance Audit Team Management and Skills

GAGAS require that the auditors assigned to perform the audit must collectively possess adequate professional competence for the tasks required.

OCPA Audit Manual Section IV provides general policies and guidance to ensure that work is performed by capable and knowledgeable personnel to ensure compliance with GAGAS. The OCPA Manual discusses the required competency that the auditor must have and the need for auditor to exercise professional judgment when planning and performing audits.

OCPA is a small office with three auditors (including the Public Auditor). The Public Auditor himself assigns personnel to conduct the audits who will have the collective knowledge, skills, and experience appropriate for the job, assigning himself to a team. The Public Auditor ensures enough staff are allocated to an audit, staff are adequately supervised, provides on-the-job training, and guides the audit staff throughout the course of the audit. OCPA policies require that staff assigned to the job should possess knowledge of GAGAS applicable to the type of work they are assigned, education, skills, and experience to apply this knowledge to the work being performed. OCPA Audit Manual pertaining to staff competency provides:

- Personnel policies and regulations to recruit, train, and retain qualified staff.
- Assignment methods that match projects to qualified staff members and offer opportunities for training and professional growth.
- Procedures for securing outside expertise or assistance when needed to ensure that work is done by qualified persons.

OCPA also requires its professional staff to possess or acquire:

- Knowledge of the standards, methods and techniques of auditing, and the education, skills, and experience to apply such knowledge.
- Familiarity with government organizations, programs, activities, and functions.
- Skills to communicate clearly and effectively, both orally and in writing.
- Knowledge and skills for specialized tasks, such as statistical sampling or use of questionnaires.
- Ability to work in a team environment.
- Proficiency in accounting principles and standards and in government accounting (required for financial audits leading to an opinion).

GAGAS requires auditors to obtain 80 hours of continuing professional education (CPE) every two years to help auditors attain and maintain their competencies. The Public Auditor ensures and makes available training opportunities or programs that offer continuing professional education for his staff to comply with GAGAS requirements. The trainings or the CPE programs offer various courses in auditing standards, techniques, and methods, writing and communication skills, analytical skills, to name a few, aim to develop and enhance staff personal strength on certain areas. Additionally, the OCPA internal system ensures that required knowledge and skills are identified and that the trainings and continuing education programs (such as those offered by FSM Public Auditors, APIPA, etc.) including in house training provide the auditors opportunities to learn, e.g., how to design audit procedures, data gathering methods, evaluate audit evidence, write audit reports, etc. The Public Auditor recognizes that education, experience, and trainings enhance auditor's ability to exercise professional judgment and makes it a practice to recruit college graduates and makes available trainings to his staff.

He also encourages his staff to enrol and obtain professional certification in accounting, investigation, and or auditing.

OCPA's main audit activity is performance audit. The working paper files reviewed showed the audit team's knowledge and understanding of applicable auditing standards. In the working papers, *Assignment Notice*, reflects the audit objectives relating to the principles of economy, efficiency, and/or effectiveness. Working papers show allocation of work and lines of reporting.

GAGAS provides various types of performance audit objectives that include assessments of program effectiveness, economy, and efficiency; internal control; compliance; and prospective analysis. GAGAS Supplemental information (Appendix) also provides examples of different audit objectives. The OCPA Audit Manual Section IV discusses and guides the auditors on how to develop audit objectives for performance audits in line with GAGAS. The Manual also discusses how to establish suitable audit criteria which performance is compared or evaluated against.

iii. Quality Control in Performance Audit

The OCPA Audit Manual section II details the process and procedures for internal review of work. The internal review procedures ensure work is on track, applicable standards are followed, and that working papers adequately support the results of work. The internal review procedures encompass project objectives, scope and methodology whether they are appropriately designed and clearly explained; whether sufficient information is given to establish the context for understanding the finding, conclusions, and recommendations; whether findings, conclusions, and recommendations are consistent with the project scope, objectives, and methodology and are clearly explained, and supported by sufficient evidence and analysis; whether supervision is adequate and documented in the working papers.

OCPA's system of quality control covers all its audits emphasizing performance of high-quality work and providing reasonable assurance of complying with professional standards and applicable legal and regulatory requirements. The Audit Manual explains the quality control and the quality assurance regarding OCPA work, the auditors, and the audit documentations. The Audit Manual states that audit supervisors and/or AIC are responsible for the ongoing supervision and review of work progress, working papers, and working papers produced by audit staff to ensure adherence to the audit plan. They also review the audit programs, the findings and recommendations, and the draft report to ensure audit objectives have been met and working papers support information presented in the working papers. It is the policy of OCPA that supervisor and/or AIC document their reviews with written comment on submitted products and by initialling working papers. Working papers reviewed by the assessment team clearly show evidence of supervisory review.

The OCPA Audit Manual has a provision that allows the Public Auditor when there is a need, to seek technical assistance from experts. It also contains established policies and procedures on how this is done. The assessment team sighted evidence that the former Public Auditor has requested assistance from the FSM National Public Auditor including the development of the OCPA Audit Manual. Though there is less guidance regarding how the differences of opinions within the SAI are addressed or resolved, the Manual does point out that the audit supervisors have the responsibility and authority to direct the work and resolve questions and conflicts that may arise.

The OCPA Manual details the policies and procedures for the quality control review (by the audit supervisor) of the audit work and the draft report to ensure all issues have been resolved before reports are issued. OCPA uses Quality Assurance Review Checklist form to document the quality control

review to ensure all the required standards were met and OCPA policies and procedures were adhered to.

The Manual also describes procedures for authorizing reports and the different levels of review of the draft audit report. The Manual states that the audit supervisor and/or AIC review the draft report to check that evidence is accurate and sufficient and that the findings, conclusions, and recommendations are well argued and supported. The audit supervisor and/or AIC then submit the draft report to the Audit Manager and the Chuuk Public Auditor for review. Changes by either official are incorporated to the draft report by audit supervisor or AIC and the revised draft is submitted back to the officials for review again. Afterwards, the verification of the indexed draft is performed by an auditor who was not connected to the audit. This verification is an important component of OCPA quality control assurance program. It is an examination of an indexed draft report to ensure that its contents are accurate and supported. The verification is documented, and all discrepancies are discussed with the audit supervisor. The Public Auditor reviews the verification documentation, indicates any further action needed, and when questions have been resolved, approved the draft. The Assessment Team noted that during the assessed period, OCPA only consists of the Public Auditor and a staff auditor. So, the quality control review of the audit and the working papers, including the verification of the audit report were done by the Public Auditor.

SAI-13: Performance Audit Process

This indicator assesses how OCPA carries out performance audits in practice. It examines the planning phase, the implementation phase, and the reporting phase. The dimensions to be assessed are:

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

Indicator score: 3		
Dimension	Findings	Score
(i) Planning Performance Audits	Criteria a, b, d, e, f, g, h, i, j, k, l, m, are met. Criterion c is not met. Based on the review of audit file, the auditors have performed most of the planning procedures required to ensure the audit is conducted in an effective manner. There is lack of documentation of how materiality is considered throughout the audit process.	3
(ii) Implementing Performance Audits	Criteria a, b, c d, f, g, h, j, k, are met. Criteria e and i, are not met. The auditors obtained sufficient appropriate audit evidence and have evaluated the evidence to reach conclusions in response to the audit objectives. The audit focused only on the effectiveness of the program and did not consider the efficiency and economical aspects of implementing the program being audited. There was little evidence that materiality was considered at all stages of the audit process.	3

(iii) Reporting on Performance Audits	Criteria a, b, c, d, e, g, h, i, j, k, l, are met. Criterion f is not met. The audit report is comprehensive, convincing and reader friendly. Audit criteria and their sources were described and accordingly conclusions were reached and recommendations to address weaknesses identified were described in the report.	3
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i. Planning Performance Audits

GAGAS and OCPA Audit Manual require the auditor to obtain adequate knowledge of the subject matter to properly plan the audit. The auditor must plan the audit to provide reasonable assurance that appropriate and sufficient audit evidence are obtained to support audit findings and conclusions based on audit objectives. OCPA Manual further provides guidance and procedures on obtaining knowledge and doing study and research on the subject matter to properly plan the audit work and the methodologies to apply.

Working paper 210A (Preliminary Survey) reflects in depth study and research on the subject matter (Faichuuk Educational Development and Research Project (FEDRP)) during the pre-study phase prior to the launch of the audit. Knowledge obtained is detailed in the working paper along with identification of stakeholders, officials and key staff interviewed, topics and questions for further analysis and answers, source information, methodologies, and procedures on obtaining evidence and identification of risks and problems. Survey working papers show comprehensive study and review to obtain knowledge of the subject matter including reviewing applicable laws, regulations, policies and procedures, agreements, grants, its purpose, objectives and performance goals, and activities. Through research and study, the auditor identified potential problems and risk of abuse not found by Chuuk Department of Education prior to signing the MOU. In working paper 225, the auditors considered risks and problems and documented the result in working papers 215A/215B.

