



PUBLIC SECTOR AUDITING

A. Institutional Framework for Public Sector Auditing

20. Effective scrutiny by the legislature through comprehensive, competent external audit underpinned by international standards on auditing enables accountability for the implementation of fiscal and expenditure policies. The environment for an effective Supreme Audit Institution (SAI) requires a comprehensive approach to public financial management. Supreme Audit Institutions are not stand-alone institutions; they are part of a PFM architecture that also includes budgeting, accounting, internal control, audit and legislative oversight, and government response. Improving the way the Maldives Supreme Audit Institution functions is integral to providing information for improving the overall PFM system, but the action must be within the executive branch under the watchful eyes of the legislature and the public. A strong demand for good public sector external auditing is necessary for the Supreme Audit Institution to have any impact. This requires willingness of the executive branch to accept and respond to external scrutiny over its management of funds and to ensure that reform action is taken. It also requires public disclosure of the audit reports in order to ensure public support for effective action.

21. The diagnostic questionnaires used in this assessment collected information describing the current audit arrangements in Maldives and the apparent gaps in the following areas:

- Institutional framework for the Supreme Audit Institution,
- Process for setting auditing standards,
- Use of code of ethics or codes of conduct,
- Arrangements to ensure accountability in the Supreme Audit Institution,
- Arrangements to ensure independence,
- Arrangements to ensure adequate skills and qualifications for the auditors,
- Arrangements for providing training,
- Arrangements to ensure a desired level of competence for the auditors, and
- Arrangements for quality assurance.

(1) Institutional Framework

22. **The appointment and powers of the Auditor General need to be adequately covered in the Audit Act.** The Constitution and relevant laws provide for the President to appoint the Auditor



General with a mandate to audit all government bodies, but does not require that audit reports be published. Commercial state-owned enterprises are audited by accounting firms and can be also reviewed by the Auditor General. The new National Audit Act which was a draft at the time of the study workshop in January 2007 was legislated soon after. Discussions during the workshop also included some desirable changes to improve the effectiveness of the Audit function. Some revisions have now been made to the final Act, and these revisions do provide additional value to the final legislation, which now provides for a better institutional framework.

(2) Setting Auditing Standards

23. **The Audit Act empowers the Auditor General to set auditing standards.** The Auditor General should formally adopt INTOSAI Auditing Standards and International Standards on Auditing promulgated by the International Auditing and Assurance Standards Board (IAASB) of the IFAC. The Australian National Auditing Office Auditing Standards provide a model that incorporates the relevant professional standards and adds some specific public sector standards.⁷ The INTOSAI Auditing Standards supported by the detailed IAASB International Standards on Auditing underpin a modern audit process. The IAASB is progressively rolling out International Standards on Auditing. INTOSAI supports the IAASB's development of auditing standards. This is being done in particular so that the IAASB International Standards on Auditing appropriately reflect the interests of the international public sector audit community.

24. The IAASB International Standards on Auditing represent the best international practices for the auditing profession, particularly in such areas of fundamental auditing practice as the following:

- audit evidence,
- documentation,
- audit materiality,
- fraud,
- audit errors,
- audit opinions,
- audit planning,
- control environment assessments, and
- supervision of the work of audit staff.

(3) Code of Ethics

25. **The Auditor General should adopt the INTOSAI Code of Ethics.** Along with INTOSAI's Lima Declaration of Guidelines on auditing precepts,⁸ the INTOSAI Code of Ethics is considered an essential complement to the INTOSAI Auditing Standards. A code of ethics is a statement of values and principles guiding the daily work of the auditors. The Supreme Audit Institution has adopted neither the IFAC-issued Code of Ethics for Professional Accountants nor the INTOSAI Code of Ethics.

⁷ Notified in the Australian Commonwealth Gazette No. G45, November 16, 2005

⁸ Lima Declaration of Guidelines on Auditing Precepts, October 1977, INTOSAI



(4) Accountability in the Supreme Audit Institution

26. **The Institutional Development Plan in strengthening the Office of the Auditor General should assist in the design of the annual report required by the Public Finance Act.** An Institutional Development Plan and capacity-building technical assistance are under implementation at the time of this assessment. The technical assistance should give aid to the advisement on the development of an annual report on operations and performance. This report would provide an objective, balanced, and understandable account of activities and achievements and provide transparency in the accountability process.

