

Maldives

Public Sector Accounting and Auditing

A Comparison to International Standards



The World Bank



Government of Maldives

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South Asia Region Financial Management Unit
June, 2007



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Country Report



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ABBREVIATIONS AND ACRONYMS

AG	Auditor General
CFO	Chief Financial Officer
CIPFA	Chartered Institute of Public Finance and Accountancy, United Kingdom
GoM	Government of Maldives
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standard
IDF	Institutional Development Fund
IES	International Education Standards for Professional Accountants
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standard
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards (of IFAC)
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standard for Auditing
MoFT	Ministry of Finance & Treasury
NAO	UK National Audit Office
PAS	Public Accounting System
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PSC	Public Service Commission
PSTI	Public Service Training Institute
SAI	Supreme Audit Institution
SOE	State-Owned Enterprise





ACKNOWLEDGMENTS

This assessment of accounting and auditing standards and practices in the public sector was carried out in active collaboration with the Government and various stakeholders, particularly the Auditor General and his staff; and the Ministry of Finance and Treasury.

The review was conducted through a participatory process that involved these stakeholders whose responses to issues raised in the diagnostic questionnaires were especially useful. The team of advisors and development partners also contributed greatly to the early stages of the concept note and framework development, as well as drafting of earlier reports for this study which ultimately covers the countries of the South Asia Region: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

The following World Bank Task Team was responsible for this report with general guidance from the advisors on this review program and the development partners who collaborated in this program. The Maldives report benefited from the comments of its peer reviewers, M. Mozammel Hoque, Senior Financial Management Specialist and Christian Eigen-Zucchi, Economist in the World Bank. The final report was developed after a consultative workshop held in Male on January 14, 2007 and was provided to the Government for comment. Subsequent to the workshop, the Audit Bill (2002) has also recently been enacted as an Audit Act on March 13, 2007 and accordingly, revisions have been made in the report.

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EXECUTIVE SUMMARY

1. This assessment of public sector accounting and auditing standards is generally meant to assist with the implementation of more effective public financial management (PFM) through better quality accounting and public audit processes in Maldives. It is intended to provide greater stimulus for more cost-effective outcomes of government spending. The specific objectives are (a) to provide the country's accounting and audit authorities and other interested stakeholders with a common well-based knowledge as to where local practices stand in comparison with internationally developed standards of financial reporting and audit; (b) to assess the causes of the prevailing variances; (c) to chart paths to reduce the variances; and (d) to provide a continuing basis for measuring improvements. The World Bank is supporting initiatives to develop local systems so that donors can increase their use of country systems for their own grants and loans. Other donors are cooperating with the Bank in this approach.

2. Adoption of international standards for accounting and auditing provides the basis for competent financial reporting and transparency. The International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) has developed a core set of International Public Sector Accounting Standards (IPSAS) for accrual-based systems, as well as one for cash basis of accounting. These establish an authoritative set of independent international financial reporting standards for governments and others in public sector organizations. Application of IPSAS will support developments in public sector financial reporting directed at improving decision-making, financial management, and accountability; and it will be an integral element of reforms meant for promoting social and economic development. The IPSASB has also developed guidelines for the migration from cash basis to accrual-based financial reporting.¹ The traditional emphasis on cash basis of accounting has been found inadequate because of its failure to recognize true costs, and all assets and liabilities. Cash basis of accounting can too easily neglect asset management, accumulating arrears, future liabilities (e.g., pensions), and contingent liabilities (e.g., guarantees).

3. The International Organization of Supreme Audit Institutions (INTOSAI) supports the development of auditing standards developed by the International Auditing and Assurance Standards Board (IAASB). The INTOSAI Auditing Standards, which are supported by the detailed IAASB International Standards on Auditing (ISA) underpin a modern audit process. The IAASB is progressively rolling out international auditing standards in order to appropriately reflect the interests of the international public sector audit community.

¹ *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities, Study 14, IFAC Public Sector Committee, December 2003.*



4. Annex A explains the methodology used for the study. Annex B provides a summary of international accounting and auditing standards referred to in this study. Annex C and D provide country accounting and auditing legislation, respectively. Lastly, Annex E includes a description of the benefits of accrual accounting. The desired actions indicated by this assessment are summarized below.

5. **Build on the current cash basis of financial reporting under the Cash Basis IPSAS and chart a path to subsequent implementation of the Accrual Basis of Accounting.** The IPSASB encourages governments to progress to the Accrual Basis of accounting and to harmonize national requirements with the IPSAS. Immediate reporting in the format of the Cash Basis IPSAS, and then progressive adoption of Accrual Basis reporting is needed to meet the requirement of the Public Finance Act.

6. A Supplementary Table of Standards and Gaps of this report provides a matrix detailing the accounting standards, the present position, and options for improvement. A summary of these accounting issues is shown in Table ESI.

7. **Adopt the IFAC-issued International Standards on Auditing to the more specific INTOSAI Auditing Standards, as well as to existing audit manuals and procedures.** The new, amended Audit Act mandates the adoption of international standards. The Auditor General currently uses an Audit Manual which follows the prescriptions of the INTOSAI Auditing Standards but they have not been formally adopted. The implementation of the new Audit Act and the implementation of an Institutional Development Plan for the Office of the Auditor General should introduce modern audit reporting and a modern audit organization.² Audit recommendations and observations should be made public.

TABLE ESI. SUMMARY OF ACCOUNTING STANDARDS ISSUES IN THE MALDIVES

<i>Standard</i>	<i>Current status</i>	<i>Action to move towards international standards</i>
1. Does the Public Sector Accounting Law adopt IPSAS?	No	The Auditor General would prescribe the adoption of IPSAS for Maldives (to be confirmed and communicated by GoM by March, 2007).
2. Does education and training of accountants accord with IES?	No	Distance learning education arrangements are needed. A proposal is required to be drafted jointly by Ministry of Higher Education, Public Service Training Institute (PSTI), Public Service Commission (PSC), Ministry of Finance and Treasury (MoFT) and the AG by June, 2007 (led by MoFT)
3. Does the Code of Ethics match international standards?	No	There is a need to develop a Code. The MoFT is to develop a Code of Ethics for public sector accountants – by December, 2007.
4. Is there a body to prescribe public sector accounting standards?	The Auditor General has this responsibility under the proposed Audit Act.	MoFT will be issuing implementation guidelines as per the principles and standards prescribed by the AG.

² This is proposed to be completed under an IDF grant financed by the World Bank for institutional development and capacity building of the audit office of Maldives.

Standard	Current status	Action to move towards international standards
5. Are the financial statements in accord with international standards?	No	By June, 2007, MoFT would form a Committee to define the reporting entity. IPSAS format will be used as part of the roll out of the Public Accounting System (PAS) project – by January, 2009. The IPSAS formats for statements, explanatory notes and disclosures will be used as part of the roll out of the PAS project – by January, 2009.
6. Is the statement of Cash Receipts and Payments in IPSAS form?	No	
7. Are accounting policies and explanatory notes required?	No	
8. Are other disclosures in accord with IPSAS?	No	
9. Does the government issue a consolidated financial statement which consolidates all controlled entities?	No	

8. A Supplementary Table of Standards and Gaps of this report provides a matrix detailing the current standards, present position, and options for improvement. A summary of these auditing issues are shown in Table ES2.

TABLE ES2. SUMMARY OF AUDITING STANDARDS ISSUES IN THE MALDIVES

Standard	Current status	Action to move towards international standards
1. Is the SAI statutory framework in accord with the needs of the INTOSAI Auditing Standards?	Yes ³	The Republic of Maldives has recently enacted the Audit Act (included in Annex D) following the workshop in January 2007, which provides an adequate statutory framework. The effectiveness of the implementation of the new Audit Act is yet to be seen
2. Is there a body to prescribe public sector auditing standards?	Yes ⁴	The Audit Act needs to prescribe the AG as the responsible body and S. 5 of the recently enacted Audit Act (included in Annex D) provides this. The AG could work jointly with the proposed professional body to develop implementation guidelines.
3. Have INTOSAI and IFAC audit standards been adopted?	The Audit Manual is based on them.	

³ Current status has recently changed due to enactment of the Audit Act on March 13, 2007

⁴ Current status has recently changed due to enactment of the Audit Act on March 13, 2007

Standard	Current status	Action to move towards international standards
4. Has a code of ethics equivalent to the INTOSAI standards been adopted?	No	A code will be developed as part of the ongoing IDF grant and it needs to be adopted by the AG. (by Jan.2008)
5. Is the accountability process in the SAI in accord with INTOSAI Auditing Standards?	No	An annual report is required by 2007.
6. Does the SAI legal framework meet the INTOSAI standards for independence and powers?	No	The new Audit Act at Annex D provides for these and satisfactorily adopts the recommendations made by the UK National Audit Office (NAO) team and the Task Team (World Bank)) on the draft Audit Bill examined during this study.
7. Does education and training of auditors accord with INTOSAI and IES standards?	No	A needs analysis is being carried out by the NAO institutional strengthening team. Formation of the proposed professional body and opportunities like overseas practical experience or secondment and joint audits with other SAIs and/or professional firms could help. A proposal is to be drafted jointly by Ministry of Higher Education, PSTI, PSC, MoFT and the AG by June, 2007 (led by MoFT) for creating institutional education and training facilities in Maldives supported, if need be, by distance learning syllabi from academic and professional bodies overseas.
8. Is the SAI equipped with the audit methods and technologies to meet the INTOSAI Auditing Standards?	No	The ongoing IDF grant will give assistance for developing this, but additional computer software and hardware are needed by 2008 for certification auditing.
9. Does the SAI have the quality assurance programs to meet international standards?	No	The ongoing technical assistance through IDF will introduce this program by Sep.2008.
10. Does the process to plan the audits meet international standards?	Yes	
11. Does the process to supervise the audits meet international standards?	Yes	
12. Does the process to evaluate the reliability of internal controls meet international standards?	Yes	

Standard	Current status	Action to move towards international standards
13. Does the process used in audits to assess compliance with laws meet international standards?	Yes	
14. Does the audit process used to obtain evidence to support conclusions meet international standards?	Yes	
15. Does the audit analyze the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with?	No	Certification audits from 2009 will need this capacity and the technical assistance will provide it.
16. Does the auditor prepare an audit opinion on the financial statements in a form that accords with international standards?	Yes for the SOEs	Certification audits from 2009 will need this capacity and the technical assistance will provide it.
17. Does the consideration of fraud and error in an audit of financial statements accord with international standards?	Yes	
18. Is the process for taking action on audit recommendations sufficiently effective to meet international standards?	No, because the audit reports are not made public	The recently enacted Audit Act allows public reporting. Its implementation and effectiveness needs to be examined
19. Is the process for taking action on audit recommendations sufficiently effective to meet international standards?	No	The IDF grant TA will cover the preparation of recommendations for this.

9. **Improve public financial management through a more effective chief financial officer arrangement.**⁵ The Public Finance Act relies on a comprehensive and timely accounting and financial reporting system that is supported by competent assurance from a professional audit function that the

⁵ A financial controller for the Government was appointed in March 2006, as required under the recently enacted Public Finance Act 2005.

system is working properly and that the information is reliable. The accountable officers required for the new public finance system should undertake the functions of maintaining systems of internal financial controls that manage risks, and for preparing the accounts for signature. There should be a requirement for all government bodies including state-owned enterprises to make their audited accounts public.

10. **Improve accounting and auditing skills.** Improved compliance with international standards requires properly trained staff. Basic accounting and auditing skills need to be enhanced. Distance learning education arrangements with foreign accounting institutions could be used to strengthen public sector accounting and auditing skills.

11. **Improve audit impact.** Prepare a PFM indicators survey to provide the basis for monitoring progress in adopting and applying international standards. Improvement of audit impact should be monitored through the progress of the Institutional Development Plan proposed to strengthen the Office of the Auditor General over the next few years.