There is no documentation of how the auditors determine materiality or how it was considered throughout the stages of the audit process. According to the Public Auditor (PA), the audit team has used the concept of significance instead of materiality and the determination of ‘what is significant’, is a matter of professional judgement considering quantitative and qualitative factors that have significant effect on the subject matter. The team has considered economic, social, and environmental impact, safety issues, effect on audited programs or activities, inputs, outputs, and outcomes that are critical to the achievement of entity objective/s and mandate; public, media and legislative interest. In addition, actual or likely fraud, non-compliance on laws and regulations, misuse and abuse of funds are always considered significant irrespective of the amount involved. These considerations by the team and the factors considered were not documented. Significance is mentioned in working paper 100B but lacks clear guidance on the factors to consider and how they are dealt with throughout the audit process.

This assessment focused on the second objective of the audit which was to determine whether the agreed outputs and outcomes for the project were effectively accomplished. The audit objective only focused on the effectiveness of the program in achieving what was agreed in the MOU. The working papers showed evidence that OCPA adequately obtained knowledge on the subject matter, identified specific areas to focus and determined methodologies of the audit. The working papers also reflected the audit objectives relating to the principles of effectiveness, which were further broken down into sub-objectives and/or questions.

The auditors chose a result-oriented audit approach. The audit approach was to perform extensive analysis procedures and verification of the agreed outputs and outcome of the project as detailed in the MOU. Study and analysis of the subject matter documented in working paper 210 enabled the auditors

to establish suitable criteria for the audit objective. Basically, the terms of the MOU defined the outputs and outcomes that the project was to accomplish. The performance of a project or program that uses grant funds should be evaluated to assure accountability to the people in terms of contribution to their lives and aspirations. It is through looking at the outcomes in the form of impacts and benefits that this is achieved. As documented in working paper 210a-d, the auditors used the agreed outputs and outcomes in the MOU as criteria for this audit objective. The criteria were set and determined by the auditors and these were discussed with the auditee during the entrance conference, as reflected in working paper 140c.

From the pre-survey and throughout the audit planning, working papers (210, 213, 215, 225 and 230) showed evidence of auditors planning the audit and designing the audit procedures for gathering sufficient appropriate audit evidence. The auditors also assessed risks, including risks of fraud and designed audit procedures to lower those risks, and performed extended verification. The auditors did not find indication of fraud, but they reported inadequate delivery of outputs and non-accomplishment of outcomes. Auditors also reported that some activities of the project need to define outcomes and measures to enable verification in terms of impacts and benefits. The audit was planned, performed and the report issued within the timeframe indicated in the planning documents and as communicated during the entrance conference. The timeframe and milestones of the audit were documented in the Audit Plan and tracked through a checklist, to ensure timely completion of the audit work.

OCPA Audit Manual section X1 outlines the procedures and the process for obtaining a specialist when needed. The Public Auditor decided an audit expert or specialist was not needed for this audit but has sought clarifications from the Grant Manager and the Legal Counsel for Legislature to verify certain matters.

The working papers contained forms signed by the auditors attesting to their understanding and conformance with the SAI's code of conduct and professional behaviour including integrity and independence.

ii. Implementing Performance Audits

From the review of the Faichuuk Educational Development and Research Project (FEDRP) audit files, the following audit practices were noted.

- The working papers documented auditors' interviews, detail audit procedures, analysis/review and verification of the outputs and outcomes that the audited entity agreed to accomplish. Results of review, conclusions and recommendations are documented as well as the assessment of audit evidence to support audit findings. The auditors obtained data from different sources such as the FSM Government (FSM National Minimum Competency Standards Based Test) and College of Micronesia Entrance Test (COMET) in the review and comparison of outputs produced by the audited entity through the FEDRP. The working papers also showed auditors' communications with the grantor agency. Based on the review, the auditor has exercised professional judgment when verifying and assessing evidence and concluded on the audit questions developed in the audit plan.
- The working papers documented audit evidence from all relevant arguments and different perspectives relating to the audit objective before conclusions were drawn.
- The working papers show extensive analytical reviews and procedures performed throughout the audit. These reflected auditors following established (GAGAS) standards and maintaining professional behaviour when auditee became aggressive, defensive, and rude. Documentations showed how auditors responded professionally but courteously disagreed and stated their reasons and justifications, when they do not agree with the audited entity's position or views.

- The working papers documented assessment of risks by the auditors (during planning and throughout the audit) and in response to extended audit procedures and verification. There was extensive evidence of communications with the grantor as well as the Department of Education management to ensure conclusion and information obtained are balance and add value for report users.
- Communication with the auditee is evidenced in the working papers through e-mails, letters, and documented minutes and phone calls. OCPA communicated with the Board of Education, Chuuk Senator who requested the audit, Director of Education, Grant Manager, RIC officials, Legal Counsel for Legislature, Attorney General, and the Department of Finance throughout the audit process. In addition, the working papers document the detail account of the audit and work performed that enabled an experience auditor that has no previous connection with the audit to determine what work was done to arrive at the finding, conclusion, and recommendation of the auditor.

Despite the lack of guidance on significant events at the planning phase, the audit findings documented in the audit file and reported in the final audit report were significant financially, and by nature of the events and transactions. The subject matter involved \$1.3M government funds for educational program assistance to help Faichuuk school students and communities, and more than 80% of the total value of the project were subject to scrutiny in this performance audit. The audited entity did not implement the program properly and as a result, the students did not receive the benefits and impact that could have been obtained from the program.

iii. Reporting on Performance Audits

The audit report was comprehensive and included information needed to address the audit objectives, and sufficient details to enable understanding of the subject matter, findings, and conclusion. The audit report also was convincing (as far as the audit objectives provided in the report) and presented a clear relationship between the audit objective, criteria, findings, conclusions, and recommendations.

The audit report was clear, concise, and easy to read. Audit evidence were presented in an unambiguous manner. The report included information about the audit criteria and their sources were provided in the appendices. The audit findings were described against the criteria and overall conclusions were formulated that directly answer the audit objectives. Constructive recommendations that are likely to contribute to addressing the weaknesses identified by the audit were also included.

The audited entity was given an opportunity to comment on the audit findings, conclusions, and recommendations before OCPA issued the audit report. The auditee's comments were included in the report. The auditors also analysed and addressed disagreements with the audited entity and these disagreements were documented in the audit files. The audit report also described that the audit standards applied when conducting the audit, which is the GAGAS.

There was no documentation showing how materiality or significant matters were considered throughout the audit.

SAI-14: Performance Audit Results

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

Indicator score: 2		
Dimension	Findings	Score
(i) Timely Submission of Performance Audit Reports	The audit report for the sole audit conducted during the period under review was submitted to the Legislature, auditee and relevant departments and agencies within 15 days after completion of the audit.	4
(ii) Timely Publication of Performance Audit Reports	OCPA has the right to publish its audit reports after submission to the Legislature. Hence, the FEDRP audit report was published within 15 days after submission to the Legislature.	4
(iii) SAI Follow-up on Implementation of Performance Audit Observations and Recommendations	Criteria a, b, c, d, e, f and g are not met. OCPA's audit manual requires the auditors to follow-up previous audit findings and recommendations. There were no follow-up audits conducted during the period under review. It is normal practice that OCPA conducts follow-up audits but was not able to do so due to the lack of audit staff.	0

i. Timely Submission of Performance Audit Reports

During the period under review, OCPA conducted only one audit, the audit of Faichuuk Educational Development and Research Project (FEDRP). The audit report was submitted to the Legislature, auditee and relevant departments and agencies within 15 days after completion of the audit.

ii. Timely Publication of Performance Audit Reports

OCPA has the right to publish its audit reports once they are submitted to the Legislature. The FEDRP audit report was published (in PASAI website/Facebook social media account and in OCPA Facebook social media account) within 15 days after it was permitted to do so.

iii. SAI Follow-up on Implementation of Performance Audit Observations

OCPA's audit manual requires the auditors to follow up on significant audit findings from previous audits related to the objectives of the current audit. OCPA conducts follow up of implementation of performance audit observations in two ways: first when planning the audit and secondly as a separate follow-up review if the auditee had not taken any corrective actions to address previous audit findings.

When planning the audit of FEDRP, the auditors asked management of the audited entity to identify attestation engagements, performance audits and/or other studies that directly relate to the objective(s) of the current project, including whether related recommendations have been implemented. For repeated audits, follow-up is conducted as part of the planning process rather than a separate audit to follow-up on implementation of performance audit observations and recommendations in previous audits.

According to the Public Auditor, for regular follow-up of previous audits, the auditors review whether the auditee has implemented the auditors' recommendations. The follow up starts with a letter sent to

the auditee to indicate the status of previous audit findings and corrective action, if any, the auditee has taken to resolve the finding. Based on the auditee response, a follow up review is scheduled and conducted. However, follow up process and procedures are not documented in the audit manual to ensure that follow up are consistently applied and that the auditors understand the objective, scope, and work to be performed when conducting a follow-up audit.

