



ASIAN DEVELOPMENT BANK

Regional: Enhancing Roles of Supreme Audit Institutions in Selected Association of Southeast Asian Nations Countries

Project Name	Enhancing Roles of Supreme Audit Institutions in Selected Association of Southeast Asian Nations Countries		
Project Number	47291-001		
Country	Regional		
Project Status	Active		
Project Type / Modality of Assistance	Technical Assistance		
Source of Funding / Amount	TA 8824-REG: Enhancing Roles of Supreme Audit Institutions in Selected ASEAN Countries		
	Japan Fund for Poverty Reduction		US\$ 800,000.00
Strategic Agendas	Inclusive economic growth Regional integration		
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships		
Sector / Subsector	Public sector management - Public administration - Public expenditure and fiscal management		
Gender Equity and Mainstreaming	No gender elements		

Description

1. The regional capacity development technical assistance (R-CDTA, the Project) aims to empower four supreme audit institutions (SAIs) of the Association of South East Asia Nations (ASEAN): (i) Badan Pemeriksa Keuangan (BPK the Indonesia's SAI), (ii) the Commission on Audit (COA, the Philippines' SAI), (iii) the Office of Auditor General (OAG, Myanmar's SAI) and (iv) the State Audit Organization (SAO, SAI of Lao People Democratic Republic (PDR)). The Project will improve the compliance of the financial audit of the selected SAIs with the international standards of SAI (ISSAI).

The Project will work closely with ASEANSAI to disseminate the lessons learned from the four selected SAIs to its other members, especially for SAIs in Cambodia and Viet Nam. Based on lessons learned among SAIs, the Project will assist ASEANSAI to explore other investments to enable other SAIs to move towards full application of ISSAI and improve the quality of public finance audits in ASEAN.

2. Impact and Outcome

The Project impact will be ASEANSAI members conducted financial audits in accordance with ISSAI standards. The Project outcome will be the quality of financial audit guidelines of the selected SAIs is improved to ISSAI level.

3. Methodology and Key Activities

Output 1: Assessment of guidelines and capacity of selected SAIs is completed. Its key indicators are: (i) identified ISSAI compliance on financial audit in four selected SAIs; and (ii) completed action plan of four SAIs to implement ISSAI. Findings from the GIZ funded assessment on ISSAI compliance will be used as the baseline data and the Project will enhance SAI capacity to comply with the ISSAI. The assessment will include capacities on financial management (FM), procurement, financial auditing, outsourcing resources, training needs and others. The Project will conduct a regional workshop to disseminate findings, recommendations and plan of actions. SAIs from other ASEAN countries will be invited together with GIZ, JICA and WB to participate in the workshops to disseminate the guidelines to gather inputs from stakeholders to finalize the action plan of each participating SAI to implement the Project.

Output 2: Country guidelines on ISSAI based financial audit is updated. Key indicators are: (i) the four selected SAIs have updated ISSAI-based guidelines on financial audit; (ii) staff of four SAIs have been trained in implementing the guidelines; (iii) financial audit guidelines are field tested; and (iv) present the results of the field test in a workshop to further improve the guidelines and share with other SAIs in ASEAN. For these targets, the compliance of financial audit guidelines with ISSAI will be improved. Comprehensive guidelines for outsourcing resources will be prepared. The guidelines will include manuals, audit tools and other supports that can be used by SAIs to comply with ISSAI on financial audit. The Project will also assist the selected SAIs to prepare detailed training modules to implement the improved ISSAI-based guidelines; and field-test the guidelines in selected projects. In addition to regular projects, one or two emergency projects will be included in the field tests to find out whether a specific audit manual is required for such projects. A roundtable (could be via videoconference) discussion to compare results in the three countries will also be held. The Project will also assist ASEANSAI to develop a scorecard to assess the compliance of its members with ISSAI.

Output 3: ISSAI-based financial audit guidelines are disseminated to other ASEANSAI members. Key indicators are: (i) the new improved guidelines are disseminated to other ASEANSAI members; and (ii) completed exit strategy including roadmaps for ASEANSAI to further enhance ISSAI compliance in the remaining SAIs. For these targets, the Project will conduct a regional workshop to disseminate the new guidelines and the lessons learned from the experience of the four selected countries to other ASEANSAI members. GIZ, JICA and the WB will be invited to share the results and confirm funding inputs to prepare roadmaps to roll out the results. The completed roadmaps will be the Project exit strategy and will be the basis of ASEANSAI and its members to roll out the lessons to fully comply with ISSAI. It is expected, following the roadmaps, ASEANSAI will roll out the new guidelines with lessons learned from the pilot SAIs to the remaining ASEANSAI members, and each SAI will explore various sources to implement their roadmap. It may secure funding from GIZ, JICA, the WB, and other DPs as well as from internal government sources to scale up the investments to other public funds and/or to other countries.