INTRODUCTION

1. This assessment of public sector accounting and auditing is to facilitate more efficient implementation of Public Financial Management (PFM) in Maldives through better quality accounting and public audit processes. It is intended to provide greater stimulus for more cost-effective outcomes of government spending. The specific objectives are (a) to provide the country's accounting and audit authorities and other interested stakeholders with a common well-founded knowledge as to where local practices stand in comparison with internationally developed standards of financial reporting and audit; (b) to assess the prevailing variances; (c) to chart paths to reduce the variances; and (d) to provide a continuing basis for measuring improvements.

2. In conducting this assessment of the Maldives, information on national standards and practices for accounting, financial reporting, and auditing in the government budget sector and in the state-owned enterprise sector were collected from diagnostic questionnaires that were completed in cooperation with country authorities. The diagnostic questionnaires incorporated the principles contained in the public sector accounting and auditing standards promulgated by International Organization of Supreme Audit Institutions (INTOSAI) and International Federation of Accountants (IFAC). The responses to these questionnaires were further explored through discussions conducted by a World Bank team with the country authorities. These discussions included examination of accounts and audit reports and working papers, to explore the quality of the processes and the products. Annex A further explains the methodology used for the assessment.

3. The analysis in this report has been conducted in the light of PFM reform plans that the Government of the Maldives has been implementing. A Public Finance Act was enacted in 2005. In response to the Act, the Ministry of Finance and Treasury is engaged in implementing an accounting system to support annual accounts for each ministry and for the State. The legislature is in the process of approving a new National Audit Act. The Auditor General has been invited to form a committee that will provide comments on the proposed law. The legislation of a new National Audit Act and the implementation of an Institutional Development Plan for the Office of the Auditor General should introduce modern audit reporting and a modern audit organization. A program for provision of technical assistance to the Office of the Auditor General is under implementation through an Institutional Development Fund (IDF) grant provided by the World Bank.

4. Annex B provides a summary of international accounting and auditing standards referred to in this study. Annex C and D provide country accounting and auditing legislation, respectively. Annex E includes a description of the benefits of accrual basis of accounting. The report is accompanied by a Supplemental Table of Standards and Gaps, which summarizes for each component of current accounting and auditing standards, the present position, and the options for improvements that would bring Maldives into closer conformance with the international standards.





PUBLIC SECTOR ACCOUNTING

A. Institutional Framework for Public Sector Accounting

5. The institutional framework should include adherence to IFAC-issued International Accounting Standards. And it should support the groundwork for qualified accounting staff to provide the timely, relevant, and reliable financial information needed to support all fiscal and budget management, decision-making, and reporting processes. The diagnostic questionnaires that were used in this assessment collected information on the current arrangements and the apparent gaps in Maldives for accounting laws and regulations; education and training of public sector accountants; application of a code of conduct; and numbers and characteristics of public sector accountants.

(1) Accounting Laws and Regulations

6. **The Public Finance Act and the Financial Regulations are prescriptive about the maintenance and compilation of accounts but make no mention of International Accounting Standards.** The Public Finance Act (see Annex C) should require conformance with International Public Sector Accounting Standards (IPSAS). However, under the Public Finance Act, there are proposed rules that would promulgate the allowance of IPSAS to be followed. The future accounts should be based on Cash Basis IPSAS with notes providing other information on assets, liabilities, and contingent liabilities as required by the Public Finance Act. Progression to accrual-based statements would occur as adequate computerized accounting systems are rolled out.

7. **A modern financial reporting framework is required for better accountability.** The accounting function has been located in the Treasury. However, this has not provided a good separation of duties among departments. As new computerized public accounting systems are implemented, more suitable accounting units must be established, preferably in the ministries. Producing annual audited accounts within each government department will hold senior departmental managers accountable for their operations and use of budget funds. Development of the computerized accounting system has a tight timeline requiring intensive efforts for meeting the targets. The World Bank will provide the Ministry of Finance and Treasury with technical advice on the progressive design and implementation of the computerized public accounting system.

(2) Education and Training

8. **Better opportunities for educating and training government accountants should be developed.** Government accountants are recruited with limited accounting knowledge due to the lack



of proper curricula in universities. Government accountants need exposure and training in international accounting standards from professional institutions. Many training institutions provide a foundation for public sector accountancy qualifications of international standards, on an outreach basis. There is no comprehensive local training institution in Maldives, but the professional certification offered by the UK Association of Chartered Certified Accountants is available locally up to Stage 2. These professional accounting outreach programs will provide the core competencies needed for public sector accounting and reporting.

9. A training program that meets the IFAC-issued International Education Standards (IES) for Professional Accountants is needed for the public sector accountants and auditors.

Consideration should be given in due course to adopting the public sector program of institutes like the Chartered Institute of Public Finance and Accountancy (CIPFA) in United Kingdom. This course can be adapted for local conditions and would provide a path for sustained, improved training. The advantage of this is that the CIPFA learning materials take into account international audit and accounting standards as required for adoption by public sector organizations. Among the CIPFA learning materials are modules covering financial reporting, accounting for decision-making, financial management, law and taxation, and information systems management.

10. The Ministry of Finance and Treasury needs to develop training plans. There is a need for constant upgrading of training for government accountants in the requirements of the Public Finance Act and the Public Financial Regulations and in the standards for preparing financial statements.

(3) Code of Ethics

11. A code of ethics is needed to improve financial compliance and build the professionalism of the government accounting staff. The current code in practice is part of the government employment contract and relates to public service behaviour. It has little relevance to the IFAC Code of Ethics for Professional Accountants. A strongly directed code of ethics could help build public support that would aid in improving the state of public financial management in the country. The IFAC Code of Ethics should be the model used in preparing the national code.

12. The training programs should include ethics training and how the code ensures proper behaviour. With certification under the professional qualifications outreach programs, accounting staff will be required to follow a code of ethics and conduct. For example government accountants who are accepted into membership of professional institutes — whether as affiliates (for the Diploma holders) or as qualified accountants (for those who complete the full professional qualification) — would be required to abide by the code of ethical standards of the respective institute, which is based on the IFAC Code.

(4) Public Sector Accountant Arrangements

13. The preparation of financial statements for each ministry requires a system of internal control. For each public sector body that prepares annual accounts, there should be a professionally qualified chief financial officer function.⁶ The person in this position would be responsible for maintaining

⁶ A financial controller for the Government was appointed in March 2006, as required under the recently enacted Public Finance Act 2005.

systems of internal financial controls that manage risks, and for preparing the accounts for signature by the chief accounting officer. The need to produce financial statements for each ministry would require well-working systems of internal financial controls. At the present time audit results are not being translated sufficiently into remedial action. The Public Finance Act provides for an accountable officer (with the functions of a chief financial officer) for each ministry. The duties of the accountable officer are yet to be defined in the Public Finance Instructions, but they should include the following functions:

- maintain systems of internal financial controls that manage risks,
- ensure that accounting and financial approval duties are properly carried out,
- ensure that the staff perform their duties in accordance with the Public Finance Instructions,
- prepare regular financial accounts,
- maintain the chart of accounts,
- ensure the most appropriate technological support for financial management practices,
- manage training and education needs for financial management,
- report on key performance indicators, and
- assist program managers in developing an effective financial approach to the delivery of expected outcomes.

B. Accounting Standards as Practiced

14. The diagnostic questionnaires have collected information on the current arrangements and the apparent gaps for setting public sector accounting standards and for presenting financial reports. Out of this exercise came recommended activities that will help bring local standards in line with international standards.

(1) Setting Public Sector Accounting Standards

15. **More formal administrative actions should be taken by the Auditor General to set public sector accounting standards.** Under the Constitution, the accounts of the State are kept and maintained in such form and manner as prescribed by the Auditor General in consultation with the President of Maldives. The Public Finance Act sets the form of the annual accounts but does not specify the accounting standards required in preparing financial statements. The Auditor General should advise the President that Cash Basis IPSAS should be used as the international accounting standard in preparing financial statements with a road map to move to full accrual-based reporting over a period of time.

(2) Presenting Financial Reports

16. **Annual financial statements should be prepared in accordance with Cash Basis IPSAS, with some early planning for effecting a transition to adopt accrual-based IPSAS.** The current annual reporting statements do not accord with the format of the Cash Basis IPSAS but steps should be taken that allow them to do so in the future. The Auditor General should hold discussions with the Ministry of Finance and Treasury to arrange for the setting of standards in a formal manner and to reach an agreement that future accounts be presented in the format of Cash Basis IPSAS. Also

consolidation of controlled entities into the cash basis statements as per I.6.5 of the Cash Basis IPSAS (e.g. public enterprises) should be considered.

17. State-owned enterprises should comply with new governance requirements established by the Public Enterprise Monitoring Board. State-owned enterprises follow International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) which require that the financial accounts should be produced annually within three months of the year-end, in accordance with good accounting practice, and should include the following:

- Profit and loss accounts for the year.
- Cash flow statements for the year.
- Balance sheet showing the position at year end.
- Notes to support the financial accounts that set out the company's accounting policies and the main components of the accounts as required by good practice. The financial accounts should also be accompanied by a director's report that details financial activities of the company in the past and future.

18. **All government bodies should be required to make all audited accounts available to the public.** At present few accounts are available publicly, and governance requirements about the public availability and transparency requirements for these annual accounts should be made clearer.

19. **The Auditor General should arrange consultations with the accountancy professions in the neighboring countries to consider ways of establishing similar professional accountancy arrangements in the Maldives.** The Public Enterprise Monitoring, which receives the audited accounts of state-owned enterprises, notes that in a few cases there have been audit qualifications to the accounts that have mainly been related to assets issues. This is one example of accounting problems that exist in the Maldives. The country does not have a professional accountancy body to help regulate and support the profession. Other countries in the Region have larger numbers of professionals and operate professional bodies to regulate and support the accountants. The level of professionalism in the Maldives may be improved by regional consultations and cooperation to develop similar arrangements in the country.





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.*

4

ACTION PLANS

Accounting Standards Issue	Current status	Action to be taken to move towards international standards
1. Has the Public Sector Accounting Law adopted IPSAS?	No	The Auditor General (AG) would prescribe the adoption of IPSAS for Maldives (to be confirmed and communicated by GoM by March, 2007).
2. Does the education and training of accountants' accord with IES?	No	A proposal is required to be drafted jointly by Ministry of Higher Education, Public Service Training Institute (PSTI), Public Service Commission (PSC), Ministry of Finance and Treasury (MoFT) and the AG by June, 2007 (led by MoFT)
3. Does the ICAB Code of Ethics match international standards?	No	The MoFT is to develop a Code of Ethics for public sector accountants – by December, 2007.
4. Is there a body to prescribe public sector accounting standards?	The Auditor General has this responsibility under the Constitution	MoFT will be issuing implementation guidelines as per the principles and standards prescribed by the AG.
5. Are the financial statements in accord with the IPSAS standard?	No	By June, 2007, MoFT would form a Committee to define the reporting entity. IPSAS format will be used as part of the roll out of the accounting system project – by January, 2009.
6. Is the statement of cash receipts and payments in IPSAS format?	No	The IPSAS formats for statements, explanatory notes and disclosures will be used as part of the roll out of the PAS project – by January, 2009.
7. Are accounting policies and explanatory notes required?	No	
8. Are other disclosures in accord with IPSAS?	No	
9. Does the government issue a consolidated financial statement which consolidates all controlled entities?	No	



Auditing Standards Issue	Current status	Action to be taken to move towards international standards
1. Is the SAI statutory framework in accord with the needs of the INTOSAI Auditing Standards?	Yes ¹⁰	The Republic of Maldives has recently enacted the Audit Act (included in Annex D) following the workshop in January 2007 and provides an adequate statutory framework. The effectiveness of the implementation of the new Audit Act is yet to be seen
2. Is there a body to prescribe public sector auditing standards?	Yes ¹¹	The Audit Act needs to prescribe the AG as the responsible body and S. 5 of the recently enacted Audit Act (included in Annex D) does this. The AG could work jointly with the proposed professional body to develop implementation guidelines.
3. Have INTOSAI and IFAC audit standards been adopted?	Yes. The Audit Manual is based on them.	
4. Has a code of ethics equivalent to the INTOSAI Auditing Standards been adopted?	Not for the core public sector. Most SOEs are audited by the private sector auditors.	A code will be developed as part of the IDF grant and it needs to be adopted by the AG. (by Jan.2008)
5. Is the accountability process in the SAI in accord with INTOSAI Auditing Standards?	No	An annual report is required by 2007.
6. Does the SAI legal framework meet the INTOSAI Auditing Standards for independence and powers?	No	The new Audit Act at Annex D provides for these and satisfactorily adopts the recommendations made by the UK National Audit Office (NAO) team and the Task Team (World Bank)) on the draft Audit Bill examined during this study .
7. Does the education and training of auditors accord with INTOSAI and IES?	No	A needs analysis is being carried out by the NAO team. Formation of the proposed professional body and opportunities like overseas practical experience or secondment and joint audits with other SAIs and/or professional firms could help. A proposal to be drafted jointly by Ministry of Higher Education, PSTI, PSC, MoFT and the AG by June, 2007 (led by MoFT) for institutional education and training facilities in Maldives supported as necessary by distance learning syllabi from academic and professional bodies overseas.
8. Is the SAI equipped with the audit methods and technologies to meet the INTOSAI Auditing Standards?	No	The ongoing IDF grant will give assistance for developing this, but additional computer software and hardware are needed by 2008 for certification auditing.