(5) Independence

27. **The National Audit Act should provide effective independence to the Auditor General.** Five of the eight core principles of SAI independence that were set out by INTOSAI were only partially, if at all, met by the legislative and administrative framework prevalent at the time of the study workshop in January 2007. These are:

- The independence of the SAI Heads including security of tenure and legal immunity in the normal discharge of their duties.
- The obligation to report.
- The freedom to decide on the content and timing of SAI reports and to publish and disseminate them.
- The existence of effective follow-up mechanisms on SAI recommendations.
- Financial and managerial autonomy and the availability of appropriate human, material, and monetary resources.

The recently enacted Audit Act now satisfactorily resolves some of these concerns but some concerns still remain. They are (i) specific term of appointment for the Auditor General is still not set, (ii) reporting requirements are still fairly minimal, (iii) there is no statement of legal immunity, and (iv) there is little to guarantee follow up of the audit reports that are made,

(6) Qualifications and Skills for the Auditors

28. **Improved distance learning education is needed to establish the necessary standards for training and education.** The quality of accounting and auditing educational and training arrangements in the Maldives does not meet the needs of modern accounting and financial management. The ongoing technical assistance from the World Bank will look at training and certification needs, and provide a long-term human resource plan.

(7) Training

29. **An in-house training unit for government auditors should be introduced.** At present training is achieved through overseas courses. The technical assistance from the World Bank includes building an in-house training capacity.

30. **A skills analysis program based on international standards for competencies should be conducted.** The Office of the Auditor General does not have basic facilities for training, research, and

development. A proper needs-based approach is required that will support the introduction of an audit methodology, and international accounting and auditing standards. The Institutional Development Plan would be used to re-assess these needs.

(8) Audit Competence

31. **The roll-out of a computerized accounting system is likely to take some years and at that stage the Auditor General will require additional hardware and software support.** The technical assistance from the World Bank will develop training toolkits covering audit methodology, reporting, and quality control for financial and computerized audit.

(9) Quality Assurance

32. **There is a need to introduce a system of quality assurance.** This requirement is included in the ongoing technical assistance from the World Bank.

B. Auditing Standards as Practiced

33. The diagnostic questionnaires have been used to collect information about the current arrangements for the audit methodology and the apparent gaps in the country for:

- audit planning
- audit supervision
- reviewing internal controls
- reviewing compliance with laws
- ensuring that adequate audit evidence is collected
- analyzing whether the financial statements accord with accounting standards
- preparing audit opinions
- reporting on fraud, and
- reporting on compliance.

Out of this exercise came recommended activities that will help bring local standards in line with international standards.

(1) Audit Planning

34. **The updated Audit Manual would provide a sound basis for audit planning and thus needs to be implemented.** Improvements in implementation will occur as training is provided in certification audit under the technical assistance.

(2) Audit Supervision

35. **A more rigorously applied working paper system is needed to ensure proper supervision.** Current supervision is hampered by incomplete working papers. Quality assurance as required by the Audit Manual will help to ensure that supervision takes place properly.



(3) Reviewing Internal Controls

36. **An update of the Audit Manual will support the review of internal controls.** The general budget sector audits examine transactions in accordance with the rules established by the Financial Regulations. They therefore report on where controls have not been applied. They approach the audit from the perspective of material misstatement of an accounting figure. INTOSAI has issued a paper on internal control standards that provides a good international benchmark for assessing internal controls.⁹ The technical assistance will provide the basis to provide any necessary updates to the Audit Manual.

(4) Reviewing Compliance

37. **Necessary steps need to be taken in order to maintain compliance of audit work.** Publishing audit reports, monitoring the implementation of the recommendations, and reporting on the process in the annual performance report are all necessary. The Office of the Auditor General uses much of its resources for the compliance type of audit work. An important issue is whether the audits are effective in dealing with instances of noncompliance. In the absence of published audit reports, there is little opportunity to press for response effectively.

(5) Analyzing the Financial Statements

38. **The Public Finance Act requires certification of ministry and government financial statements.** The technical assistance from the World Bank will help develop effective analytical tools. A revised audit methodology will improve the way the Office of the Auditor General analyzes financial statements.

⁹ *Guidelines for Internal Control Standards, Internal Control Standards Committee, International Organization of Supreme Audit Institutions, 1998.*