Follow-up reports normally include the conclusions and impacts of all relevant corrective action. These reports are submitted as an individual report. However, there was no follow-up audit conducted during the period under review.

OCPA has not established a practice for evaluating materiality and the importance of the identified problem to determine if a follow-up requires a new and additional audit. Public Auditor stated that it is based on auditor’s professional judgment. As a practice, OCPA follows up on all reported problems.

SAI-15: Compliance Audit Standards and Quality Management

This indicator assesses the fundamental principles of compliance auditing by reviewing OCPA’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

Indicator score: 4		
Dimension	Findings	Score
(i) Compliance Audit Standards and Policies	Criteria a, b, c, d, e, f, g, h, i, j, k, l, m, n, o, q, r, are met. Criterion p is not met. OCPA’s audit manual is very comprehensive and provides detail guidance on most of the areas of a compliance audit.	4
(ii) Compliance Audit Team Management and Skills	Criteria a, b, c, d, e, f, g, h, i, l, m, n, o, p, q, are met. Criteria j and k are not met. OCPA’s audit manual provides sufficient guidance to ensure the audit team collectively has the skills, knowledge, and experience to perform the audit. Few areas whether there are no clear and specific guidance are the level of assurance and the three different dimensions of audit risk.	3
(iii) Quality Control in Compliance Audit	Criteria a, b, e, f, are met. Criteria c and d are not met. There is a dedicated section of the audit manual which provides guidance on the process and procedures for quality control of all audits including compliance audit. There is evidence in the working papers of quality control reviews ensuring that the audit procedures have been implemented as prescribed in the manual. However, the manual lacks guidance on what needs to be done when contentious	4

	matters arise and how to resolve any differences in opinions within the SAI.	
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i. Compliance Audit Standards and Policies

OCPA’s audit manual adopts audit practices prescribed by the GAGAS which covers both performance and compliance audit policies and procedures. Performance audit is defined by OCPA Audit Manual as including objectives of effectiveness, economy and efficiency, internal controls, and compliance. From this definition, compliance audit is considered by OCPA as part of a performance audit. Therefore, this assessment is based on the review of OCPA’s audit manual.

OCPA’s audit manual requires the auditors to consider and conduct the following:

- (a) Identify the subject matter, define the objectives, identify applicable authorities by obtaining an understanding of the subject matter and identify possible users and potential users of the audit report. The auditor is also required to assess risks and determine materiality throughout the audit process. (Section IV: Guide to Performance Audits and Other Studies, (J) (2): Planning)
- (b) Prepare sufficient audit documentation. The manual describes requirements for audit evidence (types and form); how they should be documented and arranged in the working paper files and the significance of linking them to the audit objectives and audit plan. (Section IV: Guide to Performance Audits and Other Studies, (U): Documentation and Section V: Guide to Evidence and Working Papers)
- (c) Establish effective communication throughout the audit process. The manual explains the requirements for communication, the means, how frequent, who in the auditee to communicate with and responsibilities for communication depending on the issue that the SAI needs to communicate to the audited entity. (Section IV: Guide to Performance Audits and Other Studies, (G): Written Communication)
- (d) Identify the subject matter and suitable criteria, determine the audit scope, and gain an understanding of the audited entity. The auditors are also required to gain an understanding of the internal controls as they relate to the specific objectives and scope of the audit. In the broadest sense, internal controls include the plan, policies, methods, and procedures adopted by management (of the audited entity) to meet its mission, goals, and objectives. (Section IV, (J): Planning)
- (e) “Auditors must adequately plan and document the planning of the work necessary to address the audit objectives. The auditors should assess significance and audit risk and apply these assessments in defining the audit objectives and the scope and methodology to address those objectives”. “Auditors must plan the audit to reduce audit risk to an appropriate level for the auditors to provide reasonable assurance that the evidence is sufficient and appropriate to support the findings and conclusions”. (Section IV, (J): Planning)
- (f) Perform a risk assessment to determine the nature, timing and extent of audit procedures and consider the risk of fraud. The auditor is required to assess risks of fraud occurring that is significant within the context of the audit. (Section IV, (J): Planning)
- (g) Gather sufficient and appropriate audit evidence based on the scope of the audit. (Section IV, (J): Planning)
- (h) Evaluate whether sufficient and appropriate audit evidence is obtained and form relevant conclusions. The manual requires that auditors should evaluate whether the evidence taken is sufficient and appropriate for addressing the audit objectives and supporting findings and

conclusions. (Section V: Guide to Evidence and Working Papers, Standard of Evidence; Overall Assessment of Evidence)

- (i) Prepare a written report based on the principles of completeness, objectivity, timeliness, and a contradictory process. There is sufficient guidance on procedures, the quality review process, content, and format of the report to ensure the report is prepared in line with these principles. (Section VI: Guide to Report Development, Production and Distribution).

Although the auditors are required to determine materiality throughout the audit process, there are no established procedures on how to implement this requirement. For instance, there is no guidance on determining materiality through professional judgement based on the auditor's interpretation of the users' needs in terms of value, the inherent characteristics of an item/transaction and the context in which the transaction/event occurs.

ii. Compliance Audit Team Management and Skills

This dimension examines whether the SAI has established a system to ensure that members of the audit team collectively have the necessary knowledge, skills and experience necessary to conduct compliance audit and what support, if any, the SAI has provided to the auditors to enable them to successfully conduct a compliance audit. The OCPA's audit manual 2014 and the audit file for the audit of *Faichuk Educational Development and Research Project* were reviewed as the basis for assessing this dimension.

The manual requires that the Public Auditor and Audit Manager shall determine the qualifications of staff deem appropriate for conducting the audit assignment and shall assign the team members. Each team member shall fill up a form "Auditor's Qualification for Assignment" which shows information on total years of business and audit experience, past assignment, educational background, and professional certifications. In addition, working papers should show the status of CPE hours earned for each auditor.

OCPA Audit Manual 2014 Section IV (H): Project Initiation and Staffing, requires that staff assigned to any audit should possess knowledge of GAGAS applicable to the audit; the education, skills, and experience to apply this knowledge to the work being performed; general knowledge of the environment in which the audited entity operates and the subject matter under review; skills to communicate clearly and effectively, both orally and in writing; skills in sampling, information technology, analytical techniques and any specialized knowledge in the subject matter. All this information about the staff is documented in a form called "Auditor Qualification for Assignment" and completed by the staff for every audit assignment. The auditor should also understand the audited entity's operations.

All members (2) of the audit team completed the "Auditor's Qualification for Assignment" as required and these were filed in the audit working paper files.

Furthermore, the manual requires the auditor to evaluate whether to use the work of other auditors and experts. Auditors are required to evaluate whether other auditors and external experts have the necessary competence, capabilities, and objectivity to perform the audit work planned. The audit team conducted a risk assessment of the subject matter and the audited entity and concluded that external experts were not required for the Faichuk audit. A copy of the risk assessment and results and conclusions on the assessment is well-documented and file in the audit files.

Having the ability and experience to exercise professional judgement is a general standard and requirement prescribed in the manual for all auditors. These abilities and experiences are documented in the "Auditor's Qualification for Assignment" form. Section VIII: *Guide to Reviewing Internal Controls* provides guidance on areas that the auditors need to consider understanding the control environment and the relevant internal controls and to assess the risks that the internal controls may not prevent or detect material instances of non-compliance. Section VII: *Guide to Testing for Compliance*

with Laws and Regulations requires the auditors to consider whether the entity has controls that are effective in detecting or preventing illegal acts. Both sections VII and VIII collectively provide sufficient guidance on determining the nature, timing, and extent of audit procedures to be performed based on the criteria, scope, and characteristics of the audited entity.

Section IV: *Guide to Performance Audits and Other Studies, J: Planning* provides detailed guidance on identifying applicable authorities, legislations, regulations as source of criteria and guidance on developing potential criteria as the basis for evaluating audit evidence, developing audit findings and conclusions. Guidance is provided on developing the audit strategy and audit plan, gathering sufficient appropriate audit evidence to support the audit conclusion. The auditors are required to identify sources of audit evidence and determine the amount and type of evidence needed given audit risk and significance, to address the audit objectives and adequately achieve the planned audit work. Section VI: *Guide to Report Development, Production and Distribution* provides sufficient guidance on procedures, the quality review process, content, and format of the report to ensure the report is complete, accurate, objective, convincing and as clear and concise as the subject matter permits.

However, the manual does not provide guidance on the level of assurance to be provided by the audit – whether it is reasonable or limited assurance. Although it requires the auditors to assess risks, but it does not provide sufficient guidance on the three different dimensions of audit risk: inherent risk, control risk and detection risk.

iii. Quality Control in Compliance Audit

OCPA's audit manual section II (P): Quality Control and Assurance and (Q): Internal Quality Control prescribed the process, procedures, and responsibilities for quality control across all work carried out by the OCPA. These procedures and processes ensure the audit complies with the applicable standards and include guidance on the following:

- Leadership responsibility for quality in the office
- Auditors to maintain independence and comply with applicable legal and ethical requirements.
- Supervisory review to ensure applicable standards have been met and working papers adequately support the results of work.

