



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.