Report of the Public Accounts Committee on the:

- Report of the Auditor General on the results of Financial Statement Audits of Public Enterprises and Statutory Bodies for the Year Ended 31 December 2011; and
- Report of the Auditor General on the results of Financial Statement Audits of Public Enterprises and Statutory Bodies for the Year Ended 31 December 2010, 31 December 2009 and 31 December 2008

TUVALU PARLIAMENT

Public Accounts Committee
Office of the Parliament
Vaiaku, Funafuti
TUVALU

1 August 2013

Honourable Speaker of Parliament
Office of the Speaker of Parliament
via Clark to Parliament
Parliament of Tuvalu
Vaiaku

Dear Sir,

Report of the Public Accounts Committee on the:

- **Report of the Auditor General on the results of Financial Statement Audits of Public Enterprises and Statutory Bodies for the Year Ended 31 December 2011, 31 December 2010, 31 December 2009 and 31 December 2008**

The report on the findings and recommendations of the Public Accounts Committee arising from the consideration of the Report of the Auditor General on the results of Financial Statement Audits of Public Enterprises and Statutory Bodies for the Year Ended 31 December 2011, 31 December 2010, 31 December 2009 and 31 December 2008 has been completed.

We present the report to you as a paper for tabling as required under section 49(9) and section 51 of the Parliamentary Rules of Procedure.

Nineteen (19) bound copies of the report are provided herewith for distribution to all Honourable Members of Parliament.

Sincerely,

Monise Laafai	**Namoliki Sualiki**	**Taukelina Finikaso**
Chairman	Member	Member
Public Accounts Committee	Public Accounts Committee	Public Accounts Committee

Contents

1 Introduction

This is the Public Accounts Committee's (PAC) report on the:

- Report of the Auditor General on the results of Financial Statement Audits of Public Enterprises and Statutory Bodies for the Year Ended 31 December 2011; and
- Report of the Auditor General on the results of Financial Statement Audits of Public Enterprises and Statutory Bodies for the Year Ended 31 December 2010, 31 December 2009 and 31 December 2008.

In accordance with rule 49(1)(d) of the Parliament Rules of Procedure, the Public Accounts Committee (PAC) will *consider any report of the Auditor-General on the accounts, finances and properties of any statutory body, commission or organization where a report on the examination and audit of accounts etc. is laid before Parliament.*

Under section 45 of the *Audit Act* and under section 49(4) of the Parliamentary rules of Procedure, the Auditor General's report is considered to have been tabled when received by the speaker to Parliament.

This report is dealing with the issues which are currently unresolved.

The PAC met during March/April/May 2013 to deliberate on the Audit reports and then held public hearings.

Members of the PAC:

Chairman: Monise Laafai

Namoliki Neemia

Taukilina Finikaso

2 Acknowledgements

We acknowledge the work of the Tuvalu Audit Office, the public enterprises and statutory bodies for the improvements which have been made. However, there are still considerable improvements to be made. Our recommendations for improvement are noted below.

3 Findings and Recommendations Arising from the Audit Reports

3.1 Tuvalu Electricity Corporation (TEC) potential de-corporatisation

- The *Tuvalu Electricity Corporation (Repeal) Act* was passed in Parliament in late 2011. This Act is removing TEC from the PE Act and is transferring management and ownership to the Government. This Act comes into effect on such date that the Minister may by notice appoint, which is yet to occur. This means that TEC continues as a Public Enterprise until the Minister gives notice.

- This is not an ideal position for the TEC, as if while they are striving to be a successful business they causes upset to the Minister, the Minister will de-corporatize TEC.

Recommendation 3.1:

a. That Government submits a clear report to Parliament in its next session providing the full details of why they have not implemented the Tuvalu Electricity Corporation (Repeal) Act which was passed under urgent procedures for Parliamentary bills.
b. That if TEC was to continue operations as a Public Enterprise, then proper legal procedures for repealing TEC's de-corporatisation Act should be carried out immediately.