4. Implementation Arrangements:

The Project will be administered by ADB as the executing agency (EA). As discussed with the four governments, the project will establish a working group in each selected SAI who will be supported by consultants to implement the activities set in the DMF (Appendix 1). Both SAIs' staff and consultants will work closely with ADB headquarters in Manila, Indonesia resident mission (IRM), Lao PDR resident mission (LRM), Myanmar Resident Mission (MYRM) and the Philippines Country Office (PhCO), ADB will also work with the governments, other DPs and stakeholders to intensify the knowledge sharing among ASEANSAI members.

All disbursements under the Project will be conducted in accordance with the ADB's Technical Assistance Disbursement Handbook (July 2012, as amended from time to time). ADB will support the working groups in recruiting the consultants, purchasing equipment, and in managing other expenses funded by ADB. All equipment and assets purchased under the project will be turned over to the related SAIs upon the Project completion. Procurement, if any, will follow ADB Procurement Guidelines (2013 as amended from time to time).

ADB officers will work closely with staff of Office of Anticorruption and Integrity (OAI) and Operations Services and Financial Management Department (OSFMD) as well as FM focal points at focused countries. ADB staff may act as resource persons to provide technical and management support for the project. The Project will recruit consultants as individuals with the ADB Guidelines on the Use of Consultants (2013, as amended from time to time). Under supervision of working group in each SAI, they will work closely to support the project overall implementation. The TORs for the consultants are given in Appendix 3.

As discussed, ASEANSAI, BPK, COA, OAG and SAO will provide an office space, supporting staff, and other in kind contribution to implement the Project related activities. For their participation as resource persons in knowledge sharing, SAIs' staff from other DMCs will be funded by the Project. Certain ASEAN countries, namely Brunei, Malaysia and Singapore For better off ASEAN countries like Brunei, Malaysia and Singapore, they will shoulder the costs for their participation in sharing knowledge and skills during workshops and other consultations.

Project Rationale and Linkage to Country/Regional Strategy

The proposed R-CDTA will support the implementation of the Southeast Asian countries country partnership strategies (CPSSs) with ADB. As in the Indonesia's Country Partnership Strategy (CPS) 2012-2014, facilitating regional cooperation that has significant regional benefits for policy, advisory, and capacity development assistance will continue to be a key conduit to transfer and adapt good practices from ADB's developing member countries. For Lao PDR and Myanmar, it will support the regional cooperation operations business plan (RCOBP) for the Greater Mekong Sub-region (GMS) for 2013-2014, for sustainable growth by (i) strengthening connectivity, addressing human development through capacity-building issues associated with sub-regional linkages. It will emphasize applying regional knowledge and experience to development issues in ASEAN countries, and further build links with regional knowledge partnerships.

ASEANSAI for good governance: SAIs are the countries' lead public sector audit institutions, having principal task to examine whether public funds, including loan and grant projects funded by development partners (DPs) are spent economically, efficiently and effectively in compliance with existing rules and regulations. Well-functioning SAIs can play an important role in confirming that controls are operating effectively, identifying waste and suggesting ways in which government organizations can operate better. By ensuring that public money is well spent, they can contribute to national development and the fight to reduce poverty. The reality is that SAIs in many developing member countries (DMCs) are not functioning as they ought to. In some cases, SAIs lack authority, skills and resources to carry out proper and thorough audits and to report the results freely and without fear. Consequently, the quality of many audit reports in DMCs is not good, and most reports do not fully comply with the ISSAI.

ADB's 2011 Public Communications Policy (PCP) expands and speeds up the release of information to the public to increase transparency and accountability. It is harmonized with the disclosure policies of other DPs including the World Bank (WB), the Japan International Cooperation Agency (JICA) and the German agency for international cooperation (GIZ). According to the PCP, audited annual project financial statements (APFSs) for sovereign (loan and grant) projects financed by and through ADB will be posted on ADB's website. ADB and the DMCs' governments may face potential reputational risks since the quality of the audited APFSs needs significant improvement. As in the key findings of ADB's Audit Report 2012: (i) Only about 15% of the APFSs were presented in strict conformity with the ISSAI; (ii) Only 21% of the APFSs complied with ADB's audit requirements; (iii) Only about 57% of APFSs and audited entity financial statements (AEFSs) were submitted on time; and (iv) about 77% of projects included management letters, but only 32% covered substantial issues. Enhancing the roles of SAIs in compliance with ISSAI and in auditing public funds may reduce various risks for the governments as well as DPs.

ASEANSAI was established in November 2011 as an autonomous, independent, professional and non-political organization to enhance the roles of its 10 members to promote good governance in ASEAN. ASEANSAI requested ADB and other DPs to support them to properly implement its mandate and strengthen the organizational and audit capacity of its members, especially to implement its following programs: (i) developing audit manuals, guidance and tools for its members; (ii) accelerating among its members, the adoption of ISSAI; and (iii) capacity building support to its members.