¹⁰ Current status has recently changed due to enactment of the Audit Act on March 13, 2007

¹¹ Current status has recently changed due to enactment of the Audit Act on March 13, 2007

Auditing Standards Issue	Current status	Action to be taken to move towards international standards
9. Does the SAI have the quality assurance programs to meet the international standards?	No	The ongoing technical assistance through IDF will introduce this program by Sep.2008.
10. Does the process to plan the audits meet international standards?	Yes	The development plan will address variations in planning requirements caused by the Public Finance Act.
11. Does the process to supervise the audits meet international standards?	Yes	
12. Does the process to evaluate the reliability of internal control meet international standards?	Yes	
13. Does the process used in audits to assess compliance with laws meet international standards?	Yes	
14. Does the audit process used to obtain evidence to support conclusions meet international standards?	Yes	
15. Does the audit analyze the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with?	No	Certification audits from 2009 will need this capacity and the technical assistance will provide it.
16. Does the auditor prepare an audit opinion on the financial statements in a form that accords with international standards?	For SOEs commercial sector auditors use international standards. For the government no certified accounts are produced at present.	Certification audits from 2009 will need this capacity and the technical assistance will provide it.
17. Does the consideration of fraud and error in an audit of financial statements accord with international standard?	Yes	
18. Are the Auditor General's reports made public?	No	The new Audit Act includes public reporting of the audit report on the annual financial statements of the Government. It will be important for reports on all audits done to be made public as well as be included in the quarterly reports to the Parliamentary Committee.
19. Is the process for taking action on audit recommendations sufficiently effective to meet international standards?	No	The IDF grant will cover the preparation of recommendations for this. The Audit Act specifies that the Auditor General will submit quarterly reports on work undertaken by his Office to a Parliamentary Committee acting in the capacity of a Public Accounts Committee.

Annex - A

METHODOLOGY OF THE ASSESSMENT

As part of the general support program in South Asia for the assessment and improvement of public sector accounting and auditing against international standards, the World Bank is conducting the Review of Public Sector Accounting and Auditing Practices in member countries, with the cooperation of member governments. The development of the Public Financial Management (PFM) Performance Measurement Framework¹² by the Public Expenditure and Financial Accountability (PEFA) Program¹³ has opened the way for a diagnostic tool to be developed that is referenced to the accounting and auditing standards of International Federation of Accountants (IFAC) and International Organization of Supreme Audit Institutions (INTOSAI), and other relevant international benchmarks. This exercise provides substantial insight into country performance in regard to the external auditing and financial statement reporting FM indicators.

A set of 6 questionnaires are used to collect relevant information on country practices:

- **The public sector accounting environment** collecting basic information about financial laws and standards-setting arrangements, educational requirements for accountants compared with IFAC International Education Standards, and ethical requirements compared with the IFAC Code of Ethics for Professional Accountants.
- **Public sector accounting practices for the general budget sector if using the cash basis of accounting** compared with the requirements of the Cash Basis International Public Sector Accounting Standards (IPSAS).
- **Public sector accounting practices for the general budget sector if using the accrual basis of accounting** compared with the IPSAS requirements that govern accrual reporting for the public sector.
- **Public sector auditing environment** compared with the provisions of the INTOSAI Code of Ethics and the INTOSAI general standards.

¹² The PFM Performance Measurement Framework has been developed as a contribution to the collective efforts of many stakeholders to assess and develop essential PFM systems, by providing a common pool of information for measurement and monitoring of PFM performance progress, and creating a common platform for dialogue.

¹³ The PEFA Program is a partnership among the World Bank, the European Commission, the UK Department for International Development, the Swiss State Secretariat for Economic Affairs, the French Ministry of Foreign Affairs, the Royal Norwegian Ministry of Foreign Affairs, the International Monetary Fund and the Strategic Partnership with Africa. A Steering Committee, comprising members of these agencies, manages the program. A Secretariat is located in the World Bank in Washington, DC.

- **Public sector auditing practices** compared to the requirements of the INTOSAI field standards and reporting standards, and the IFAC International Standards on Auditing.
- **Accounting and auditing practices for state-owned enterprises** compared with the requirements of the International Financial Reporting Standards (IFRS) and International Standards on Auditing that govern commercial reporting.

The responses to the diagnostic questionnaires, prepared by the relevant authorities of the country, with the help, as necessary, of in-country experts retained by the World Bank, are supplemented by a due diligence review conducted by members of a World Bank task team from the country.

Various documents are examined as part of the review, including relevant laws, codes of conduct, national accounting and auditing standards, accountant selection and promotion processes, training needs assessments, accountancy training course outlines, curricula and accreditation methods, sample accounts, and sample audit reports and working paper sets.

A country report on the assessment is prepared for each country and reviewed by an expert panel of advisors before examination by the World Bank country team. The draft is then shared with the Government for response before finalization.



Annex - B

ACCOUNTING AND AUDITING STANDARDS

This section contains a summary of the frameworks that have been used for the public sector accounting and auditing assessment.

These have been compiled by the International Accounting Standards Board (IASB), the International Federation of Accountants (IFAC) and the International Organization of Supreme Audit Institutions (INTOSAI), which are cooperating in setting international standards for accounting and auditing.

The IASB is an independent, privately funded accounting standard-setter based in London, UK. The Board members come from nine countries and have a variety of functional backgrounds. In the public interest, IASB is committed to developing a set of high quality, understandable, and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements. In addition, the IASB cooperates with national accounting standard-setters to achieve convergence in accounting standards around the world. The IASB issued International Accounting Standards (IAS) from 1973 to 2000. Since 2000, they have issued International Financial Reporting Standards (IFRS).

IFAC has its headquarters in New York, USA and is comprised of 163 member bodies, mainly the national professional accountancy bodies of most countries around the world. The IFAC Board established the International Public Sector Accounting Standards Board (IPSASB) to develop high quality accounting standards for use by public sector entities around the world in the preparation of general purpose financial statements. These are the International Public Sector Accounting Standards (IPSAS). The full text of Standards and Exposure Drafts currently on issue is available at <http://www.ifac.org/publicsector>. The first 20 IPSAS are based on IAS to the extent appropriate for the public sector. IFAC also has established the International Auditing and Assurance Standards Board (IAASB) to prepare and promulgate International Standards on Auditing (ISA) and is now working in cooperation with INTOSAI on preparing public sector guidance on the use of ISA.

INTOSAI includes the Auditors General from almost all national government audit departments around the world and has its Secretariat in the Vienna offices of the Auditor General of Austria. Its Auditing Standards Committee, chaired by the Auditor General of Sweden, produces the INTOSAI Code of Ethics and Auditing Standards, a set of standards at a higher and more generic level than the IFAC-issued ISA. The Auditing Standards Committee is working with the IAASB to prepare practice notes explaining the application of each ISA in the public sector.¹⁴

The various standards are listed on the following pages.

¹⁴ Working Group on Financial Audit Guidelines, INTOSAI Auditing Standards Committee, Swedish National Audit Office, 2004.



International Public Sector Accounting and Education Standards

International Public Sector Accounting Standards

- IPSAS 1, *Presentation of Financial Statements*
 - IPSAS 2, *Cash Flow Statements*
 - IPSAS 3, *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies*
 - IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*
 - IPSAS 5, *Borrowing Costs*
 - IPSAS 6, *Consolidated Financial Statements and Accounting for Controlled Entities*
 - IPSAS 7, *Accounting for Investments in Associates*
 - IPSAS 8, *Financial Reporting of Interests in Joint Ventures*
 - IPSAS 9, *Revenue from Exchange Transactions*
 - IPSAS 10, *Financial Reporting in Hyperinflationary Economies*
 - IPSAS 11, *Construction Contracts*
 - IPSAS 12, *Inventories*
 - IPSAS 13, *Leases*
 - IPSAS 14, *Events after the Reporting Date*
 - IPSAS 15, *Financial Instruments: Disclosure and Presentation*
 - IPSAS 16, *Investment Property*
 - IPSAS 17, *Property, Plant and Equipment*
 - IPSAS 18, *Segment Reporting*
 - IPSAS 19, *Provisions, Contingent Liabilities and Assets*
 - IPSAS 20, *Related Party Disclosures*
 - IPSAS 21, *Impairment of Non-cash Generating Assets*
- Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*

International Education Standards

- IES 1, *Entry requirements to a program of professional accounting education*
- IES 2, *Content of professional accounting education programs*
- IES 3, *Professional skills*
- IES 4, *Professional values ethics and attitudes*
- IES 5, *Practical experience requirements*
- IES 6, *Assessment of professional capabilities and competence*
- IES 7, *Continuing professional development*
- IES 8, *Competence requirements for audit professionals*



International Financial Reporting Standards and International Accounting Standards

IFRS 1,	<i>First-time Adoption of International Financial Reporting Standards</i>
IFRS 2,	<i>Share-based Payment</i>
IFRS 3,	<i>Business Combinations</i>
IFRS 4,	<i>Insurance Contracts</i>
IFRS 5,	<i>Non-current Assets Held for Sale and Discontinued Operations</i>
IAS 1,	<i>Presentation of Financial Statements</i>
IAS 2,	<i>Inventories</i>
IAS 7,	<i>Cash Flow Statements</i>
IAS 8,	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
IAS 10,	<i>Events after the Balance Sheet Date</i>
IAS 11,	<i>Construction Contracts</i>
IAS 12,	<i>Income Taxes</i>
IAS 14,	<i>Segment Reporting</i>
IAS 16,	<i>Property, Plant and Equipment</i>
IAS 17,	<i>Leases</i>
IAS 18,	<i>Revenue</i>
IAS 19,	<i>Employee Benefits</i>
IAS 20,	<i>Accounting for Government Grants and Disclosure of Government Assistance</i>
IAS 21,	<i>The Effects of Changes in Foreign Exchange Rates</i>
IAS 23,	<i>Borrowing Costs</i>
IAS 24,	<i>Related Party Disclosures</i>
IAS 26,	<i>Accounting and Reporting by Retirement Benefit Plans</i>
IAS 27,	<i>Consolidated and Separate Financial Statements</i>
IAS 28,	<i>Investments in Associates</i>
IAS 29,	<i>Financial Reporting in Hyperinflationary Economies</i>
IAS 30,	<i>Disclosures in the Financial Statements of Banks and Similar Financial Institutions</i>
IAS 31,	<i>Interests in Joint Ventures</i>
IAS 32,	<i>Financial Instruments: Disclosure and Presentation see also: See also Financial Instruments - other issues</i>
IAS 33,	<i>Earnings per Share</i>

IAS 34,	<i>Interim Financial Reporting</i>
IAS 36,	<i>Impairment of Assets</i>
IAS 37,	<i>Provisions, Contingent Liabilities and Contingent Assets</i>
IAS 38,	<i>Intangible Assets</i>
IAS 39,	<i>Financial Instruments: Recognition and Measurement see also: See also Financial Instruments - other issues</i>
IAS 40,	<i>Investment Property</i>
IAS 41,	<i>Agriculture</i>

INTOSAI Code of Ethics and Auditing Standards

Code of ethics

Integrity. Auditors have a duty to adhere to high standards of behaviour (e.g. honesty and candidness) in the course of their work and in their relationships with the staff of audited entities.