Based on the review of the selected audit file, there is evidence of review of all working papers by the Public Auditor (who leads the audit team) indicated by review comments, comments on how the issues were addressed by the audit team and signature of reviewer and date of review on the working papers. There is also documentation of how the review comments were addressed and resolved satisfactorily. The review ensures that there is sufficient appropriate evidence to support the audit findings, conclusions, and the final audit report.

However, the audit manual does not provide guidance on procedures to take when difficult or contentious matters arise and when differences of opinions within the SAI occur. There is a lack of guidance on a process for resolving and documenting differences in opinions.

Section VI: *Guide to Report Development, Production and Distribution* provides guidance on the process and procedures for authorizing reports to be issued. Given the small size of the OCPA, the quality control review of the draft reports is carried out by the Public Auditor.

SAI-16: Compliance Audit Process

This indicator looks at how compliance audits are carried out in practice by OCPA. It examines the planning phase, the implementation phase, and the reporting phase. The assessment will be based on a review of a sample of compliance audit files from the year under review.

The dimensions to be assessed are:

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

Indicator score: 3		
Dimension	Findings	Score
(i) Planning Compliance Audits	<p>Criteria b, d, e, g, h, i, j, k, are met. Criteria a, c, f, are not met.</p> <p>An audit strategy and audit plan are prepared describing the key objectives of the audit, the scope, methodology. Correspondences of communication between the auditors and the relevant official in the audited entity are in place.</p> <p>The audit plan does not identify the intended users nor guidance on considering materiality throughout the audit process. Audit scope is not adequately defined.</p>	3
(ii) Implementing Compliance Audits	<p>Criterion a, b, d, e, are met. Criterion c is not applicable.</p> <p>The auditor has carried out the audit procedures as described in the audit plan. Sufficient appropriate audit evidence was gathered and documented using a variety of audit procedures.</p> <p>There was a case of non-compliance indicative of fraud that was not reported. The audit did not use external experts.</p>	3
(iii) Evaluating Audit Evidence, Concluding and Reporting of Compliance Audits	<p>Criteria a, b, c, d, e, f, g (i to xiii), h, i are met. Criterion j is not applicable.</p> <p>The auditors evaluated evidence to ensure sufficient and appropriate evidence is obtained to support and form the final audit conclusion. Evidence is clearly described and documented to enable an experienced auditor to understand the audit and the work carried out to achieve the audit objective.</p> <p>The audit report is clearly written, complete, objective, and concise. The report is easy to understand and the logical flow from audit objectives, the subject matter, criteria, findings, and conclusion were adequately described.</p> <p>The SAI's compliance audit practice has not been assessed independently in the past three years.</p>	3

i. Planning Compliance Audit

OCPA conducted the audit of Faichuk Educational Development and Research Project with the following two objectives – one was to determine whether the project complies with relevant FSM/Chuuk laws and regulations and the second one was to determine whether the project

accomplished the desired outcomes that were agreed upon in the Memorandum of Understanding. Therefore, planning for compliance audit is carried out with the considerations necessary to achieve both the compliance and performance audit objectives.

The audit strategy and audit plan are one and the same document described as the audit plan. The audit plan described the subject matter and suitable criteria based on applicable authorities. Working papers in the audit file clearly document the auditors' understanding of the audited entity considering the relevant authorities governing it and the control environment and the relevant internal controls. The audit plan is linked and cross-referenced to the risk assessment which identifies the focus areas for the audit.

The audit plan does not explicitly state who the intended users of the report are but describes the reason for the audit and how the audit was initiated through a request by a representative of the House. The OCPA is of the view that the intended users were by default the legislature, the audited entity and related authorities who have governance responsibilities over the implementation of the project. A detailed risk assessment was conducted including all three dimensions of audit risk – inherent risk, control risk and detection risk as well as fraud risk factors. The audit team has informed the audited entity of the audit criteria.

The audit plan does not include materiality or guidance on whether the audit will consider transactions of material nature, amount, and context. The audit scope is too general stating that the audit will cover the period August 2016 to September 2017, without specifying the focus, extent, and limits in terms of the subject matter's compliance with the criteria. The audit plan has not identified the relevant personnel in the audited entity to communicate with throughout the audit. However, correspondences and communications between the auditors and the audited entity are in place.

The OCPA has an established system to ensure that at the audit engagement level, all auditors comply with ethical requirements regarding integrity, independence and objectivity, competence, professional behaviour, confidentiality, and transparency. The SAI's Code of Ethics and Professional Conduct requires that all members of the audit team must sign a Statement of Independence to ensure that they maintain independence but also declare any conflict of interest with the audited entity.

ii. Implementing Compliance Audits

The auditor has determined the nature, timing, and extent of audit procedures to be performed considering the criteria and scope of the audit, characteristics of the audited entity and results of the risk assessment. The audit focused on reviewing transactions and activities relating to five classes of transactions, namely personnel costs, travel, contractual arrangements, consumable expenses, and fixed assets. A sample of transactions for each class was selected for testing to confirm whether they comply with the applicable regulations, laws, and policies. For instance, a sample of fixed assets costing more than \$5,000 (minimum cost for capitalisation) was selected and auditors checked to ensure that proper records are kept confirming description, cost, and approval of purchase of fixed asset, date of acquisition, ownership title and existence of the fixed asset. Any non-compliance is evaluated to determine its impact and further audit work required.

There were a few instances of non-compliance indicative of fraud (eg. payment of salary to family member of those charged with governance of the project) which the entity failed to provide supporting documentation for. These incidents were included in the audit report submitted to the Legislature and the House of Representatives issued a resolution requesting the Attorney General to consider the audit findings and take appropriate actions.

The auditors have gathered sufficient appropriate audit evidence to provide the basis for the audit conclusion including a variety of evidence gathering procedures. Evidence was gathered through documentary review, analysis of financial data, confirmation of financial transactions with bank statements, verification of payments against source documents and approvals, physical observation (existence of assets), photos as evidence and interviews with selected members of the schools (beneficiaries) who were supposed to benefit from the project.

All audit procedures described in the audit plan were completed and cross-referenced to the relevant working papers. The audit did not engage external experts as the Public Auditor who led the audit team had the appropriate knowledge, skills and experience required to perform the audit.

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

The Audit file has an index providing an overview of the working papers the linkages between relevant working papers. Audit work carried out are well-documented in the working papers and cross-referenced to the lead sheet in each section, to the audit programs in the audit plan. The audit report is cross-referenced to the supporting working papers. findings and conclusions are documented in the working papers, with evidence of review by the team leader. The audit team comprised of the PA and senior auditor. PA reviews work of assistant.

The SAI's requirements for audit documentation prescribed in section VI: *Guide to Report Development, Production and Distribution* have been followed. These requirements state that the auditors should prepare relevant audit documentation before the audit report is issued and the audit documentation should be retained for an appropriate period. OCPA's audit manual 2014 Section V: *Guide to Evidence and Working Papers*, require that working papers are retained for four years but can be retained longer if doing so would serve a purpose.

The PA evaluated the evidence gathered considering materiality and the level of assurance the audit should provide, to ensure sufficient and appropriate audit evidence is obtained and to form relevant conclusions. Working paper reference 320A documented the auditor's review of sufficiency and appropriateness of evidence gathered.

Copies of correspondences and communication activities carried out during the audit are in place in the audit file. These include draft reports discussed with various parties affected, records of exit conferences with the audited entity and meetings with the legislature. Management responses are included in working paper files as well as the final audit report.

The audit report is complete, objective, and timely. The audit report is addressed to the Governor, President of Senate and Speaker of House of Representatives. According to State Chuuk law, all audit reports should be addressed to the Governor, President and Speaker; copies are sent to all related parties including the audited entity. The subject matter and criteria were described; the audit standards applied in performing the audit were identified; and a summary of the work performed including audit findings and conclusion were provided in the audit report. Instances of and nature of non-compliance were clearly described in the report and details of non-compliance were attached to the report as part of exhibits. Recommendations were clear, concise, and directed to those responsible for ensuring they are implemented.