ASEAN has been working with ADB in various sectors, and a memorandum of understanding (MOU) between ADB and ASEAN was signed in 2006 and updated in 2012. The Project will complement the regional cooperation in 10 ASEAN countries that has been centering around three main pillars: pro-poor sustainable economic growth; inclusive social development; and good governance for effective policies and institutions. As in SAI mandate, DP-funded projects shall be audited by SAIs, but this is not the case for all ASEANSAI members. This is mainly due to low capacity and political concerns. In Cambodia and Viet Nam, for example, DP-funded projects are performed by private sector auditors. These private auditors are not supervised by and/or accountable to the SAIs. Supported by an ongoing ADB's TA, SAI in Cambodia is preparing a sub-decree on _Implementing the Law on Audit of the Kingdom of Cambodia._ The sub-decree will include outsourcing resources to complement the SAI's resources. Following its approval, the sub-decree will still require detailed guidelines, training, public dissemination and other support for its proper implementation. The WB is working with the Supreme Audit of Viet Nam (SAV) to allow the SAV to audit several WB-funded projects on a pilot basis.

In Indonesia, DP-funded projects approved up to 2008 are still audited by Badan Pengawas Keuangan dan Pembangunan (BPKP, Indonesia's internal audit institution). Following ongoing reforms in promoting good governance, BPK, was recently mandated to audit DP-funded projects. As of December 2013, only four out of 22 ADB ongoing projects were audited by BPK, and very limited number from other DPs. This SAI needs support to carry out its new mandate properly. ADB does not have ongoing projects for Brunei and Singapore and only has some projects in Malaysia and Thailand.

BPK, COA, OAG and SAO have been selected as the Project participating SAIs since these SAIs have been auditing most public funds; and they need further supports to fully comply with ISSAI. Within the ASEANSAI, BPK is selected as a permanent secretariat. COA was the leading institution for the Knowledge Sharing Committee on ISSAI compliance. COA has prepared some manuals and guidelines for implementing some of the ISSAI standards; and the Project will help them finalize its financial audit guidelines. OAG is fully responsible for auditing public funds, but it has no experience in auditing DP-funded projects, since the DPs have just re-entered the country. Many of its auditors resigned when the main capital of the country moved from Yangon to Nay Pyi Taw. Newly recruited staffs also need training to improve their capacity to become good external auditors. SAO has been auditing some DP-funded projects including ADB's. SAO expressed its need to prepare detailed guidelines for potential outsourcing resources to meet its obligations to deliver good quality audit reports on time and enhance staff capacity. The Project will also complement the previous ADB's investment for SAO. Through this Project SAIs will share their progress that may encourage all SAIs to further improve their capacity

Impact

ASEANSAI members conducted financial audits in accordance with ISSAI standards

Project Outcome

Description of Outcome

The quality of financial audit guidelines of the selected SAIs is improved to ISSAI level

Progress Toward Outcome

Implementation Progress

Description of Project Outputs	1. Assessment of guidelines and capacity of selected SAIs on financial audit completed 2. Country guidelines on financial audit based on ISSAI are updated 3. ISSAI-based financial audit guidelines of selected SAIs are disseminated to other ASEANSAI members
Status of Implementation Progress (Outputs, Activities, and Issues)	The four SAIs selected to directly benefit from the R-CDTA are: (i) SAV of Viet Nam (originally it was BPK of Indonesia but it was replaced in May 2015), (ii) SAO of Lao PDR; (iii) COA of the Philippines, and (iv) OAG of Myanmar. To bring common understanding on the activities of the TA and clarify the expectations of the SAIs, a memorandum of understanding was signed between ADB and each SAI (for SAV, the MOU is currently being finalized). These SAIs have also established their technical working group and prepared their initial work plans. The international expert has been engaged and was mobilized in June 2015. Recruitment of the national experts are on-going. A back to back workshop is being organized for 11 October 2015.
Geographical Location	

Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

Stakeholder Communication, Participation, and Consultation

During Project Design

During Project Implementation

Responsible Staff

Responsible ADB Officer	Musa, Agustina
Responsible ADB Department	Southeast Asia Department
Responsible ADB Division	Public Management, Financial Sector and Trade Division, SERD
Executing Agencies	<i>Asian Development Bank 6 ADB Avenue, Mandaluyong City 1550, Philippines</i>

Timetable

Concept Clearance	09 Jun 2014
Fact Finding	01 Oct 2014 to 04 Nov 2014
MRM	-
Approval	12 Dec 2014
Last Review Mission	-
Last PDS Update	08 Sep 2015

TA 8824-REG

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
12 Dec 2014	-	12 Dec 2014	31 Jan 2017	31 Jan 2018	-

Financing Plan/TA Utilization						Cumulative Disbursements		
ADB	Cofinancing	Counterpart				Total	Date	Amount
		Gov	Beneficiaries	Project Sponsor	Others			
0.00	800,000.00	0.00	0.00	0.00	0.00	800,000.00	12 Dec 2014	242,503.44

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