Independence, objectivity and impartiality. The independence of auditors should not be impaired by personal or external interests. There is a need for objectivity and impartiality in the work and the reports, which should be accurate and objective. Conclusions in opinions and reports should be based exclusively on evidence obtained and assembled in accordance with the SAI auditing standards.

Professional secrecy. Auditors should not disclose information obtained in the auditing process to third parties except for the purposes of meeting the SAI statutory responsibilities.

Competence. Auditors must not undertake work for which they are not competent to perform.

Basic postulates for the auditing standards

- (a) The SAI should consider compliance with the INTOSAI auditing standards in all matters that are deemed material. Certain standards may not be applicable to some of the work done by SAIs, including those organized as Courts of Account, nor to the non-audit work conducted by the SAI. The SAI should determine the applicable standards for such work to ensure that it is of consistently high quality.
- (b) The SAI should apply its own judgment to the diverse situations that arise in the course of government auditing.
- (c) With increased public consciousness, the demand for public accountability of persons or entities managing public resources has become increasingly evident so that there is a need for the accountability process to be in place and operating effectively.
- (d) Development of adequate information, control, evaluation and reporting systems within the government will facilitate the accountability process. Management is responsible for correctness and sufficiency of the form and content of the financial reports and other information.
- (e) Appropriate authorities should ensure the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to the needs of the government, and audited entities should develop specific and measurable objectives and performance targets.



- (f) Consistent application of acceptable accounting standards should result in the fair presentation of the financial position and the results of operations.
- (g) The existence of an adequate system of internal control minimizes the risk of errors and irregularities. It is the responsibility of the audited entity to develop adequate internal control systems to protect its resources. It is also the obligation of the audited entity to ensure that controls are in place and functioning to help ensure that applicable statutes and regulations are complied with, and that probity and propriety are observed in decision-making. The auditor should submit proposals and recommendations where controls are found to be inadequate or missing.
- (h) Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit.
- (i) All audit activities should be within the SAI audit mandate.*
- (j) Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit.
- (k) SAIs should work toward improving techniques for auditing the validity of performance measures.
- (l) SAIs should avoid conflict of interest between the auditor and the audited entity.

* *The full scope of government auditing includes regularity and performance audit.*

Regularity audit embraces:

- i. Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements;
- ii. Attestation of financial accountability of the government administration as a whole;
- iii. Audit of financial systems and transactions including an evaluation of compliance with applicable statutes and regulations;
- iv. Audit of internal control and internal audit functions;
- v. Audit of the probity and propriety of administrative decisions taken within the audited entity; and
- vi. Reporting of any other matters arising from, or relating to, the audit that the SAI considers should be disclosed.

Performance audit is concerned with the audit of economy, efficiency and effectiveness, and embraces:

- vii. Audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies;
- viii. Audit of the efficiency of utilization of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and
- ix. Audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity, and audit of the actual impact of activities compared with the intended impact.

General auditing standards

The auditor and the SAI must be independent.

The auditor and the SAI must possess the required competence.

The auditor and the SAI must exercise due care and concern in complying with the INTOSAI auditing standards. This embraces due care in planning, specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations.

The SAI should adopt policies and procedures to recruit personnel with suitable qualifications.

The SAI should adopt policies and procedures to develop and train SAI employees to enable them to perform their tasks effectively, and to define the basis for the advancement of auditors and other staff.

The SAI should adopt policies and procedures to prepare manuals and other written guidance and instructions concerning the conduct of audits.

The SAI should adopt policies and procedures to support the skills and experience available within the SAI and identify the skills which are absent; provide a good distribution of skills to auditing tasks and assign a sufficient number of persons for the audit; and have proper planning and supervision to achieve its goals at the required level of due care and concern.

The SAI should adopt policies and procedures to review the efficiency and effectiveness of the SAI internal standards and procedures.

Field standards

- (a) The auditor should plan the audit in a manner that ensures that an audit of high quality is carried out in an economic, efficient, and effective way and in a timely manner.
- (b) The work of the audit staff at each level and audit phase should be properly supervised during the audit; the documented work should be reviewed by a senior member of the audit staff.
- (c) The auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal control.
- (d) In conducting regularity (financial) audits, a test should be made of compliance with applicable laws and regulations. The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statement amounts or the results of regularity audits. The auditor also should be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements or results of regularity audits.

Reporting standards

- (a) At the end of each audit the auditor should prepare a written opinion or report, as appropriate, setting out the findings in an appropriate form; its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive.
- (b) It is for the Auditor General to decide finally on the action to be taken in relation to fraudulent practices or serious irregularities discovered by the auditors



IFAC-issued International Standards on Auditing (ISA)

Introductory Matters

- 100 *Assurance Engagements*
- 110 *Glossary of Terms*
- 120 *Framework of ISAs*

Responsibilities

- 200 *Objective and General Principles Governing an Audit of Financial Statements*
- 210 *Terms of Audit Engagements*
- 220 *Quality Control for Audit Work*
- 230 *Documentation*
- 240 *The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements*
- 240A *Fraud and Error*
- 250 *Consideration of Laws and Regulations in an Audit of Financial Statements*
- 260 *Communications of Audit Matters with Those Charged with Governance*

Planning

- 300 *Planning*
- 310 *Knowledge of the Business*
- 320 *Audit Materiality*

Internal Control

- 400 *Risk Assessments and Internal Control*
- 401 *Auditing in a Computer Information Systems Environment*
- 402 *Audit Considerations Relating to Entities Using Service Organizations*

Audit Evidence

- 500 *Audit Evidence*
- 501 *Audit Evidence -- Additional Considerations for Specific Items*
- 505 *External Confirmations*
- 510 *Initial Engagements -- Opening Balances*
- 520 *Analytical Procedures*
- 530 *Audit Sampling*
- 540 *Audit of Accounting Estimates*
- 550 *Related Parties*
- 560 *Subsequent Events*
- 570 *Going Concern*
- 580 *Management Representations*

Using the Work of Others

- 600 *Using the Work of Another Auditor*
- 610 *Considering the Work of Internal Auditing*
- 620 *Using the Work of an Expert*

Audit Conclusions and Reporting

- 700 *The Auditor's Reports on Financial Statements*
- 710 *Comparatives*
- 720 *Other Information in Documents Containing Audited Financial Statements*

Specialized Areas

- 800 *The Auditor's Report on Special Purpose Audit Engagements*
- 810 *The Examination of Prospective Financial Information*

Related Services

- 910 *Engagements to Review Financial Statements*
- 920 *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*
- 930 *Engagements to Compile Financial Information*

ANNEX C.

NATIONAL ACCOUNTING LEGISLATION

Constitution Extracts

78. (1) Prior to the commencement of every financial year, the Minister of Finance shall submit to the People's Majlis the estimated expenditure and income of the State for the year, and the expenditure and the income of the State for the preceding year and the budget so proposed shall be passed by the People's Majlis.

(2) No supplementary or excess funds shall be added to an already passed budget unless it has been submitted to and passed by the People's Majlis.

127. The accounts of the State shall be kept and maintained in such form and manner prescribed by the Auditor General on the advice of the President.

Public Finance Bill 2002 (draft) - extracts

35. Annual reports to be prepared

(1) Within two months of the end of a financial year the accountable officer for each accountable government agency must prepare and submit to the Auditor General a written report containing

(a) a statement of the estimates of the revenue and expenditure...

(b) a statement of the actual revenue and expenditure...

(c) a report of the operations of the agency for the year...

36. Auditor General's duties as to annual statements

(2) Within two months of receiving a report from an accountable agency the AG must audit the report and must submit a written report about the audit to the accountable officer of the agency.

37. Statement and audit report to be submitted to the Speaker

Within 14 days after receiving the AG's report the accountable officer of the agency must submit to the Speaker of the Peoples' Majlis -

(a) a copy of the report together with

(b) the Auditor General's report.



38. Annual accounts to be prepared

- (1) Within two months after the end of a financial year the Financial Controller must prepare and submit to the Minister the State's annual statements for the year
- (2) The State's annual statements for a financial year must contain -
 - (d) a statement of the estimates of the revenue and expenditure...
 - (e) a statement of the actual revenue and expenditure...
 - (f) as far as is practicable a statement of the assets, liabilities and contingent liabilities of the State at the end of that financial year.
- (4) Within 14 days after receiving them the Minister must submit the State's annual statements to the AG

39. Auditor General's duties as to State's annual statement

- (2) Within two months of receiving the State's annual statements from the Minister the AG must submit the report required by article 126 of the Constitution to the Minister.

40. Statement and audit report to be submitted to the Speaker

- (1) Within 14 days after receiving the AG's report the Minister must submit to the Minister of Finance and Treasury - Speaker of the Peoples' Majlis
 - (a) the State's annual statements
 - (b) the Auditor General's report.
- (2) Within 14 days after receiving them the Minister of Finance and Treasury must submit the State's annual statements and the Auditor General's report to the Speaker of the Peoples' Majlis

41. Speaker to submit reports and statements to Peoples' Majlis

Whenever the Speaker of the Peoples' Majlis receives a report or statement... he or she must present it to the Peoples' Majlis as a soon as practicable.

ANNEX D. NATIONAL AUDIT LEGISLATION

Constitution Extracts

124. (1) There shall be an Auditor General of the Maldives appointed by the President.
- (2) A person appointed to the office of Auditor General shall have the qualifications required for membership of the People's Majlis and shall, in the opinion of the President, have the competence to perform the duties of the said office.
125. The Auditor General shall assume office upon taking, before the President, the oath set out in paragraph (k) of the Schedule to this Constitution.
126. It shall be the duty of the Auditor General, in accordance with law, to audit the accounts of the State, prepare the reports thereof, and perform other duties concerning the accounts of the State.
127. The accounts of the State shall be kept and maintained in such form and manner prescribed by the Auditor General on the advice of the President.
128. The Auditor General may resign from office by writing under his hand addressed to the President. However, the Auditor General shall continue to hold office until such time that the President notifies him of the acceptance of the said resignation.
129. The President may remove the Auditor General from office if in the opinion of the President the Auditor General has failed to satisfactorily perform the duties of his office.

Public Finance Bill 2002 (draft) - extracts

- 36 (2) Within two months of receiving a report from an accountable agency the Auditor General must audit the accounts and submit a written report about the audit to the accountable officer of the agency.
- 37 Within 14 days after receiving the Auditor General's report the accountable officer must submit the accounts and the audit report to the Speaker of the People's Majlis.
- 39 (2) Within two months after receiving the State's annual statements the Auditor General must submit the report required by Section 126 of the Constitution to the Minister.
- 40 (2) Within 14 days after receiving them the Minister of Finance and Treasury must submit the State's annual statements and the audit report to the Speaker of the People's Majlis.



Audit Act 2007 (recently enacted on March 13, 2007)

1. Description and Title

a) Description

This Act sets out the requirements for the audit of all Government institutions, accounts and Government trading bodies and the duties and responsibilities of the Auditor-General.

b) Title

This Act may be cited as the Audit Act.

2. Appointment of Auditor-General

a) There shall be an Auditor-General appointed under the Constitution of the Republic of Maldives.

b) The Auditor-General shall be appointed by the President on recommendation of People's Majlis (Parliament).