SAI-17: Compliance Audit Results

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

Indicator score: 2		
Dimension	Findings	Score
(i) Timely Submission of Compliance Audit Results	During the period under review, OCPA completed only one compliance audit. The audit was completed on 10 December and report submitted on 19 December 2018.	4
(ii) Timely Publication of Compliance Audit Results	Audit reports become publicly available immediately after the report is submitted to the Legislature. Both the Government and the SAI do not have websites; media outlets are scarce and inactive. However, the audit reports are circulated as per the SAI's mailing list on the same date as the report is submitted to the Legislature. The audit reports are also placed in the book rack outside the OCPA's office for the public to take a copy if they want. Further, OCPA publishes its audit reports on PASAI's website once the report is submitted to the Legislature.	4
(iii) SAI Follow-Up on Implementation of Compliance Audit Observations and Recommendations	<p>Criteria a, b, c, d, e, f, are not met.</p> <p>OCPA has not conducted a follow-up audit during the period under review. The manual requires auditors to follow-up implementation of audit recommendations however, there are no guidance on the process and procedures that auditors must follow to ensure audit recommendations have been properly addressed.</p> <p>OCPA is required by law to submit all audit reports, including follow-up audit reports to the Legislature and appropriate officials.</p>	0

i. Timely Submission of Compliance Audit Results

During the year under review, OCPA conducted only one audit (only two staff at the time) -the audit of Faichuk Educational Development and Research Project for the fiscal year 2017 (August 2016 to September 2017). The audit commenced in March 2018 and completed on 10 December 2018. Only two staff at the time, with the Senior Auditor going for maternity leave in the middle of fieldwork activities. The audit report was submitted to the legislature, appropriate government officials and the audited entity on 19 December 2018.

ii. Timely Publication of Compliance Audit Results

Audit reports become publicly available immediately after the report is submitted to the Legislature. OCPA's practice is that the audit reports are submitted to Legislature, and those on its mailing distribution list (mainly government agencies). Audit reports are also submitted to the sole local newspaper which is in the other FSM State (not in Chuuk) but it is up to the newspaper whether to publish the report. Although the Government and OCPA do not have websites where these reports can be published, the OCPA has other means of publishing its audit reports. The OCPA has set up a book rack outside its office which the public have access to daily, and copies of all audit reports submitted to

the Legislature are placed in this book rack for the public to take. OCPA also published its audit reports on PASAI’s website once the reports have been submitted to the Legislature.

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

OCPA Audit Manual 2014 Section IV, sub-section O: *Follow-Up on Previous Audit Reports* requires auditors to follow-up audit recommendations raised in previous audits. However, there are no clear guidance on the follow-up process and procedures to ensure that the audited entity properly address the audit observations and recommendations. The manual requires the auditors to enquire whether recommendations have been implemented but no specific guidance to ensure the auditors obtain the relevant information and evidence to confirm recommendations have been addressed properly. In the absence of clear follow-up process and procedures, there is no guidance to ensure the SAI has established a practice for evaluating materiality to determine when a follow-up requires new additional investigations.

There is no specific requirement in the audit manual for submission of follow-up audit reports to legislature. However, the SAI is of the view that all audit reports of any audit or work carried out by the SAI (including follow-up audits) are required by law to be submitted to legislature and relevant authorities. The SAI has not conducted a follow-up audit during the year under review.

4.4 Domain D: Financial Management, Assets and Support Services

Supreme audit institutions should lead by example by managing their operations in accordance with the principles of economy, efficiency, and effectiveness, and in accordance with national laws and regulations. This Domain focuses on issues that assist OCPA to achieve those objectives.

Overall Indicator and Dimension scores are provided in the table below.

Domain D: Financial Management, Asset and Support Services		Dimension			Overall Score
Indicators	Name	(i)	(ii)	(iii)	
SAI-21	Financial Management, Asset and Support Services	2	2	0	1

SAI-21: Financial Management, Assets and Support Services

SAIs require adequate financial resource, assets, and well-managed support services to function effectively. This domain assesses whether OCPA has the necessary resources and infrastructure to support the delivery of its core audit activities. The dimension to be assessed are:

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

Indicator score: 1		
Dimension	Findings	Score
(i) Financial Management	Criteria b, c, d, e, f, g, h, are met. Criteria i and j, are not met. Criteria a, and k, are not applicable.	2

	<p>The SAI's financial information are part of the whole of government centralised system administered and managed by the Department of Administrative Services. The SAI follows the government's budgeting process and procedures.</p> <p>The SAI does not prepare its own financial statements and is not required by law to be issued with a separate audit opinion.</p>	
(ii) Planning and Effective Use of Assets and Infrastructure	<p>Criteria b and c are met. Criteria a, d, e, are not met.</p> <p>The SAI has not developed a long-term strategy for its infrastructural and IT needs. The SAI is in the main Administrative Building which housed the Executive, Finance and Administrative Services for the State government. IT service for the SAI is part of the government's centralized IT system managed by the Department of Administrative Services.</p>	2
(iii) Administrative Support Services	<p>Criteria a, b, c, d, are not met.</p> <p>The SAI does not have an IT support person because its system is part of the government's centralized IT system managed by the DAS. The executive secretary is responsible for file management and archiving but she is still trained by the Public Auditor to ensure she performs the tasks adequately. The SAI does not have space to accommodate storage of files in the future.</p>	0

i. Financial Management

The Chuuk Constitution and the financial laws of Chuuk designate and delegate all management and handling of financial resources and related activities of Chuuk government entities to the Department of Administrative Services (DAS), including the SAI. The financial information of the Chuuk State government is documented and reported centrally in the Management Information System (MIS) managed by the Budget Office, a division of the DAS. The system to delegate authority to commit and approve expenditure on behalf of the SAI is part of the government's centralised financial system. The Chuuk Constitution and OCPA establishing law authorize the Public Auditor to incur and approve expenditures on behalf of SAI based on the appropriated budget.

OCPA, as a Chuuk State agency adheres to the Chuuk Financial Management Regulations and the FSM Financial Management Regulations. Copies of these documents are with OCPA and all staffs have access. The Public Auditor is responsible for preparing the SAI's budget in accordance with the Chuuk State budgeting procedures and process. However, the major accounting and budgeting responsibilities are handled by the DAS. The SAI's accounting duties are limited to reviewing and reconciling its financial activities as reported by DAS.

The Chuuk State Budget Process Act sets out timetables and procedures for budgeting process. SAI's budgeting is included in the whole Chuuk Government budgeting process. Call for budget proposal of the government (including SAI) is made by the Governor.

The OCPA does not have its own management information system but as a government entity, its financial resources including staff costs are captured in the centralized MIS administered by the DAS. OCPA submits performance-based budget (much like an operational plan with costing) which reflects what the Public Auditor plans for the next fiscal year (e.g., the number of staff, salaries, planned audits, infrastructure needs, operational cost, and etc). Upon approval, the document becomes the operational plan for the office. Every quarter, the Public Auditor submits performance report of his office to the Budget Office under DAS. DAS updates the MIS. (Chuuk Government and OCPA use the information and documents to assess performance.) Accomplishments and justification for under-performing are reported in the MIS.

OCPA manages and monitors its actual expenditures manually. Additionally, with disbursement control managed by the DAS, OCPA has not incurred any overspending of its budget in the past three years.

The SAI does not prepare its own annual financial statements but only keeps a ledger showing running balance of expenditures and budget. The report is not made public and the report of expenditure generated by DOA is not reviewed by legislature. OCPA's total expenditure and approved budget are included in the primary government's financial reporting subject to external independent audit and legislature reviews. However, reporting at the State level does not show how OCPA has utilized its approved budget. Due to this arrangement, the SAI has not received any audit opinion separately from the Chuuk Government.

ii. Planning and Effective Use of Assets and Infrastructure

OCPA does not have a long-term plan for its physical infrastructure needs and IT needs based on current and anticipated future staffing levels. However, every year the SAI's budget proposal includes what it needs in terms of personnel, assets, training. The OCPA could not afford the office space rental and is therefore located in the Administration Building where the Executive, finance and administration offices are housed. The Public Auditor has reviewed his office's IT infrastructure and has concerns about security with the central IT system (where all the offices located in the Administration Building share). The current Public Auditor is planning to restore the website for the office.

The Public Auditor reported in his annual report to the Legislature seeking approval of reprogramming his office remaining funds to finance the building of his office. Although Legislature has responded to him positively that it will be discussed, but so far, nothing has happened. Due to the location of his office, the PA did not request for other much needed support such as reliable and secured IT system. There is no archiving facilities or capabilities in the OCPA or the whole FSM. The Public Auditor creates duplicate hard and soft copies of audit report and the working paper files. The situation may remain for a while if the OCPA is in the Administrative building.

iii. Administrative Support Services

OCPA is using the IT system centralized in the new Administration Building for the Executive Department of Administrative Services (DAS). The administrative and maintenance of the system is handled by an IT staff of DAS. The Public Auditor is concerned with the reliability and security of the system, yet he does not have resources to upgrade it now. Also, like most of the FSM's Office of the Public Auditors (OPAs), OCPA is not archiving its records and audit files due to lack of capabilities and resources. File management (hard copies) is being done by the SAI's secretary with guidance and supervision of the Public Auditor. Although this works for now, OPA does not have sufficient space to store accumulated files in the future.

The executive secretary is responsible for all administrative work of the office under direct supervision of the Public Auditor. The secretary is still being trained by the Public Auditor to carry out the

management and administration of the office major assets. Also, OCPA does not have an IT person. Although not documented, according to the Public Auditor the review for administrative support was performed and a request was made in the budget but was not approved. Hence, he is working with what is available to him and awaiting budget approval to ensure improvements can be made.