3.2 NAFICOT financial statements and accountability

- No NAFICOT financial statements have been presented for audit since 1999. Without financial statements and annual reports, there is no accountability for the Public Enterprise.

Recommendation 3.2:

a. PERMU and the Government continue to request and follow up with NAFICOT financial statements for the past 12 years. In the event that the NAFICOT refuse to submit financial statements, take action to wind them up in accordance with the Public Enterprises (Accountability and Performance) Act and the Companies Act.

3.3 Community Service Obligation

- The PE Act requires that the principal objective of the public enterprises shall be to operate a successful business. If the public enterprises are either requested to perform a function which is unprofitable or are performing a function which they assess as unprofitable, than under the PE Act they should request compensation from the Government in the form of a formal Community Service Obligation (CSO).
- If the Government does not agree to fund the CSO, and there is no formal agreement, the public enterprise should then discontinue its unprofitable functions.
- There has been compensation paid during the 2011 for unprofitable operations of the public enterprises, however, there has been no formal CSOs signed. By making lump sum payments rather than entering into a CSO, the independence of the public enterprise is compromised, the cashflow forecasts are uncertain and the assessments of the profitability of the operations are impeded.

Recommendation 3.3:

a. That the process of applying for and receiving payments for CSOs in the PE Act is adhered to, and there is formal documentation of the CSO agreements.
b. Public enterprises should discontinue unprofitable operations if they are not receiving compensation under a CSO.

c. Individual public enterprises should be more proactive in seeking CSOs, to ensure that their unprofitable operations are funded.

3.4 Merging of Tuvalu Philatelic Bureau, Post Office and Travel Office

- PAC noted that the merging of the Tuvalu Philatelic Bureau (TPB), Postal and Travel Offices under a new entity called Tuvalu Postal and Travel Limited (TMTL) has been formalised at the end of 2012, however, the three offices are still operating as normal and as separate entities.

Recommendation 3.4:

a. That a clear strategy and transition for this merger should be developed. It should include the new organizational structure, new office building to house the three separate offices and other arrangements.

3.5 Repayment of outstanding Government debts with NBT

- PAC noted that Government still has not cleared its outstanding debts with the National Bank of Tuvalu (NBT) in relation to its suspense account, Tuvalu Media Corporation, Air Fiji and NAFICOT loans.

Recommendation 3.5:

a. That Government ensures that these outstanding debts are repaid in full in the near future.
b. That Government liaise with NBT on a repayment schedule for its current debts

3.6 Collection of debtors

- Apart from TPB and TTC, the provision for doubtful debt as percentage of total receivables for non financial entities is above 35%. This means that for every dollar owed to the public enterprise, it is likely they will collect 65 cents or less.
- Credit impairment as percentage of total receivable has great impact on cash flow and going concern.

Recommendation 3.6:

Each public enterprise should:

a. Make assessments about likelihood of customers making repayment and only offer credit if appropriate,
b. Closely monitor receivables, discuss receivables every board meeting, send reminder notices, make follow up phone calls to their debtors
c. Commence legal action against long term debtors using either the Attorney-General's Office or the People's lawyer

3.7 Cash Management

- The Tuvalu Philatelic Bureau (TPB) and the Tuvalu Telecommunications Corporation (TTC) have had a negative cash position over the last four years.
- High amount of interest are being paid on their overdrafts.

- Cash on hand closely relates to ability of entity to pay its debt when fall due.

Recommendation 3.7:

a. That TTC and TPB are recapitalised and other measures are taken to ensure that adequate working capital is present in each of the entities.
b. Management take an active role in the management of working capital.
c. A review of the pricing of goods and services, collection of debts owed, proper recording of receivables as well as management and forecasting for future outflows should be performed by the entities in an attempt to improve their cash position.
d. Management of each of the entities with going concern issues implements change to ensure that they are able to continue as a going concern. This includes increasing the prices of their goods and services, discontinuing unprofitable goods and services, requesting formal Community Service Obligation payments from the Government for unprofitable segments which are required to be delivered and being more stringent with debtors (both collection and approval).