3. Functions of Auditor-General

The following are the functions of the Auditor-General:

- a) To audit all the government institutions, accounts and government trading bodies.
- b) To promote public accountability and good governance and sound financial management in the administration of the government institutions, state owned enterprises and joint venture companies in which state holds shares.
- c) To set rules, regulations and standards governing the audit in the Maldives.
- d) To carry out any function conferred on the Auditor-General by or under any other law of the Maldives.

4. Performance Audit

The auditor general may at any time conduct a performance audit of the following:

- a) Ministries, departments, Government offices and other government institutions;
- b) State owned enterprises or any other trading bodies in which Government has 51% or more shares;
- c) Government trusts or trusts under the care of the government.

5. Powers of Auditor-General

In the performance of his functions, the Auditor-General has the following powers:

- a) Prescribe the manners and form in which accounts of the state shall be kept and maintained.
- b) In the performance of his functions the Auditor-General have access to all records, books, vouchers, documents, receipts, cash, stamps, securities, goods or any other items, stores and may make copies of such documents.

- c) In the performance of his functions the Auditor-General may call upon any person for explanation and information which the Auditor-General may require in order to enable him to discharge his duties.
- d) To decide upon the priority of the accounts to be audited.
- e) To appoint qualified and able persons to assist the Auditor-General to perform his functions as the Auditor-General.
- f) May obtain the advice of the Attorney-General upon any question on law.
- g) To assign any function or part of a functions of the Auditor-General to any person decided by the Auditor-General.
- h) To set auditing standards and audit manuals in line with international standards.
- i) To do anything incidental or conducive to any of the Auditor-General's functions.
- j) Setting of procedures for the issuance and cancellation of operating license of auditors in the Maldives and issuance and cancellation of license according to the set procedures.
- k) Subsection (j) does not prevent private individuals to undertake audit without license for their own private purposes.

6. Power to Obtain Information

In connection with the performance of a function of the Auditor-General,

- a) Any person called upon by the Auditor-General for any explanation and information which the Auditor-General may require in order to enable him to discharge his duties shall provide such information.
- b) The Auditor-General may direct a person to attend before the Auditor-General at a specified place and specified time to answer any questions. In deciding such time and place, Auditor-General should consider the reasonability of the circumstances.
- c) A person who without reasonable excuse, contravenes a direction under subsection (b) commits an offence and is liable upon conviction –
 - i) if the offender is a natural person, to a fine not exceeding Rf5,000.
 - ii) if the offender is a body corporate to a fine not exceeding Rf25,000.

7. Access to Premises etc.

- a) In connection with performance of a function of the Auditor-General, the Auditor-General or a person appointed by him may enter without prior notice, the premises and places occupied by a state institution, and examine the documents and make copies of such documents.
- b) In connection with performance of a function of the Auditor General, the Auditor-General or a person appointed by him may enter into any other places (other than those mentioned in subsection (a)) without prior notice, with an authorized court order on the grounds that there is reasons to believe that documents or other information relating to the activities of a public body may be held at those premises, and may examine the documents and make copies of such documents.



- c) The person who is sent under subsection (a) and (b) shall produce a written authorization by the Auditor-General to the owner or the person in-charge of the premises at that time.
- d) In connection with the performance of Auditor-Generals functions, if the Auditor-General or any person appointed by him visits any place, those persons who are present at the time of visit shall facilitate Auditor-General or any person appointed by him, to carry out his functions.

8. Auditing and Reporting of Annual Financial Statements of the Government

- a) Within 3 months and 14 days, after the end of each financial year, the annual financial statements of the Government shall be prepared in accordance with the Public finance Act 2006, and submitted to the Auditor-General to audit by the Minister of Finance and Treasury.
- b) If the financial statements have not been prepared and submitted in accordance with subsection (a), the Auditor-General shall inform in writing, the President and Speaker of the People's Majlis within 14 days.

9. Notification of Irregularities

- a) If at any time in the opinion of the Auditor-General, serious irregularities have occurred in the receipts, custody or expenditure of public moneys or in the receipt, custody, issue, sales, transfer, or delivery of any stamps, securities or stores or other Government property or in the accounting for the same, he shall bring the matter to the notice of the President in writing.
- b) The Auditor-General may at his discretion take action against any person who in accordance with the circumstances of the irregularity in subsection (a) by preventing the offender from returning to his place of employment until legal action can be taken against him.

10. Audit Fees

- a) The Auditor-General may charge audit fees from entities audited under this Act, based on the principle set out by the Auditor-General.
- b) Fees payable under subsection (a) should be paid within 30 days to the Ministry of Finance and Treasury.
- c) If the fees due under subsection (b) are not paid within the prescribed time, the state should take legal action on behalf of the Auditor-General.

11. Auditor General's Annual Report

Upon receipt of the annual accounts stated in section 8 of this Act, the Auditor-General shall audit the accounts within 3 months and prepare a report incorporating details of work done to audit the accounts, his opinion on the accounts and recommendations for improvements. The report shall be submitted to the President and People's Majlis and shall be published.

12. Resignation of the Auditor-General

Should the Auditor-General elect to resign from his office, he/she may submit his resignation to the President in writing, stating the reasons for his resignation and he should continue to hold office until he is informed of acceptance of his resignation by the President.

13. Removal of the Auditor-General

The Auditor-General may be removed from his office by the President on the consultation with the People's Majlis, if in the opinion of the President; the Auditor-General has failed to perform satisfactorily the duties of his office.

OFFICE ADMINISTRATION

14. Expenditure for Office Administration

- a) To ensure the independence of the Auditor-General and the Office of the Auditor-General, 90 days before the end of every financial year, the Auditor-General shall prepare and submit to the parliamentary committee acting in the capacity of Public Accounts Committee, a plan detailing the work programme of the Auditor-General's Office for the following year, together with a detail budget necessary to accomplish the work programme. The budget so submitted should include necessary provisions for the following expenditures.
 - 1) The salary and allowances payable to the Auditor-General.
 - 2) Salaries and allowances of the Office of Auditor-General's staff.
 - 3) Cost for training and professional development activities.
 - 4) The money for reasonable traveling, transportation and subsistence needed by the staff engaged in conducting office of the Auditor-General business and
 - 5) The administration expenses of the Office of the Auditor-General.
- b) The budget submitted by the Auditor-General as stipulated in subsection (a), shall be evaluated by the Parliamentary Committee and amended by them if necessary, shall be submitted to the People's Majlis for approval together with a report of the committee. And as and when the budget is approved by the People's Majlis, funds should be released from the consolidated revenue funds to the Office of the Auditor-General.
- c) Funds received to the budget of the Office of the Auditor-General shall be managed in such manner deemed fit for the efficient discharge of Auditor-Generals functions and duties in conformity with sound financial practices.
- d) The Auditor-General shall prepare and submit quarterly reports to the Parliamentary Committee acting in the capacity of Public Accounts Committee, on the office administration and works undertaken taken by his office.
- e) The Auditor-General shall prepare and submit to the Parliamentary Committee acting in the capacity of Public Accounts Committee, an annual performance report together with the annual report containing the audited financial statements of the Office of the Auditor-General. The performance report so submitted should indicate the targets or tasks accomplished against the set targets for the year ended and the reasons for failure to accomplish set targets if there are any unaccomplished tasks.

15. Recruitment, Transfers and Terminations

- a) To carry out the functions of the office of Auditor-General and implement the powers of the Auditor-General, the Auditor-General has the power to recruit, decide on the scales of salaries



and other allowances, training, promotions and termination of his staff within the budgetary limits authorized by the Majlis.

- b) A separate cadre of officers and employees in the office of the Auditor-General shall be constituted. The recruitment and other conditions of services of the officers and employee within the cadre shall be as prescribed in the rules and regulations to be framed under this Act.

AUDIT OF THE AUDITOR-GENERAL'S OFFICE

16. Audit the Financial Statements of the Audit Office

- a) The Parliamentary Committee acting in the capacity of Public Accounts Committee shall appoint an independent auditor every year, to audit the accounts and financial statements of the Office of the Auditor-General and to report on the performance of the Office of the Auditor-General.
- b) The financial statements of the Office of the Auditor-General shall be submitted for audit to the independent auditor appointed under subsection (a) within two months of the every year end.
- c) After completing the audit as stipulated under the subsection (b), the independent auditor shall prepare and submit a written audit report to the President, the Speaker of the People's Majlis and the Auditor-General within 3 months.

MISCELLANEOUS

17. Confidential Information

The information obtained/received by the employee of Audit Office in the capacity of an employee of the Office of the Auditor-General is confidential. And such information shall not be disclosed except under the circumstances specified in section 18 of this Act.

18. Disclosure of Confidential Information

- a)
 1. The disclosure of specified information to such persons as the Auditor-General directs if the Auditor-General certifies that it is necessary in the public interest that the information should be so disclosed;
 2. the disclosure of information to an authority, or a person, prescribed by the regulations or
 3. the disclosure of information about a specific person to another person with the express or implied consent of the first mentioned person in writing.
 4. Any information requested by the People's Majlis or a committee of the People's Majlis.
 5. Any information requested by an investigative agency with legal authority which is required for an investigation undertaken by them.
 6. Any information that should be disclosed under a court order.
- b) A person who contravenes subsection (a) commits an offense and is liable upon conviction to a fine not exceeding Rf 25,000 (twenty five thousand).
- c) A person who contravenes subsection (a) and discloses or uses information for personal interest is liable for a fine not less than Rf 10,000 (Ten Thousand) or a term of imprisonment of 3 to 12 months.

19. Preparing Regulations and Implementation of the Act

To give effect to the provisions of this Act, the regulation under this act shall be made and implemented by the Auditor-General.

20. Offenses and Penalties

- a) 1- Any person commits an offence who intentionally obstructs, hinders or resists the Auditor-General and refuses or willfully suppresses any information required by the Auditor-General in the performance of his/her duties.
 - 2- The Auditor-General must submit the case of any person who commits the offences stated in subsection (a), to the Attorney-General to take legal action against him/her.
- b) Subsection (a) does not enforce any person to disclose information against him/her self.
- c) Any person who commits the offences stated in subsection (a) is liable for a fine of Rf 10,000 to Rf 75,000 or a term of imprisonment of 3 to 12 months or both.

INTERPRETATIONS

21. In this Act unless the contrary intention appears:

“**public money**” means all revenue, loan, trust and other moneys and all stamps, bonds, debentures and other securities whatsoever raised or received by or on account of the Government; and includes moneys received or held on trust by the Public Trustee, Official Receiver or any public officer for purposes other than purposes of Government;

“**person**” refers to a government entity or a government institution or a state-owned enterprise or an entity with government controlling interest or an other entity under another law .

“**person appointed by the Auditor-General**” refers to any person who is authorized in writing to carry out the functions of the Auditor-General under this Act.

“**financial year**” refers to the period starting from January 1st to December 31st, inclusive of starting and ending days.

“**audit fee**” refers to the fees paid to the person carrying out the audit functions.

“**performance audit**” in relations to a person, body or thing, refers to a review or examination of any aspect of the operations of the person, body or thing.

“**State entities**” refers to those entities or agencies stated in section 4 of this Act.

Unofficial translation by:

Niyaz Ibrahim Audit Office
Aminath Niuma Audit Office



ANNEX E.

BENEFITS OF ACCRUAL BASIS OF ACCOUNTING

Extract from Study No. 14 “Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities,” IFAC Public Sector Committee, December 2003.

1.18 The Public Sector Committee has commented extensively on the benefits of accrual accounting for governments and individual public sector entities in previous Studies (Studies 5, 6, 8, 9, 10 and 11) and Occasional Papers (Papers 1, 3, 5, 6 and 7). In order to provide some context for readers who are not familiar with the Public Sector Committee’s other publications, this section contains a summary of the benefits of reporting on the accrual basis.