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 assesses OCPA's human resource function and its professional development and training practices to ensure its staff have the skills and competencies to conduct high quality audits.

This domain will be assessed in relation to the following indicators.

SAI-22: Human Resource Management

SAI-23: Professional Development and Training

Overall Indicator and Dimension scores are provided in the table below.

Domain E: Human Resources and Training		Dimension				Overall Score
Indicators	Name	(i)	(ii)	(iii)	(iv)	
SAI-22	Human Resource Management	2	0	2	2	1
SAI-23	Professional Development and Training	0	1	1	1	1

SAI-22: Human Resource Management

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 following dimensions will be assessed.

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

Indicator score: 1		
Dimension	Findings	Score
(i) Human Resources Function	Criteria d, e, g, are met. Criteria a, b, c, f, are not met. The SAI does not have a well-established human resource function. Most of the human resource responsibilities are handled by the Personnel Service Commission for all government entities including OCPA. The Public Auditor consults the Commission on HR matters including staff professional development.	2

	<p>OCPA follows staff performance appraisals system administered by the Commission and maintained personnel files for all staff.</p>	
(ii) Human Resources Strategy	<p>Criteria a, b, c, d, e, f, g, are not met.</p> <p>The SAI has not developed a human resource strategy.</p>	0
(iii) Human Resources Recruitment	<p>Criteria d, e, f, g, are met. Criteria a, b, c, are not applicable.</p> <p>Procedures for recruitment are detailed in the Public Service policies maintained by the PSC. PSC is responsible for preparing advertisement notices including where to advertise and managing the applications received.</p> <p>The decision-making process in the recruitment of new staff involved at least two people. OCPA recruited one staff based on the needs of the office. OCPA has procedures for recruiting outside expertise as required but such depends on the availability of approved budget to contract external experts.</p>	2
(iv) Remuneration, Promotion and Staff Welfare	<p>Criteria a, b, c, d, g, are met. Criteria e, f, h, are not met.</p> <p>The SAI is required to adopt the government’s established individual performance appraisal procedures. Recent promotions followed government procedures considering staff performance and potential to perform.</p> <p>OCPA does not have a staff welfare policy. Employees are free to express their views on the work environment. However, there is no record of any issues raised.</p>	2

i. Human Resources Function

The OCPA does not have a well-established human resource function. All personnel matters are handled centrally by the Public Services Commission for the whole government of Chuuk State, including OCPA as stated in its establishing law. The Commission has the skill sets to manage and administer human resource matters.

The Commission has personnel policies and competency framework developed for the whole government of Chuuk, but none specifically for OCPA. However, the Public Auditor represents that he is committed to developing his staffs’ competencies through in-house training, participation in certification programs and sending his staff for off-island training when funding is available.

OCPA also takes advantage of sponsored trainings and professional developments offered through its membership and association locally, regionally, and internationally. The Public Auditor provides, seeks, and schedules professional development for his staff. Through the audit assignments, he guides and do on the job-training and regularly evaluates his staff performances to identify and match staff to available training and development.

The Public Auditor provides and consults with Public Services Commission on matters regarding his staff including their progress in educational and professional developments. These consultations and

professional developments are documented and filed in the staff personnel folders, including their annual evaluations which are carried out annually based on the Public Service Commission's guidelines.

ii. Human Resources Strategy

OCPA does not have a documented human resource strategy. However, the Public Auditor is committed to develop and train his staff. He has identified the development and certification programs that he plans for his staff. In the administration of his staff, he adheres to the Public Services Commission's personnel policy and guidelines. The Public Service policy contains information on recruitment, retention, remuneration, performance appraisal and professional development. The Public Auditor prepared and submitted a proposal for additional staff and development and training of his staff, but Legislature did not approve his plan.

iii. Human Resources Recruitment

Procedures for recruitment and selection are open and transparent and are detailed in the Public Service policies maintained by the Public Service Commission (PSC). These procedures are based on the principles of fair and open competition. All vacancies are advertised publicly in all government and state media outlets to attract the required candidates. Information on documents that will be made available to applicants, when and where the application is lodged and how queries will be managed are provided in the advertisement, which is prepared by the PSC. Minimum qualifications are stated in the position description (PD), also maintained, and updated by PSC. The decision-making process in the recruitment of new staff involved at least two people (Public Auditor and Senior Auditor).

OCPA had only one staff who was recruitment based on the needs of the office. As a matter of Chuuk government policies, advertisement of positions includes making public the description of skills and experiences needed. The process is as follows: Based on COPA needs and the vacancy of the office, recruitment of personnel is carried out in compliance with the Chuuk Government PSSR and related policies. Position description and qualification required are developed jointly by OCPA and PSC and advertised through the radio station and other available social media channels. Applications are received and reviewed by the PSC and a certified list of qualified candidates is prepared and forwarded to the Public Auditor for review and selection of the best candidate. OCPA has procedures for recruiting outside expertise as required but such depends on if there is approved budget to contract external experts.

iv. Remuneration, Promotion and Staff Welfare

OCPA employees' remuneration, promotion and welfare are based on policies and practices prescribed in the PSSR for Chuuk Government. These policies require that employees' performance appraisals be conducted at least once a year. Accordingly, performance appraisals are carried out annually for all staff. The most recent performance appraisal assessed the employee's performance was assessed against his job description. This appraisal resulted in the staff receiving a salary increment, a decision made in accordance with established policies, the PSSR. Promotions and/or salary increments are allowed if there is budget to accommodate such changes and there is potential of the employee to perform at higher level.

There were insufficient documentations to support the decision to promote one of the staff and therefore we were not able to determine whether such decision was made in accordance with the prescribed PSSR policies and procedures.

OCPA does not have a staff welfare policy but follow policies prescribed for all government employees. The Public Auditor and employees are free to voice their views on work environment if the views are in line with the laws, policies, and accepted norms of OCPA and the government and benefitting the

office and the employees. Given the fact OCPA had only two employees during the period under review, these views are generally expressed through informal conversations and are not documented.

SAI-23: Professional Development and Training

To ensure staff capabilities are current and relevant to the delivery of the SAI’s mandate, 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

Indicator score: 1		
Dimension	Findings	Score
(i) Plans and Processes for Professional Development and Training	Criteria a, b, c, d, e, f, g, are not met. The SAI has not developed a plan for professional development and training of all staff. However, the Public Auditor is actively delivering on-the-job training for his staff. Given the small size of the OCPA, The Public Auditor is responsible for identifying trainings and selecting staff to attend trainings, including monitoring, and evaluating the results of professional development and training.	0
(ii) Financial Audit Professional Development and Training	Criterion a is met. Criteria b, c, d, are not met. The Public Auditor is responsible for professional development and training of staff in financial auditing. Although the SAI has not developed a plan for professional development and training in financial auditing, the staff participate in financial audit trainings offered by PASAI and APIPA.	1
(iii) Performance Audit Professional Development and Training	Criterion a is met. Criteria b, c, d, are not met. The Public Auditor assumes responsibility for professional development and training of staff in performance auditing. Although the competencies and plan for professional development are not documented, the PA is actively training his staff through in-house and on-the-job training.	1
(iv) Compliance Audit Professional Development and Training	Criterion a is met. Criteria b, c, d, are not met. Like financial and performance auditing, the PA is responsible for professional development and training of staff in compliance auditing. There is no documented plan for professional development and training.	1

i. Plans and Processes for Professional Development and Training

The OCPA has not developed a plan for professional development and training. However, when preparing the annual budget proposal for the Office, the Public Auditor includes short-term plans for development and training of his staff in his budget proposal. The budget provision for training and professional development was not approved.

Nonetheless, the Public Auditor delivers in-house training of his staff continuously. He is involved in all the audit assignments and he mentors, guides, and trains his staff on the audit techniques and methodologies. He also encourages them to review, study and understand the laws, regulations, the audit manual, and other audit reference materials to enhance their knowledge. However, there is no long-term plan developed specifically for each employees' development. Whenever there is an opportunity for professional development and training, and there is funding the Public Auditor sends appropriate staff to attend. As part of staff development, all new employees undergo period of orientation. This includes reading and understanding the laws and regulations related to OCPA, auditing standards, personnel regulations and policies and the office manuals.

There is no formal plan in place due to lack of funding according to the Public Auditor. However, in practice, the Public Auditor is committed and has implemented a strategy to develop and train his staff himself regardless of budget limitation. He is involved in teaching and training his staffs, guiding them, monitoring their work, and doing what he can to ensure they obtain skills in auditing, report writing and managing audit projects with available resources given to his office. He represents that he will continue to request for budget annually for the development and training of his staffs.

He is implementing in-house and on the job training of his staff. He assigns himself to audit projects as a means of training his staff on audit techniques, methods and audit procedures while working on audit assignments. On the job trainings are linked to the human strategy of the PSC.