3.8 Conflict of Interest of Board of Directors for Public Enterprises

- PAC noted that there have been cases of conflict of interest in the appointment of Board of Directors, in that the wife of a Cabinet Minister was appointed into the Board of the Development Bank of Tuvalu. The PAC understands that the appointment of all Public Enterprises Directors would be approved and endorsed by Cabinet.

Recommendation 3.8:

a. That a clear policy for the appointment of Board Directors should be developed to avoid and discourage conflict of interests between executive Government and the Public Enterprises.

3.9 Civil Servant Allowance

- The PE Act states that no payment should be made to directors who hold positions in public offices.
- PE has been paying directors allowances to Board members who are public officers.

Recommendation 3.9:

a. The respective directors to refund the allowances paid during the year to the PEs.
b. Cease the payment of allowance to directors of PEs who hold public office including Members of Parliament, Public Servants or Constitutional Officers.

3.10 Public Enterprise Reform and Management Unit (PERMU) Strengthening and monitoring

- The Public Enterprise Reform and Management Unit (PERMU) have not been actively following up public enterprises on their reporting requirements. There has been limited communication and planning performed by PERMU, nor is any record of follow up performed.

Recommendation 3.10:

a. That PERMU actively follow up public enterprises on their reporting requirements. This includes quarterly reporting, corporate plan reporting, annual accounts submission and also monitoring progress that is being made by the public enterprises on the management letter recommendations.
b. Records of follow up of the public enterprises are kept by PERMU.

3.11 Assistance on preparation of Financial Statements

- Considerable effort was required by the Tuvalu Audit Office in assisting the public enterprises in preparing financial statements which were in compliance with International Financial Reporting Standards (IFRS) as required by the PE Act.
- PERMU has a set of model accounts, however, they have not been updated and do not take into account all the requirements of IFRS.

Recommendation 3.11:

a. That the public enterprises work towards ensuring that their 2013 accounts are IFRS compliant and compliant with the required reporting format.
b. The required reporting format is updated and re-issued to ensure the model accounts maintained by PERMU are in compliance with IFRS.
c. When the reporting requirements are updated, training to communicate the new requirements should be run with the public enterprise accountants.

3.12 Going Concern

- The ability of the public enterprises to operate in the future depends on their financial position. Continuing as a going concern means that you can pay your bills if and when they fall due.
- The Development Bank of Tuvalu, Tuvalu Electricity Corporation, Tuvalu Philatelic Bureau and Vaiaku Lagi Hotel are public enterprises who have a risk of not being able to continue as a going concern.
- There are different reasons for the uncertainty surrounding the ability of each of these public enterprises.

Recommendation 3.12

a. The management implement some form of change to ensure that they are able to continue as a going concern. This could include:
    a. Increasing price of goods and services
    b. Discontinuing unprofitable goods and services
    c. Requesting formal community service obligation payment from the Government for unprofitable segment which require to be delivered and being more stringent with debtors (both collection and approval).

3.13 Asset and inventory management

- The Tuvalu Audit Office (TAO) witnessed public enterprises perform their stocktakes of assets and inventories. During the counts it was noted that there were no documented procedures surrounding:
    - updating assets, inventories and portable and attractive registers;
    - performance of the independent counts;
    - investigation of missing stock; and
    - compilation, approval and actioning of stocktake reports.
- Additionally the TAO had to request most public enterprises to perform their stock count, rather than being invited.

Recommendation 3.13:

a. The public enterprises perform regular stock counts, using registers updated for purchases and disposals updated during the year. The results should be used to update their respective accounting systems. These counts could also be used to monitor theft and consumption statistics in order to further plan and budget.
b. At the end of the year, entities should perform a full stocktake using the asset register as a base. A report on stocktake including a listing of the missing assets should be compiled and the report should be approved by the Board of Directors.
c. Stocktake procedures should be documented, including: regularity of the count, how to conduct a stocktake, independence requirements, how to compile a countsheet, what to do if an asset is located which is not on the register, what to do if an asset on the register is unable to be located, report signoff and recommendations.
d. Stock counts should be performed regardless of audit attendance.