1.19 The information contained in reports prepared on an accrual basis is useful both for accountability and decision-making. Financial reports prepared on an accrual basis allow users to:

- assess the accountability for all resources the entity controls and the deployment of those resources;
- assess the performance, financial position and cash flows of the entity; and
- make decisions about providing resources to, or doing business with, the entity.

1.20 At a more detailed level, reporting on an accrual basis:

- shows how a government financed its activities and met its cash requirements;
- allows users to evaluate a government’s ongoing ability to finance its activities and to meet its liabilities and commitments;
- shows the financial position of a government and changes in financial position;
- provides a government with the opportunity to demonstrate successful management of its resources; and
- is useful in evaluating a government’s performance in terms of its service costs, efficiency and accomplishments.

Financial Position

1.21 Accrual accounting provides information on an entity’s overall financial position and current stock of assets and liabilities. Governments need this information to:

- make decisions about the feasibility of financing the services they wish to provide;



- demonstrate accountability to the public for their management of assets and liabilities recognized in the financial statements;
- plan for future funding requirements of asset maintenance and replacement;
- plan for the repayment of, or satisfaction of, existing liabilities; and
- manage their cash position and financing requirements.

I.22 Accrual accounting requires organizations to maintain complete records of assets and liabilities. It facilitates better management of assets, including better maintenance, more appropriate replacement policies, identification and disposal of surplus assets, and better management of risks such as loss due to theft or damage. The identification of assets and the recognition of depreciation help managers to understand the impact of using fixed assets in the delivery of services, and encourage managers to consider alternative ways of managing costs and delivering services.

I.23 Accrual accounting provides a consistent framework for the identification of existing liabilities, and potential or contingent liabilities. The recognition of obligations meeting the definition of a liability and the criteria for recognition:

- compels governments to acknowledge and plan for the payment of all recognized liabilities, not just borrowings;
- provides information on the impact of existing liabilities on future resources;
- means that it is possible to allocate responsibility for the management of all liabilities; and
- provides necessary input for governments to assess whether they can continue to provide current services and the extent to which they can afford new programs and services.

I.24 Accrual accounting highlights the impact of financing decisions on net assets/equity and may lead governments to take a longer term view when making financing decisions than is generally possible when relying on cash or modified cash reports. Information on net assets/equity also means that governments may be held accountable for the financial impact of their decisions on both current and future net assets/equity. Changes in an entity's net assets/equity between two reporting dates reflect the increase or decrease in its wealth during the period, under the particular measurement principles adopted and disclosed in the financial statements. Under the accrual basis of accounting, the financial statements will include a Statement of Financial Position which discloses information about assets and liabilities. Where assets and liabilities are not equal, a residual figure for net assets/equity will be reported. Where this figure is positive it can be interpreted as the net resources that may be applied for the provision of goods or services in the future, and therefore the community's investment in the reporting entity. Where the figure is negative, it may be viewed as the amount of future taxation or other revenues which are already committed to paying off debt and other liabilities. Net assets/equity can comprise some or all of the following components:

- contributed capital;
- accumulated surpluses and deficits; and
- reserves (for example revaluation reserve; foreign currency translation reserve).



Financial Performance

I.25 Accrual accounting provides information on revenues and expenses, including the impact of transactions where cash has not yet been received or paid. Accurate information on revenues is essential for assessing the impact of taxation and other revenues on the government's fiscal position, and in assessing the need for borrowing in the long term. Information on revenues helps both users and governments themselves to assess whether current revenues are sufficient to cover the costs of current programs and services.

I.26 Governments need information about expenses in order to assess their revenue requirements, the sustainability of existing programs, and the likely cost of proposed activities and services. Accrual accounting provides governments with information on the full costs of their activities so that they can:

- consider the cost consequences of particular policy objectives and the cost of alternative mechanisms for meeting these objectives;
- decide whether to fund the production of services within government sub-entities, or whether to purchase goods and services directly from non-governmental organizations;
- decide whether user fees should cover the costs associated with a service; and
- allocate responsibility for managing particular costs.

I.27 Accrual accounting can provide financial information on whether sub-entities are delivering specified services, and delivering them within agreed budgets. The same information, at a more detailed level, can also be used within sub-entities for the management of activity and program costs.

I.28 Accrual accounting allows an individual entity to:

- record the total costs, including depreciation of physical assets and amortization of intangible assets, of carrying out specific activities;
- recognize all employee-related costs and to compare the cost of various types of employment or remuneration options;
- assess the most efficient way of producing their goods and services and of managing the resources over which they have been delegated authority;
- determine the appropriateness of cost-recovery policies; and
- monitor actual costs against budgeted costs.

Cash Flows

I.29 Accrual accounting provides comprehensive information on current cash flows and certain projected cash flows, including the cash flows associated with debtors and creditors. It can therefore lead to better cash management and may assist in the preparation of more accurate cash budgets.

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I. PUBLIC SECTOR ACCOUNTING

A. Assessment of the National Public Sector Accounting Environment

Timely, relevant, and reliable financial information is required to support all fiscal and budget management, decision-making and reporting processes.

(1) The Accounting Law		
STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>1. For reliability the requirements for public sector accounting and reporting should be specified by law, cover all government-owned entities, specify the methods by which accounting and auditing standards are to be set for the public sector, specify the reporting requirements and lay down timetables for the publication of audited annual accounts.</p>	<p>The Public Finance Act 2005 requires the State's audited annual financial statements to be tabled in accordance with a specified timetable. The accounting standards are not specified. The format of the accounts are to be a statement of estimated and actual revenues and expenditures for each public fund; and, as far as is practicable, a statement of the assets, liabilities, and contingent liabilities of the State at the end of the year.</p> <p>The Public Finance Act 2005 requires each ministry to act as an accountable agency to table an audited financial statement of estimated and actual revenues and expenditures as part of an annual report prepared in accordance with the Public Finance Instructions. An audit report is also to be tabled</p>	<p>The Audit Act should ideally require conformance with IPSAS. However, the law allows IPSAS to be followed, and future accounts should be based on Cash Basis IPSAS with notes providing the other information required by the Public Finance Act. Progression to accrual statements can occur as adequate systems are rolled out.</p> <p>The timetables for these required reports need efficient interim and final audit processes to support a sound accounting system. Current programs are in place to provide the technical assistance for these purposes.</p> <p>The Auditor General will need to specify the actions that departments should take to correct any accounting problems that lead to audit qualifications to the annual accounts.</p>
<p>2. Compliance with IPSAS for noncommercial bodies and IAS for commercial bodies is needed for consistent transparency.</p>	<p>This is not specified by law but is generally observed. The Public Finance Act has established the budget reporting and the financial reporting requirements. Initially, the accounting has been located in the Treasury and this is not a good separation of duties, so some establishment of suitable accounting departments, preferably in the ministries, will be needed as systems are implemented.</p>	<p>The development of the computerized accounting system has a very tight timeline and intensive efforts will be needed to meet the targets. The World Bank should offer the Ministry of Finance technical advice on the progressive design and implementation of the system</p>

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
(2) Education and Training of Public Sector Accountants		
3. For reliability, the curriculum requirements for the accounting qualifications of public sector accountants should accord with internationally recognized standards of accounting training as established in the IES for Professional Accountants.	Professional accountants in the Maldives have obtained their professional qualification from overseas institutions. There is no comprehensive local training institution, however, the UK ACCA professional certification is available locally up to Stage 2 of the ACCA program.	Further outreach programs of professional accounting qualifications are needed. These will be made available if there is a market. The recruitment and training programs for government accountants and auditors should specify appropriate requirements.
4. For reliability, public sector accountants should be provided with continuing professional training opportunities that accord with internationally recognized standards of accounting training.	Nothing in place.	The Ministry of Finance needs to develop training plans.
(3) Code of Ethics for Public Sector Accountants		
The INTOSAI Code covers integrity; independence, objectivity and impartiality; professional secrecy; and competence. The IFAC Code covers integrity; objectivity; independence; confidentiality; technical and professional standards; competence and due care; and ethical behaviour.		
5. For reliability, public sector accountants should be required to adhere to the principles laid down in a code of ethics that are at least in accord with the internationally recognized standards for professional accountants. This may be based on IFAC or INTOSAI codes.	No code in place as such.	
(4) Public Sector Accountant Arrangements		
6. For timeliness, relevance, and reliability, there should be a professionally qualified CFO function to be responsible for maintaining systems of internal financial controls that manage risks,	There is a CFO position, called the accountable officer decreed by the Public Finance Act.	The duties of the accountable officer are yet to be defined in Public Finance Instructions. The duties should include those set out in the Standards (paragraph. 6).

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>and for preparing regular financial accounts for each government entity.</p> <p>The CFO should also be responsible the following:</p> <ul style="list-style-type: none"> ■ maintenance and management of the chart of accounts, ■ providing the most appropriate technological support for financial management practices, ■ managing training and education needs for financial management, ■ reporting on key performance indicators, and ■ assisting program managers to develop an effective financial approach to the delivery of expected outcomes. 		

B. Assessment of National Public Sector Accounting Standards

Financial reporting must be adequate to meet the accountability demands of stakeholders

(1) Framework for the Preparation and Presentation of Financial Statements

<p>7. National accounting standards should conform to international standards to provide consistency. The responsibility for establishing the national accounting standards for the public sector should be well-defined to provide reliability.</p>	<p>The Public Finance Act prescribes that accountable agencies (not including public enterprises) must prepare annual statements in accordance with requirements set by the Public Finance Instructions. For Public Enterprises the Financial Accounts should be produced in accordance with best accounting practices.</p>	
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(2) Preparation and Presentation of Financial Statements on the Cash Basis

<p>8. The Government should adopt a national accounting and reporting framework based on recognized international standards to provide authority.</p>	<p>The Auditor General is responsible under the Constitution that reads:</p> <p><i>127. The accounts of the State shall be kept and maintained in such form and manner prescribed by the</i></p>	<p>The Auditor General should hold discussions with the Ministry of Finance and Treasury to arrange for the setting of standards in a formal manner and for agreement that future accounts be presented</p>
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STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>If the Cash Basis IPSAS is adopted as a national standard, reporting should comply with the standard to ensure consistency.</p> <p>If the accrual basis IPSAS is adopted, disclosures made with respect to the general government sector shall include at least disclosure of the following:</p> <ul style="list-style-type: none"> ■ Assets by major class, showing separately the investment in other sectors, ■ Liabilities by major class, ■ Net assets/equity, ■ Total revaluation increments and decrements and other items of revenue and expense recognized directly in net assets/equity, ■ Revenue by major class, ■ Expenses by major class, ■ Net surplus or deficit, ■ Cash flows from operating activities by major class, ■ Cash flows from investing activities, and ■ Cash flows from financing activities. <p>(Oct 2005 IPSAS ED 28)</p>	<p><i>Auditor General on the advice of the President.</i></p> <p>The Auditor General is also responsible under the State Finance Act 2006 that reads:</p> <p>38 (a) the financial controller shall prepare the annual financial statement and submit to the minister within three months after the end of each financial year in a manner as prescribed by the Auditor General.</p> <p>The accounts are now on a cash basis but not in IPSAS format, although the Ministry of Finance and Treasury is of the view that the IPSAS format could be followed. The State Finance Act 2005, No. 38 (a) (on page 22) states that the Financial Controller shall prepare the annual statements in pursuance to the prescriptions of the Auditor General.</p>	<p>on the Cash Basis IPSAS format.</p>