The SAI does not have established procedures for selecting staff to participate in training and obtain professional qualifications. Professional employees do not have their own professional development plan which are based on their annual performance appraisals.

Despite the absence of a documented professional development and training plan, the Public Auditor provides on-the-job training for the two auditors. He has enrolled the auditors on a certificate course aiming to have them succeed and obtain appropriate qualifications before his contract ends in 2023. He plans to groom the auditors so when he leaves, the staff are professionally qualified and able to continue the office operations to achieve its goals, objectives, and mission, and contributing to good governance of the government of Chuuk.

The Public Auditor uses the annual budget as the operational plan for the office. What his office will do and accomplish is dependent on the approval of those plans in the budget. If the plans were not approved in the budget, he will try to look for grants or other funding source.

The Public Auditor represents that he has made analysis of his staff learning needs and prioritize in-house and on-the-job training and certification program to enhance staff qualification. However, these analysis and priorities are not documented. The SAI does not have an established mechanism to monitor and evaluate the result of professional development and training of staff. However, the PA is monitoring the development of the two auditors closely through annual appraisal and supervision.

The PA identified performance and compliance audits as his office's main activities including follow up of previous work. The staff are being trained on these two types of audits. There is no formal system documented for staff development, but he said, his office is small, and he is closely working alongside his staffs (including the secretary) to train them and guide them in their work. Based on what he observes

and on the annual appraisal of the staff, he targets on the job training and in-house development to enhance and improve their skills.

ii. Financial Audit Professional Development and Training

The OCPA has the mandate to conduct financial audits but it has not conducted any financial audit because of the lack of manpower and lack of qualified staff in this audit discipline. The financial audit of government accounts is outsourced to external auditors. Given the small size of the Office, the responsibility for professional development and training on financial audit rests with the Public Auditor.

OCPA has not established a plan for professional development and training in financial auditing to cover internal training on financial audit standards and procedures. However, it takes advantage of audit trainings offered and sponsored by PASAI and APIPA where financial auditing is also taught. The Public Auditor also recognizes the importance of certain certification programs such as the Certified Public Accountant (CPA), and is encouraging his staff to pursue these programs. Though not documented, the Public Auditor will be mentoring his staff when they enrol in the CPA program.

iii. Performance Audit Professional Development and Training

The Public Auditor who has the authority and appropriate knowledge and experience assumes the responsibility for the professional development of audit staff. Though the competency requirements and plan for professional development are not in writing, the Public Auditor, through supervising and monitoring audit assignments, gauge staff competencies and identify skills and knowledge that need to be enhanced and improved. In-house and on-the-job training are conducted focusing on the skills and knowledge identified.

Performance auditing is the core audit activity of the office and most trainings are centered on it. The Public Auditor, through in-house training, ensures that his staff are trained on GAGAS and related procedures. He conducts training on relevant standards and procedures. Furthermore, he works on audit assignments with his staff and train, guide and monitor their work closely to observe and be aware of their performances, progresses and level of competency while developing and enhancing their skills and knowledge.

While individual development plan has not been established for each staff, the Public Auditor ensures that relevant trainings are provided to OCPA staff continuously in house, on-the-job and off-island training when funds are available. Supervision and mentoring are on-going on all activities of the office, especially audit works.

OCPA maintains its membership and association with relevant professional bodies. For example, the Public Auditor is a CPA, CGAP, CISA and a few more that he maintains his membership in good standing. He is working and helping his staff get into one or two certification programs to be recognized, respected and to grow professionally. OCPA ensures that the staff attend continuing professional development to upgrade skills and knowledge and updated on new techniques, methods, and auditing standards.

iv. Compliance Audit Professional Development and Training

Compliance audit is usually conducted together with performance auditing and is recognized by the OCPA as a type of performance audit. Like performance audit, the Public auditor is responsible for the professional development and training in compliance audit. Trainings are conducted by the PA on-the-job to ensure skills and knowledge of staff are developed in this area.

4.6 Domain F: Communication and Stakeholder Management

SAIs should communicate with stakeholders to ensure understanding of the SAI’s audit work and results and demonstrate its relevance to stakeholders. Having, keeping, and maintaining good working relationship with stakeholders is important and necessary for effectively communicating SAI value and benefits. This domain assesses the SAI’s communication practices and processes with key stakeholders. The performance indicators for this domain are:

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

Dimension and Overall Indicator scores are provided in the table below.

Domain F: Communication and Stakeholder Management		Dimension				Overall Score
Indicators	Name	(i)	(ii)	(iii)	(iv)	Score
SAI-24	Communication with the Legislature, the Executive, and the Judiciary	0	2	2	2	1
SAI 25	Communication with the Media, Citizens and Civil Society Organizations	1	1			1

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

This indicator assesses the communication practices the SAI has established with institutional stakeholders. The SAI should 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

Indicator score: 1		
Dimension	Findings	Score
(i) Communications Strategy	<p>Criteria a, b, c, d, e, f, g, are not met.</p> <p>OCPA has not established a strategy for communications and stakeholder engagement.</p> <p>The Public Auditor, however, communicates with Legislature occasionally through public hearings.</p>	0
(ii) Good Practice Regarding Communications with the Legislature	<p>Criteria a, d, e, f, g, are met. Criteria b, c, h, are not met.</p> <p>OCPA annually reports its findings to the Legislature. The Public Auditor occasionally communicates with the Legislature through public hearings.</p> <p>OCPA has not established policies and procedures regarding communication with the Legislature. It has not sought feedback</p>	2

	from the Legislature about the quality and relevance of its audit reports.	
(iii) Good Practice Regarding Communications with the Executive	<p>Criteria a, b, are met. Criteria c, d, are not met.</p> <p>OCPA’s policies and standards require staff to be independent from and not in any manner, be involved or seen to be involved in the management of the organizations they audit.</p> <p>The SAI has not sought feedback from the Executive about the quality and relevance of its audit reports nor held periodic meetings to discuss issues of concern to both the SAI and the Executive.</p>	2
(iv) Good practice Regarding Communications	<p>Criteria a, and d, are met. Criteria b and c are not met. Criterion e is not applicable.</p> <p>OCPA has policies and procedures in place to communicate with prosecuting agencies regarding audit findings as well as a system in place to follow-up cases that the SAI has transferred to the prosecuting agencies.</p> <p>OCPA has not carried out awareness raising activities nor communicated with prosecuting and investigating agencies about the role of the SAI in relation to legal proceedings initiated because of the SAI’s audit findings.</p>	2

i. Communications Strategy

OCPA does not have a long-term strategic plan or communication strategy that establishes and discusses the approaches, strategies and processes in engaging stakeholders and what messages to communicate. In its annual report, the Public Auditor did not identify the relevant stakeholders it wants to communicate with either. Though OCPA identified in its audit working papers (for the audit of Faichuuk Educational Development Program) the stakeholders it wants to communicate the audit report to, those mentioned were just for that audit and did not represent all relevant stakeholders of the SAI.

The Public Auditor communicates occasionally with the Legislature through regular public hearings for his office’s needs and concerns but other than that there is inadequate communication with all relevant stakeholders. Due to the absence of an appropriate communication strategy, OCPA has not identified its relevant stakeholders and is not able to periodically obtain and assess stakeholders’ perception on its work, mandate, value, and benefits.

ii. Good Practice Regarding Communications with the Legislature

OCPA communicates to Legislature annually through its annual reports providing information on its findings and recommendations, accomplishments, and performance activities for the previous year. The annual reporting to the Legislature is a requirement by law for all government entities. OCPA’s establishing law specifies the procedures regarding this communication, whereby OCPA’s accomplishments, performances, concerns, shortcomings, and others are reported to the Legislature.

The Legislature may on occasion request expert advice from OCPA in the form of expert opinions on audit reports and financial regulations. Also, during public hearings Legislature may also request the Public Auditor (PA) and his staff to further discuss audit report and findings. When requested, OCPA provides the Legislature timely access to information related to its work. Through these engagements, OCPA raises awareness on its roles and mandates, strengthens professional relationship with the Legislature and provides an opportunity for Legislature to better understand the audit reports so that they can take appropriate action.

Although OCPA submits its audit reports and annual reports to Legislature, it has not established policies and procedures for communicating with the legislature, including defining who in the SAI is responsible for this. Given the small size of the SAI, this responsibility is assumed by the Head of the SAI by default. In addition, OCPA does not analyse its individual audit reports to identify themes, common findings, trends, root causes and audit recommendations, and discusses these with key stakeholders. OCPA has not sought feedback from the Legislature about the quality and relevance of its audit reports.

iii. Good Practice Regarding Communications with the Executive

GAGAS and OCPA's Audit Manual require that "... *In all matters relating to the audit work, the audit organization, and the individual auditor, whether government or public, must be free from personal, external, and organizational impairments to independence, and must avoid the appearance of such impairments of independence*". To support and show compliance, OCPA requires all its auditors to evaluate and sign a representation declaring (Independence Statement) and asserting that they have no conflict of interest or involvement of any kind with the auditee and its personnel. We verified this practice from the audit files reviewed. Each auditor assigned to the audit signs the independence statement form at the start of the audit. We also noted that in the engagement letter, OCPA discusses what to expect during the audit, including the objectives and methodologies of the audit, respective responsibilities of the auditor and auditee, among other general information. The engagement letter also contains the audit terms, arrangement, nature, and limitations.