3.14 Annual reporting requirements

- Tabling of the annual reports in Parliament makes the public enterprises and statutory entities accountable to the public of Tuvalu. It was found that annual reports are not tabled in a timely manner. Without the tabling of the annual reports, the public have no way to assess the performance and financial situation of the entities.

Recommendation 3.14:

a. That the entities compile and table all annual reports well before the 30 April deadline each year and submit these reports for tabling in Parliament in a timely manner.
b. The Public Enterprises Reform and Management Unit (PERMU) within the Ministry of Finance takes an active role in monitoring and follow up of the public enterprises who have not submitted annual reports by 30th April the following year as required by *the Public Enterprises (Performance and Accountability) Act* (PE Act).

3.15 Changes to the PE Act surrounding tabling of Annual Reports

- Annual reports of the public enterprises are tabled and made public up to 12 months after the end of the financial year due to the infrequency of Parliament sitting sessions.
- The annual reports are not being made public in a timely manner.

Recommendation 3.15:

a. Change is made to the PE Act requiring that once PEs submits their annual reports (with audited financial statements) to the speaker for tabling, they become public documents, rather than having to wait for a session of Parliament.
b. The PEs once they have submitted their annual reports to the speaker for tabling in Parliament should make their reports publically available at their place of business.
c. PERMU should be provided copies of the Annual reports after being completed and make them available to the public from their office.

3.16 Discussion of Management Letter Issues

- Issues noted by audit which have potential to make improvements in the entities are raised in the management letter issued to the entity.
- The Boards of the entities do not take an active interest in the implementation of the management letter issues.

Recommendation 3.16:

a. That the discussing and progress on resolution of issues contained in the management letter is performed at the Board level on a regular basis and forms part of their standing agenda.

3.17 Resolution of management letter issues

- The management letters which the Tuvalu Audit Office (TAO) send summarise audit findings and make recommendation for change in areas where weakness is identified.
- Recurring management letter findings are raised when the audit finding has not been adequately addressed by the following year's audit.
- Recurrent management letter findings are an indicator that the public enterprises are not implementing our recommendations.
- There has been limited effort made by the public enterprises to implement of the TAO's audit findings.

Recommendation 3.17:

a. That the public enterprises take active measures to resolve the issues raised in their management letters.
b. These measures should involve management reporting to the board of directors every meeting on the progress to resolve the findings, making plans to prioritise and resolve findings and requesting assistance/ advice from the Tuvalu Audit Office or PERMU when they are unsure how to proceed.

3.18 Settlement of Government debts and receivables.

- With many of the public enterprises, there are both payables and receivables from the Government.
- These are not being paid or receipted as the expectation is that future cash flows will offset the amounts. This does not assist in cashflow forecasting or in ensuring independence.
- There is no formal agreement regarding these payables/ receivables.

Recommendation 3.18:

a. The amounts owing and owed between the Government and entities should be settled as soon as possible.
b. Any loan arrangement should be formally documented. Interest charges should be levied on the Government by the entities on outstanding payables, and vice versa.

3.19 In kind donations

- In kind donations are non cash assets provided to the public enterprise for no consideration.
- Public enterprises are not accounting for the assets which have been provided free of charge.

Recommendation 3.19:

a. Public enterprises should ensure that they correctly account for any in kind donations received. The pricing of the goods or services sold by the entities should take into account depreciation charges against any in kind assets donated to the entity to ensure that their business model remains viable if or when donations cease.
b. Assets provided free of charge should still be maintained and kept in a usable state.

3.20 Tuvalu National Provident Fund (TNPF) Members Loan Scheme Regulations

- It was noted that regulations already approved by the Board of the Tuvalu National Provident Fund (TNPF) to improve the current TNPF loans scheme has not been endorsed by the Minister concerned and thus not able to be implemented.