C. Assessment of Accounting and Auditing in State-Owned Enterprises

Financial Statements should comply with IAS and IFRS

<p>9. Financial statements should include (a) balance sheet, (b) income statement, (c) statement of changes in equity or a statement of recognized gains and losses, and (d) cash flow statement [IAS 1.8]</p> <p>Financial statements should present fairly, or give a true and fair view of, the</p>	<p>These are being followed. The audit firms auditing the SOE and statutory authority financial statements advised that IAS and IFRS are observed. Although there is no standard-setting body active in Maldives, the audit firms require that the public bodies use IAS and IFRS.</p> <p>The Companies Act of Maldives states that companies having share</p>	<p>Desirable improvements for SOE reporting are (a) to require more public accountability and (b) to improve the local auditing profession:</p> <p>(a) All government bodies should be required to make their audited accounts public. The Public Enterprise Monitoring Board may be able to require this; if not, a new SOE law</p>
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STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>financial position, financial performance, and cash flows of the entity. [IAS 1.13]</p> <p>Financial statements should be prepared on the accrual basis of accounting [IAS 1.27]</p> <p>Financial statements should be prepared using the accounting policies established by the IASB International Accounting Standards. [IAS 1]</p>	<p>capital more than a prescribed amount can only be audited by chartered accountants accepted by the Auditor General. As per the Act, the Auditor General has issued licenses to only three parties. However there is no restriction on conducting audits of companies whose share capital is below one million. The Auditor General issues licenses to qualified people to conduct the audits. The firms employing these persons have not been subject to peer review by their affiliate international firms.</p> <p>The Public Enterprise Monitoring Board, which receives the audited accounts, noted that in some cases the audit qualifications on the accounts mainly related to assets issues. The low proportion of qualifications is in contrast to other regional countries and suggests that there may be some inadequacies in the auditing.</p> <p>The Public Enterprise Monitoring Board has established governance guidelines for the SOE Boards. The SOE Boards' objectives for public enterprise governance are compliance with the various laws, regulations and codes governing companies; and the development of a commensurate enterprise culture within the organization so that returns to shareholders are maximized while respecting the interest of other stakeholders.</p> <p>The governance guidelines require that financial accounts should be produced in accordance with best accounting practices, and should include:</p> <p>(a) Profit and Loss account for the year;</p>	<p>is required to provide for an adequate public accountability regime.</p> <p>(b) The Auditor General should arrange consultations with the accountancy professions in the neighboring countries to consider ways of establishing similar arrangements in the Maldives, perhaps in association with one of the neighboring organizations. The Auditor General should increase the review of the quality of the audits of government bodies. This will be required by the proposed Audit Act.</p>

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
	<p>(b) Cash Flow statement for the year</p> <p>(c) Balance Sheet showing the position at the end of the year</p> <p>The financial accounts should be supported by notes, which set out the Company’s accounting policies and the main components of the accounts as required by good practice. The financial accounts should also be accompanied by a Director’s report that details financial activities of the Company in the past and future.</p> <p>Only the three public company SOEs publish their accounts.</p>	

II. PUBLIC SECTOR AUDITING

A. Assessment of the Public Sector Auditing Environment

Effective scrutiny by the legislature through comprehensive, competent, external audit enables accountability for the implementation of fiscal and expenditure policies.

The environment for an effective Supreme Audit Institution requires a comprehensive approach to Public Financial Management (PFM). 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 Supreme Audit Institution functions is integral to providing information for enhancing 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 action is taken for reform. It also requires public presentation of the audit reports to ensure public support for effective action.

(1) Statutory Framework

<p>10. Statutory auditing requirements should be established by legislation.</p>	<p>The Constitution makes responsible the Auditor General, in accordance with law, to audit the accounts of the State, prepare the reports thereof, and perform other duties concerning the accounts of the State.</p> <p>The Public Finance Act 2005 requires audited annual accounts for each ministry and the State</p>	<p>The Public Finance Act requires certification of Ministry and State accounts, so strong audit legislation is needed for the Audit Office to do that task.</p> <p>A comparison of the proposed Audit Act and the model law¹⁶ showed that almost all of the recommended provisions are in place.</p>
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STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
	<p>to be presented to the People's Majlis. This is to be effected by 2008. The implementation of a computer-based accounting system is underway to support the process.</p> <p>A proposed Audit Act is moving through the legislative process¹⁵. A comparison of the clauses of this draft Audit Law and the Constitution with a model law is in the Annex to this matrix.</p>	<p><i>Serious deficiencies in clauses of the proposed Audit Act exist:</i></p> <p><i>3(c) to maintain expenditure details for the following :</i></p> <ul style="list-style-type: none"> <i>i) the aids received in the form of money or goods whether in kind or otherwise,</i> <i>ii) the aids provided by the Government to the private sector,</i> <i>iii) government borrowings</i> <i>iv) government lending.</i> <p>To give the Auditor General these accounting functions would be a conflict of interest. This clause was finally not included in the Audit Act that was legislated on March 13, 2007</p> <p><i>14. Expenditure for office administration</i></p> <p><i>Before the commencement of each financial year, the Auditor General should submit the estimated budget for the year, including the recurrent and capital expenditure, to the Ministry of Finance and Treasury. This budget should be prepared and submitted on a specific date in accordance with the specific guidelines, provided by the Ministry of Finance and Treasury.</i></p> <p>The importance of the relationship between the Audit Office and the Legislature requires direct submission of the audit budget to the Legislature. The recently legislated Audit Act now provides for this.</p> <p>The following issues were not resolved by the recently legislated</p>

¹⁵ This Bill has recently been passed in March 2007. At the time of completing this questionnaire, the Act was still a draft Bill and is referred accordingly.

¹⁶ UNDP PACT Model Law

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
		<p>Audit Law and still remain as concerns.</p> <p>For independence the proposed Act should include a clause:</p> <p><i>The Audit Office and the Auditor General are not subject to the control or direction of any person, organization, or authority except the Legislature.</i></p> <p>For integrity the legislation should include a clause:</p> <p><i>To help ensure the integrity of the Audit Office, the Auditor General will adopt the Code of Ethics adopted by INTOSAI with revisions necessary to account for national differences of culture, language, legal and social systems.</i></p> <p>For a defined term, Clause 2 (b) should be extended:</p> <p><i>The Auditor General shall be appointed by the President on the recommendation of the People's Majlis for a period of 12 years.</i></p>
<p>11. The Supreme Audit Institution should have authority to conduct a full range of audits including regularity, financial, and performance audits, for all government-owned or -controlled entities. (INTOSAI Lima Declaration Sections 18-19)</p>	<p>The Supreme Audit Institution has these powers. Currently the Auditor General carries out mainly compliance audits. Most of the annual accounts of SOEs are audited by private sector auditors. There is no state account.</p>	<p>The Audit Act allows for a full range of audits, but the early concentration should be on audit staff certifying the ministry and state accounts and reviewing private sector audits of the SOE accounts. The planned technical assistance will strengthen certification auditing in the Office of the Auditor General.</p>
<p>12. The legislation should set out penalties in the event of noncompliance with the auditing requirements, and these penalties should be applied appropriately.</p>	<p>This is being followed.</p>	



STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
(2) Setting Auditing Standards		
13. The government should adopt the INTOSAI Auditing Standards and the IAASB International Standards on Auditing for public sector entities. (ISA 200.5 and INTOSAI Auditing Standards I.0.14)	These standards are embedded in the Audit Office auditing manual but not formally adopted. The Auditor General has responsibility for setting standards under the proposed Audit Act.	Clause 5 (c) of the proposed Audit Act enables the Auditor General to set auditing standards. This should be done formally. A model is provided by the Australian National Auditing Office Auditing Standards, ¹⁷ which incorporate the relevant professional standards and add some specific public sector standards.
(3) Code of Ethics		
14. The INTOSAI Code of Ethics should be fully adopted by the SAI (IAASB ISA 200.4 and INTOSAI Code of Ethics 4), communicated to all staff, and applied.	This has not been adopted. The Supreme Audit Institution has a code of ethics that is part of the employment contract and relates to public service behaviour.	The INTOSAI Code of Ethics should be adopted after due consultation with staff.
(4) Accountability in the Supreme Audit Institution		
15. There should be an accountability process in the Supreme Audit Institution. (INTOSAI Auditing Standards I.0.20)	A Management Committee is in place and the audits are managed through a team structure.	
16. There should be clear responsibility in the SAI for (a) advising on internal finance, keeping proper financial records and accounts, and maintaining systems of internal control; (b) for ensuring compliance with laws and regulations.	Public Service rules are followed.	
17. The SAI should prepare an annual report on its operations and performance, which is separate from its reports on its audits. It should provide an objective, balanced and understandable	This will be required under the Public Finance Law effective 2007.	The Institutional Development Plan should address this issue and assist in the design of the report.

¹⁷ Notified in the Australian Commonwealth Gazette No. G_N45, 16 November 2005.

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
account of activities and achievements, and details of financial position and performance.		
18. The SAI should prepare a corporate plan or equivalent.	Action plans have been required for all government agencies.	The planned technical assistance will assist with developing a 15-year plan.
19. The SAI should undergo peer review or independent performance audit.	This has not been done so far.	The planned technical assistance will serve this purpose.

(5) Independence Provided by the Legislation

Adequate legislation should be in place for the following core SAI principles of independence if the Supreme Audit Institution is to provide effective external scrutiny:

- Existence and de facto application of an appropriate and effective constitutional and legal framework,
- Independence of SAI Heads including security of tenure and legal immunity in the normal discharge of their duties,
- Sufficiently broad mandate and full discretion in the discharge of SAI functions,
- Unrestricted access to information;
- Obligation to report on their work,
- Freedom to decide on the content and timing of their reports and to publish and disseminate them,
- Existence of effective follow-up mechanisms on SAI recommendations,
- Financial and managerial autonomy and the availability of appropriate human, material, and monetary resources.

(Core Principles of SAI Independence, INTOSAI Sub-committee on SAI Independence, 2004)

20. The legislation should spell out in detail the extent of the SAI independence. (INTOSAI Lima Declaration Section 5) The legislation should assure the independence of the SAI Heads and "Members" (in collegial organizations) and that there is security of tenure and legal immunity in the normal discharge of their duties. (INTOSAI Lima Declaration Section 6)	This has not been done.	The Audit Law provides security of tenure. There is no specific assurance about immunity or the independence of the Auditor General.
21. The SAI constitutional/statutory/legal framework should ensure that it has	This has not been done.	The budget clause in the proposed Audit Act has been amended for the Auditor General to submit his

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<p>available sufficient human, material, and monetary resources. (INTOSAI Lima Declaration Section 7)</p>		<p>budget to the legislature without amendment.</p>
<p>22. A fixed term must be long enough to survive changes of government and avoid pressures concerning re-appointment impinging too early in the term of office of the SAI office holder. A single non-renewable appointment is preferable to avoid those pressures. (INTOSAI Working Group on SAI Independence, 2004)</p>	<p>Period of appointment is indeterminate.</p>	<p>The appointments clause in the Audit Act should include a fixed term.</p>
<p>23. The legislation should ensure that the SAI Head is free to determine the organization of the audit office, including personnel and contract management systems and material acquisition/disposal policies and procedures. The SAI should be able to determine personnel policies, including the selection, recruitment, training, remuneration, promotion, discipline, and dismissal of staff and contract personnel. (INTOSAI Lima Declaration Section 6)</p>	<p>At present the SAI Head is not free to perform these duties.</p>	<p>The Audit Act provides flexibility.</p>
<p>24. There should be unrestricted access to information. (INTOSAI Lima Declaration Section 10)</p>	<p>This is so.</p>	
<p>25. The legislation should give the SAI the right and obligation to report on their work. (INTOSAI Lima Declaration Section 16)</p> <p>The legislation should give the SAI the right</p>	<p>No reporting is required. The Public Finance Act requires tabling of reports on the audits of the accounts of each ministry and the state.</p>	<p>The Audit Act requires reporting but there is some ambiguity.</p>

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
and obligation to report effectively on its work, and the freedom to decide on the content and timing of its reports and to publish and disseminate them expeditiously. (INTOSAI Lima Declaration Section 17)		
26. To the extent that findings of the SAI are not delivered as legally valid and enforceable judgments, the Supreme Audit Institution shall be empowered to approach the authority which is responsible for taking the necessary measures and require the accountable party to accept responsibility. (Lima Declaration Section 11.2)	The Public Finance Act provides for surcharge for improper conduct.	