After the audit is completed, OCPA communicates its audit findings and recommendations directly to the auditee through the audit report. Though, the audit report contains a response from the auditee regarding the audit findings, OCPA has not periodically invite feedback from the Executive management to discuss common findings, trends, and root causes OCPA has identified through analysis of its audit reports. Also, it has not sought feedback about the quality and relevance of audit reports and the audit process.

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.

OCPA Audit Manual provides guidance on how to communicate with the Attorney General's Office regarding audit findings indicating wrongdoings with government resources. The Public Auditor referred the findings contained in the audit report of Faichuuk Education Development Program to the Attorney General (AG) for further investigations and possible prosecution of individual(s) regarding the misuse of government funds. This prompted the Legislature to pass a Resolution for AG to investigate the matter. Through these communications, OCPA was raising awareness of its work, role, and mandate to the AG.

OCPA has a system in place for following up on cases referred to AG as described in its Audit Manual. Documentation of correspondences and communications between the Public Auditor, the AG and Legislature are in the audit file. In addition, the Audit Manual also details how to handle audit documentation that could turn evidence in legal proceedings and specifies auditor compliance with applicable rules of evidence.

Apart from the audit that was referred to the AG, the SAI has not carried out any other awareness raising activities nor communicated with the AG and/or investigating agencies about the role of the SAI in relation to investigations and legal proceedings that are initiated based on the SAI's audit findings.

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

One of the main channels of communication with the public is through the media. It is therefore important that the SAI maintains an effective relationship with the media organizations to maximise public exposure of important audit findings. Communications with the media 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

Indicator score: 1		
Dimension	Findings	Score
(i) Good Practice Regarding Communication with the Media	<p>Criteria c and e are met. Criteria a, b, d, f, are not met.</p> <p>OCPA does not hold press conferences but submit annual reports to Legislature as normal mailing. The SAI's audit reports are published on other websites, such as PASAI's.</p> <p>It does not have a system to monitor the media's coverage of the SAI and its work. Also, there are no procedures in place for handling requests from the media. However, in practice, the Public Auditor deals with the media and handle any request on any matters.</p>	1
(ii) Good Practice Regarding Communication with Citizens and Civil Society Organizations	<p>Criteria a, b, f, are met. Criteria c, d, e, g, h, are not met.</p> <p>The SAI's mandated responsibilities are described in its annual reports which are made available to the public. The SAI has published audit reports on social media using its facebook page and through websites of development partners such as PASAI.</p> <p>It also does not actively seek feedback from civil society and the public on its work and the accessibility of its reports.</p>	1

i. Good Practice Regarding Communication with the Media

Media may be an excellent channel of communication, but different forms of media is scarce, not readily available, and slow in the FSM. Only now, you can see results of audit reported in the only news agency in the FSM based in Pohnpei State. This is evident of the fact that communication with the media in all FSM States including Chuuk is not a common or expected practice.

Press conference is not a normal practice, but the annual report was submitted to the Legislature. OCPA did not issue a press release on its annual report or its audit reports during the period under review. For the audit report we assessed, the Public Auditor sent a copy to the news agency (Kaselelieh Press) for inclusion in the newspaper. The Public Auditor also sent the audit report to the other FSM State audit offices, other partners and associations, government offices in Chuuk and the public. The SAI's website is not updated which also limits its ability to disseminate its audit reports to a wider audience. The Public Auditor published their audit reports on other websites such as PASAI.

In practice, the Public Auditor regularly checks and monitors the other media and websites of partners, associations, (OIA, PASAI, IDI, USDA Graduate School/PITI, etc) for topics relevant and useful to his office. However, OCPA does not have a system in place to monitor the media's coverage of the SAI, and topics addressed by the SAI's audits.

On all matters related to OCPA, the Public Auditor speaks on behalf of the SAI when the need arises as stated in OCPA's Audit Manual. He also handles request from the media, if any, on a case-by-case basis. However, there are no procedures in place for handling requests from the media and a media contact point.

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

OCPA includes its mandated roles and responsibilities in its annual reports which are made available to the public. In addition to circulating reports through its normal distribution list, these reports are also placed in a rack outside of the SAI's office which is accessible by anyone. The annual report contains summaries of all audit reports issued which are presented in simple and easy to understand English for citizens to understand the main findings. In the absence of a website, the Public Auditor published OCPA's audit report online through its development partners and associates' websites such as PASAI as well as social media through its facebook page.

OCPA has not established contacts with relevant civil society organizations or stimulate citizens to access information on public sector audit and the SAI beyond the audit reports. It also does not actively seek feedback from civil society and the public on its work and the accessibility of its reports. Debates on public sector improvement is not a normal practice in the government of Chuuk.

Chapter 5: SAI Capacity Development Process

5.1 Recent and On-going Reforms

The Public Auditor faces a challenge in the training and development of his staff with limited budget. Since he started in 2018, he has submitted a training and development of his staff to the Legislature, but it was not approved. That did not stop him from delivering in-house training, guiding, and teaching his staff on the job. He encouraged them and has enrolled one of the auditors in a certification program to obtain a certificate in public accounting. He is committed to this and plan to have at least one of them certified in auditing and/or accounting field before his contract ends in 2023. This would ensure continuity of the office with a local public auditor. Chuuk law requires the Public Auditor to be certified public accountant. Because the programs need financial supports, he is planning to seek funding from outside sources (such as grants from US) to help implement his plan.

As a member of APIPA and PASAI, staff of OCPA are eligible to participate in any capacity development programs delivered by these two organisations. Every year, staff of OCPA participates in trainings on auditing, public financial management, ethics in public sector, and public administration delivered by the US Graduate School. These are short-term courses offered either online or through

face-to-face workshops (before the pandemic). These trainings are not part of the COFA. Furthermore, OCPA, through its affiliation with PASAI, is also eligible to receive support through any global programs delivered by the INTOSAI Development Initiative (IDI). OCPA has taken the initiative to take part in the PASAI regional SAI PMF program recognizing the importance of measuring its performance against international standards and demonstrating the desire to improve performance.

The OCPA requested legal support from PASAI and a legal consultant was engaged to review OCPA's existing legislations and propose necessary amendments to strengthen its legislative framework, especially its independence status.

The OCPA recently moved to the new Executive Administration building because it can no longer afford the office annual rent. However, the current office space is small and will not be suitable in the long run if OCPA has the budget to recruit more staff. The Public Auditor would like to have its own separate office from the Executive to ensure his office is perceived as an independent institution and to assist staff to think, act and behave in an impartial manner. A request to utilize savings for a new office was not approved by the legislature. In addition, the Public Auditor plans to restore the office's website and get a separate and secure internet access for his office to ensure secured and reliable internet service.

5.2 Use of SAI results by External Providers of Financial Support

The external providers of financial support to the Chuuk State use the results of the SAI audits for funding decisions and to satisfy the requirements for audit. It is a mandatory requirement that the results of the audit be communicated to the grantor when donor-funded projects are audited. In particular, the grantor would like to have a reasonable assurance that the funds were spent properly and was used for achieving the objectives of the project. Furthermore, the external providers of financial support have used the audit reports from outsourced audits and audits conducted by the OCPA to provide them information on whether their funds were subjected to fraud and significant abuse and misuse. External providers have their own follow-up mechanism to follow-up the SAI on the results of the audit to ensure the audit would be performed and completed.

The main external providers of financial support to the Chuuk State are the Embassy of Japan in the Federated States of Micronesia (FSM) and the US Department of Interior Office of Insular Affairs.

Annex 1: Performance Indicator Summary

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

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

Documents reviewed:

- Constitution of the State of Chuuk

- Office of the Chuuk State Public Auditor (OCPA) Annual Report Fiscal Year 2018
- Truk State Law 6-21 (OCPA Act) 1987
- OCPA Audit Manual 2014
- Chuuk Government Financial Management Regulations
- OCPA Budget documents 2018 and 2019
- OCPA Quality Control Policies and Procedures
- OCPA Code of Conduct
- OCPA Quality Assurance Checklist for Performance Audit
- APIPA Peer Review Report
- Audit file – audit of Faichuk Development and Research Project, 2016 to December 2017
- Personnel files
- GAGAS
- Quarterly reports, supplemental requests, training needs request
- Internal memos

Interviews conducted:

1. Public Auditor
2. Auditor I
3. Executive Secretary

ⁱ DRESKO CONSULTING: Roger Arnold, *Chuuk State Strategic Development Plan*, (Aug' 31, 2016), 13.