

TECHNICAL ASSISTANCE COMPLETION REPORT

Division : PAHQ

TA No., Country and Name		Amount Approved: \$300,000	
TA 4464-FSM: Strengthening Public Sector Audit Function		Revised Amount:	
Executing Agency (EA): Office of the National Public Auditor	Source of Funding: JSF	Amount Undisbursed: \$284,134	Amount Utilized: \$15,866
TA Approval Date: TA Signing Date: 3 December 2004 29 December 2004	Fielding of First Consultant: 12 March 2005	TA Completion Date Original: 30 September 2005 Account Closing Date Original: 30 September 2005	Actual: 4 October 2005 Actual: 16 November 2005
<p>Description</p> <p>The Federated States of Micronesia (FSM) is heavily reliant on economic assistance under the Compact of Free Association between FSM and the United States. Under the amended Compact of 2004 (Compact II), FSM is required to manage funds in a more accountable and transparent manner. Government audit offices play a critical role in fulfilling this requirement. The Government requested technical assistance (TA) from the Asian Development Bank (ADB) to support the strengthening of its public sector audit function.</p> <p>An external quality control review of the Office of the Public Auditor (OPA) for FSM was conducted by Association of Pacific Island Public Auditors in 2002. It revealed the weaknesses and issues of the audit office and concluded that OPA was not in compliance with general audit standards and field work standards for performance audits. The review pointed out that OPA needed to improve its audit standards in the areas of audit staff qualifications, audit organization's independence, individual auditor's independence, exercise of due professional diligence in conducting the audit and preparing related reports, and presence of quality controls. OPA relied on foreign staff members to manage and supervise audits and the turnover of key staff members was high.</p> <p>Further, the coverage of audit work by OPA was very limited, due to insufficient institutional and human resources capacities. As a result, the OPA had to be selective in its annual work plan and hence the frequency of audits was insufficient to encourage compliance with regulations and guidelines and deter participation in fraud-related activities.</p> <p>Expected Impact, Outcome and Outputs</p> <p>The expected impact of the TA was to assist the Government in increasing its accountability and transparency at the national and state levels. To achieve this goal, the TA was focused on enhancing the audit and administrative processes of audit offices necessary to effectively carry out productive and efficient audits. The main expected outputs of the TA were (i) strategic plans of audit offices, (ii) performance audit tools necessary to perform accurate and efficient audit, (iii) strengthened human resources management plan or system, (iv) resource-sharing program among the national and state audit offices, and (v) adoption of the reform plan for the national audit office by the state audit offices, as appropriate.</p> <p>The TA design (including objectives and terms of reference) was directly targeted at meeting priority needs of the national and state audit offices. All offices closely participated in the formulation of the TA. The implementation period was short (8 months) but during TA formulation was considered adequate. The capacity constraints of the OPA were apparent during TA formulation, however to ensure ownership and commitment to the TA it was considered necessary that OPA take on the role of EA.</p> <p>Delivery of Inputs and Conduct of Activities</p> <p>It was intended that 10 person-months of consulting services (two individual consultants) would be provided over the 8 month period of the TA. However, only 14 days of consulting services were provided as implementation of the TA was postponed and eventually cancelled shortly after inception. The two contracted consultants did not have any opportunity to demonstrate their abilities, although their experience was sound and relevant on paper. No further inputs were provided on the part of ADB or the EA and no activities were conducted beyond partial development of an inception report. Thus, the 14 days of consulting services that were provided were unproductive.</p> <p>On 23 March 2005, a few days after the fielding of the Human Resource Specialist, the EA requested implementation of the TA be delayed to allow staffing and scheduling of the TA to be reassessed and re-scoped.</p>			

These concerns were raised after the period for government comments on the shortlist had elapsed and the Human Resource Specialist had already been contracted. The EA's position was contrary to the strong interest and commitment of Government to implement the TA indicated by the TA letter of agreement from Department of Finance and Administration dated 29 December 2004.

At the time of postponement, ADB had been proposing to shift the Team Leader role to this consultant. Matters were not helped by the fielding of the consultant by his company on 7 March 2005, prior to issuance by ADB of the Notice to Proceed. The consultant was denied access to OPA staff and facilities by the EA (counterpart financing and support were not provided) and the consultant was withdrawn from the field after 2 weeks.

The TA was extended by 12 months (to September 2006) to provide a window to identify and address EA concerns and complete the full scope of the TA. However, these efforts proved unsuccessful, with cancellation of the TA initially discussed in May 2005, just 2 months after fielding of the initial consultant. The strong design of the TA directed towards meeting urgent national needs and support from other areas of FSM government were not sufficient to reverse OPA's withdrawal of support. Implementation of the TA was postponed and the two consultants' contracts were pre-terminated on 4 October 2005.

The performance of the EA was unsatisfactory given the late withdrawal of their support for the TA. ADB followed set procedures at all times and made efforts to reach a mutually agreeable arrangement with the EA which could have allowed the TA to be implemented but was unable to do so. ADB's performance was satisfactory.

Evaluation of Outputs and Achievement of Outcome

There were no outputs from this TA due to its postponement and subsequent cancellation in October 2005.

Furthermore, the objective of dovetailing implementation of this TA with the Public Sector Capacity-Building Roadmap (the Roadmap) component under TA 4258-FSM: *Strengthening of Public Sector Management and Administration*, was derailed and TA 4258 consultants had to seek other means to inform the Roadmap in the area of audit.

Overall Assessment and Rating

The TA is rated unsuccessful overall. The TA suffered from the outset of implementation from a lack of support from the EA and was cancelled at Government of FSM's request.

Major Lessons

The depth of EA support for the proposed TA should have been more clearly determined during programming, with a decision not to program this TA being more efficiently made at this point. Further, audit tends to be a politically sensitive area and the involvement of other donor partners in this assistance (particularly the United States given their interest in its impact) may have acted to provide greater support and pressure for its successful implementation. Developing a strong and continuing partnership with the EA is essential to TA success. While the EA was positively involved in the design and development of this TA, their expressed concerns indicated they felt ownership was less during implementation. Adequate time also needs to be allowed for implementation—an overly short implementation period can lead to difficulties in recruiting suitably qualified and experienced consultants which has to be balanced against pressures to field consultants. Great care must also be taken to ensure the EA has both the capacity and commitment to deliver on counterpart arrangements. In this case, OPA was clearly overwhelmed by its day-to-day workload and was particularly heavily reliant on the advice of its expatriate staff members. The additional responsibilities arising from the need to work with the TA team proved a challenge the OPA was unable to meet. OPA did not abide by FSM's commitment in the TA Letter of Agreement and in such cases the Government signatory (i.e., Department of Finance and Administration in this case) needs to bear some accountability for the actions of the EA.

Recommendations and Follow-Up Actions

In developing future TA for FSM, greater attention needs to be paid to gaining and maintaining the commitment of all stakeholders (including those at state level) and to ensuring actions are in place to provide counterpart funding and personnel. Steps to promote commitment from the EA could include ensuring direct correspondence with the EA rather than using other government agencies as intermediaries, and regularly consulting and updating the EA on progress towards TA implementation. Auditing still remains an area of weakness in FSM, however any future assistance in this area needs to be undertaken only with the clear and ongoing support of the OPA. Indeed the sub-regional approach currently being pursued through TA 6360-REG: *Strengthening Governance and Accountability in PICs*, in which FSM is one of the participants, has generated and maintained this support.