(6) Qualifications and Skills of the Auditor

The SAI needs qualified accountants to sign audit opinions and auditors must have adequate professional expertise and technical knowledge to carry out audits

27. The syllabus of the government’s and the SAI’s accounting schools should cover all areas recommended by International Federation of Accountants’ educational standards (IES).	This has not been achieved. The Faculty of Management and Computing conducts AAT, CIMA, and ACCA courses. The Modern Academy of Professional Studies conducts the CAT course.	The size of the Maldives training market only allows distance education to service this standard of training and education. The ACCA provides support in Male to a limited extent. The proposed Technical Assistance will look at training and certification needs.
28. There should be adequate professional criteria for recruitment and promotion of auditors. (INTOSAI Lima Declaration Section 14 and INTOSAI Auditing Standards 2.1.4)	Accounting is required for audit staff recruits. The secondary and higher-grade schools teach accounting as a subject.	<p>The Audit Act provides:</p> <p><i>There shall be a special organizational structure for the audit office comprising professional and other employees. The recruitment, promotion, and conditions of services of the officers and employees within the organizational structure shall be as prescribed in the regulations made under this Act.</i></p> <p>The Auditor General needs to have</p>



STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
		job descriptions with clearly defined responsibilities, qualifications, and performance expectations for all positions in the Audit Office. The planned technical assistance includes advice on HR issues.
(7) Training		
29. The SAI should operate a continuing professional development program for its professional personnel. (INTOSAI Lima Declaration Section 14 and INTOSAI Auditing Standards 2.1.5-2.1.12)	This is mainly achieved through overseas courses.	The planned Technical Assistance includes building an in-house training capacity.
(8) Audit Competence		
30. The SAI should equip itself with the full range of up-to-date audit methodologies, including systems-based techniques, analytical review methods, statistical sampling, and audit of automated information systems. (INTOSAI Auditing Standards 2.2.37)	The Audit Office has an up-to-date certification audit methodology, which it is applying well in its compliance audits.	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 planned Technical Assistance will develop training toolkits covering audit methodology, reporting, and quality control for financial and computerized audit.
(9) Quality Assurance		
31. The SAI should have the requisite quality assurance programs in place to ensure audit performance and results. Written quality control policies and procedures should be communicated to the audit personnel in a manner that provides reasonable assurance that the policies and procedures are understood and implemented. (ISA 220.7)	These are not in place at present.	Quality assurance is included in the proposed Technical Assistance.

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>Quality control procedures should cover:</p> <ul style="list-style-type: none"> ■ Direction: Assistants to whom work is delegated need appropriate direction. ■ Supervision: During the audit it is essential to (a) monitor the progress of the audit, (b) become informed of and address significant accounting and auditing issues, and (c) resolve any differences of professional judgment between personnel so as to consider the level of consultation that is appropriate. ■ Review: The work performed by each assistant needs to be reviewed by personnel of at least equal competence. (ISA 220.8-220.17) 		

B. Assessment of Public Sector Auditing Standards and Practices

Results from the audits should hold the executive to account for its fiscal and expenditure policies and their implementation.

(1) Planning		
<p>32. The planning process should collect information about the audited entity and its organization in order to identify important aspects of the environment in which the audited entity operates, develop an understanding of the accountability relationships, determine whether appropriate action has been taken on previously reported audit findings and recommendations, assess risk, and determine materiality. (IAASB ISA 300.6-300.9)</p>	<p>The Audit Manual covers this. The staff use the manual for compliance audits.</p>	<p>Improvements in implementation will occur as training improves under the Technical Assistance.</p>



STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>The planning process should identify the scope of the audit, and specify the audit objectives and the tests necessary to meet them. (ISA 300.10-300.12)</p> <p>The planning process should review the internal audit of the audited entity and its work program, identify key management systems and controls, and carry out a preliminary assessment to identify both their strengths and weaknesses, and determine the approach to be adopted in the audit. (ISA 300.9)</p> <p>The planning process should highlight special problems foreseen when planning the audit. (ISA 300.10)</p> <p>The planning process should prepare a budget and a schedule for the audit, and provide for appropriate documentation of the audit plan and for the proposed fieldwork. (ISA 300.10)</p> <p>The planning process should identify staff requirements and a team for the audit. (ISA 300.11)</p> <p>The planning process should familiarize the audited entity about the scope, objectives and the assessment criteria of the audit and discuss with them as necessary. (ISA 300.7)</p>		
(2) Supervision		
<p>33. The process of supervision should ensure that the members of the audit team have a clear and consistent</p>	<p>The Audit Manual covers this. The staff use the manual for its audits but do not always follow the working paper requirements.</p>	<p>Improvements in consistency in implementation will occur as training improves under the Technical Assistance.</p>

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>understanding of the audit plan. (INTOSAI Auditing Standards 3.2.3a)</p>		
<p>34. The process of supervision should ensure that the audit is carried out in accordance with the auditing standards and practices of the SAI. (INTOSAI Auditing Standards 3.0.3b)</p>		
<p>35. The process of supervision should ensure that the audit plan and action steps specified in that plan are followed unless a variation is authorized. (INTOSAI Auditing Standards 3.0.3c)</p>		
<p>36. The process of supervision should ensure that working papers contain evidence adequately supporting all conclusions, recommendations, and opinions. (INTOSAI Auditing Standards 3.0.3d)</p> <p>The process of supervision should ensure that the auditor achieves the stated audit objectives. (INTOSAI Auditing Standards 3.0.3e)</p> <p>The process of supervision should ensure that the audit report includes the audit conclusions, recommendations and opinions, as appropriate. (INTOSAI Auditing Standards 3.0.3f)</p>		
<p>(3) Internal Controls</p>		
<p>37. The auditor should obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and</p>	<p>The Audit Manual covers this. The staff use the manual for its audits.</p>	<p>Improvements in the ways to improve the operations of internal controls will occur as training improves under the Technical Assistance.</p>



STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>assess the risks of material misstatement of the financial statements whether due to fraud or error, and sufficient to design and perform further audit procedures. (ISA 315.2)</p> <p>After obtaining an understanding of the accounting and internal control procedures, the auditor should obtain a sufficient understanding of control activities to assess the risks of material misstatement at the assertion level and to design further audit procedures responsive to assessed risks. (ISA 315.90)</p> <p>The auditor should document in the audit working papers: (a) conclusions reached about susceptibility to material misstatement due to error or fraud; (b) the understanding obtained of the entity's accounting and internal control procedures; and (b) the assessment of control risk. (ISA 315.122-123)</p> <p>The auditor should perform tests of controls to obtain sufficient appropriate audit evidence that the controls were operating effectively at relevant times during the period under audit. (ISA 330.23)</p> <p>When the auditor cannot obtain sufficient appropriate audit evidence as to a material financial statement assertion, the auditor should express a qualified opinion or a disclaimer of opinion. (ISA 330.72)</p>		

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<p>The auditor should make the management aware in writing, as soon as practical and at an appropriate level of responsibility, of material weaknesses in the design or operation of the accounting and internal control procedures, which have come to the auditor’s attention. (ISA 315.12)</p>		
<p>(4) Compliance with Laws</p>		
<p>38. The auditor should obtain a general understanding of the legal and regulatory framework applicable to the entity and the industry and how the entity is complying with that framework. (ISA 250.15)</p> <p>The auditor should perform testing and other procedures to help identify instances of noncompliance with those laws and regulations where noncompliance should be considered when preparing financial statements. (ISA 250.18-250.19)</p> <p>Generally, management is responsible for establishing an effective system of internal controls to ensure compliance with laws and regulations. In designing steps and procedures to test or assess compliance, the auditor should evaluate the entity’s internal controls and assess the risk that the control structure might not prevent or detect non-compliance. These evaluations should be used to report to management</p>	<p>The Audit Manual covers this. The staff use the manual for its audits.</p>	<p>There is a need to publish the audit reports and also publish the progress in auditees’ responses, or otherwise, to audit reports and recommendations.</p>



STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>on defects in the system of internal controls and the steps that should be taken to improve the system. (ISA 250.17)</p> <p>The auditor should obtain written representations that management has disclosed to the auditor all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements. (ISA 250.23)</p> <p>The SAI should use regularity audit to make sure that the State budget and accounts are complete and valid. The audit procedure may result, in the absence of irregularity, in the granting of a “discharge”. If not other processes are needed to resolve irregularities.</p>		
(5) Evidence		
<p>39. When obtaining audit evidence from tests of control, the auditor should consider the sufficiency and appropriateness of the audit evidence to support the assessed level of control risk. (ISA 500.10)</p> <p>When obtaining audit evidence from substantive procedures, the auditor should consider the sufficiency and appropriateness of audit evidence from such procedures together with any evidence from tests of control to support financial</p>	<p>The Audit Manual covers this. The staff use the manual for its audits.</p>	<p>Improvements in implementation will occur as training improves under the Technical Assistance.</p>

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
statement assertions. (ISA 500.12)		
<p>40. When inventory is material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding its existence and condition by attendance at physical inventory counting. (ISA 500.5)</p> <p>When in substantial doubt as to a material financial statement assertion, the auditor should express a qualified opinion or a disclaimer of opinion. (ISA 500.18)</p>	<p>The Audit Manual covers this. The staff use the manual for its audits.</p>	<p>Improvements in implementation will occur as training improves under the Technical Assistance.</p>
(6) Analysis of Financial Statements		
<p>41. In regularity (financial) audit, and in other types of audit when applicable, the auditor should analyze the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. (INTOSAI Auditing Standards 3.6.1)</p> <p>Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on the financial statements. The auditor should ascertain whether:</p> <p>(a) financial statements are prepared in accordance with acceptable accounting standards;</p> <p>(b) financial statements</p>		



STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>are presented with due consideration to the circumstances of the audited entity;</p> <p>(c) sufficient disclosures are presented about various elements of financial statements; and</p> <p>(d) the various elements of financial statements are properly evaluated, measured and presented.</p> <p>(ISA 200.2-200.12)</p>		
(7) Reporting on Financial Statements.		
<p>42. The auditor should provide an opinion paragraph in the audit report. (ISA 700.4)</p> <p>There should be a reference to the financial reporting framework used to prepare the financial statements (including identifying the country of origin of the financial reporting framework when the framework used is not International Accounting Standards). (ISA 700.12-15)</p> <p>The opinion paragraph should contain an expression of opinion on the financial statements stating the auditor's opinion as to whether the financial statements give a true and fair view (or are presented fairly) in all material respects. (ISA 700.17)</p>	<p>No certification audit is currently conducted but the Public Finance Act requires them in the future</p>	
<p>43. The SAI should provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion. Reports should be made where weaknesses exist in</p>	<p>No certification audit is currently conducted, but the Public Finance Act requires them in the future</p>	

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>systems of financial control or accounting. (ISA 700.17)</p>		
<p>(8) Reporting on Fraud</p>		
<p>44. The SAI should report fraudulent practices or serious irregularities discovered by the auditors. (INTOSAI Auditing Standards 4.0.7)</p> <p>ISA 240 establishes standards and provides guidance on the auditor’s responsibility to consider fraud and error in an audit of financial statements. The standard requires that – when planning and performing audit procedures and evaluating and reporting the results thereof – the auditor considers the risk of material misstatements in the financial statements resulting from fraud or error.</p>	<p>The audit design tests for material irregularity and fraud. People committing serious offences are prosecuted. During the audit, apparent cases of fraud are referred to the President’s Office and to the Anti-Corruption Board.</p>	<p>Improvements in implementation will occur as training improves under the Technical Assistance.</p>
<p>(9) Reporting on Compliance</p>		
<p>45. With regard to regularity audits, the auditors prepare a written report, which may either be a part of the report on the financial statements or a separate report, on the tests of compliance with applicable laws and regulations. (INTOSAI Auditing Standards 4.0.7)</p>	<p>This is being done. Discussion papers are prepared showing requirements, findings, recommendations, and auditee comments. Reports are sent to the auditee, its department, and the President’s Office.</p>	<p>Improvements in implementation will occur as training improves under the Technical Assistance.</p>