Recommendation 3.20

a. That the Minister considers and endorses these regulations for improvements of the TNPF's loan scheme as soon as possible so they can be implemented.

3.21 Financial Institutions loan management to be strengthened

- There is weakness with regard to the grading of loan quality. Loan grading refers to assessing the quality of each individual loan (i.e. the likelihood the loan will be repaid on time). As grading is one of the primary functions of the financial institutions it is important that loans are graded correctly, to minimise exposure to unknown credit risks.
- There are continuing problems across the sector in determining whether borrowers are credit-worthy. This may lead to the financial institutions unknowingly increasing their credit risk. When coupled with issues surrounding the valuation of loan security, the problem is

compounded. If borrowers are less than credit worthy, and the value of assets offered as security are over-valued, then the institutions are increasing their risk, and exposing themselves to irrecoverable financial losses.

- Increasingly high levels of credit impairment have been noted across the sector in Tuvalu. This decreases liquidity and profitability for the Financial Institutions.

Recommendation 3.21:

a. The financial institutions should continue to perform their loan grading activities regularly and accurately. This will minimise exposure to unknown credit risks and will assist in assessing creditworthiness of established customers.
b. The financial institutions should become more stringent and consistent when performing creditworthiness assessments and have an independent valuer assess the value of loan security being offered.
c. The three lending institutions should impose a stricter loan assessment process, ensure that collateral is provided and make a concerted effort to follow up on loans in arrears.

3.22 Lack of Fraud Policies

- No fraud policies or training or awareness of fraud was noted in any of the entities audited. Without a fraud policy, staff will not know what to do when fraud is discovered and there is an increased risk that fraud will be treated inconsistently.

Recommendation 3.22:

a. That each entity creates a fraud policy, which is explained and is accessible to each employee of the entity. The TAO has provided model fraud policies on request, however, has not noted any implemented.

3.23 Lack of documented policies and procedures for financial institutions

- The financial institutions (Tuvalu National Provident Fund (TNPF), Development Bank of Tuvalu (DBT) and National Bank of Tuvalu (NBT)) did not have detailed policies and procedures documented.
- This increases the risk of tasks being performed inconsistently and without the proper checks and care.

Recommendation 3.23:

a. The financial institutions should document detailed policies and procedures for day to day functions. This will assist in ensuring that a consistently high level of service is delivered.

3.24 MYOB usage

- Public enterprises are using spread sheets to perform some accounting functions instead of their financial management system, Mind Your Own Business (MYOB).
- The use of spread sheets increases the risk of errors and is less efficient and effective compared with using MYOB.

Recommendation 3.24:

a. That the public enterprises continue to expand their usage of MYOB while phasing out their paper based or excel based ledgers.
b. We recommend that the most knowledgeable users of MYOB in each entity meet with each other regularly to discuss efficiencies, any new techniques or issues so that knowledge and identified efficiencies are shared.

3.25 Performance Measures

- Each public enterprises' individual Act of incorporation requires that performance measures are prescribed by the responsible Minster and the public enterprise reports against these individual performance measures.
- No performance measures have been prescribed by the responsible Minister. These measures would be useful in the monitoring of the public enterprises by PERMU

Recommendation 3.25*:*

a. That PERMU draft performance measures for each Public Enterprise to be prescribed by the responsible Minister. The measures should be communicated with the public enterprises.
b. PERMU should monitor the public enterprises' performance against these measures.

3.26 NBT international payment internet link

- PAC noted that the NBT's international payment link has been removed from the Government's internet system. This affects the performance of the NBT's international payment system

Recommendation 3.26:

a. That Government reconsiders its decision to remove this international link from its internet system given its impact on one of the important services provided by NBT for overseas payments.

3.27 New office site for NBT

- PAC noted that NBT still could not find and confirm a suitable site for its planned new office building

Recommendation 3.27:

a. That Government assists the NBT in finding a suitable location for its new office building