REPORT OF THE AUDITOR GENERAL

ON MANAGEMENT ISSUES OF THE Government of Tuvalu
for the year ended 31 December 2016

Parliamentary Paper

Number:.....2017

The Office of the Auditor General is responsible for expressing an independent opinion on the Financial Statements and reporting that opinion to Parliament. This responsibility arises from Section 32 of the Public Finance Act.

Our audit has been carried out in accordance with the International Standards of Supreme Audit Institutions. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that is not material in terms of the Government of Tuvalu's Financial Statements.

The implementation and maintenance of the Government of Tuvalu's systems of controls for the detection of these matters remains the responsibility of the Minister for Finance and management.

Report of the Auditor General on Management Issues of the Government of Tuvalu for the year ended 31 December 2016

To: Honourable Members of the Tuvalu Parliament

Dear Members

Please find enclosed my report on the management issues of the Government of Tuvalu. This report is where I have made recommendations for improvement and discusses our inquiries into the areas of audit emphasis.

The Financial Statements of the Government of Tuvalu and the Audit Opinion that I have issued has been tabled in Parliament in a separate report.

I would like to thank the Treasury and other departments' staff for their courtesy and assistance during the audit process. I again acknowledge that in 2016 improvement in the annual reporting process has been made and hope that these improvements continue into the future.

Yours sincerely

Eli Lopati

Auditor General for Tuvalu

Funafuti Tuvalu

6th February, 2018

Executive Summary

Introduction
I have performed this audit in accordance with the International Standards for Supreme Audit Institutions.

The key issues identified in the audit are lack of evidence, breaches of legislation and noncompliance with generally accepted accounting principles.

We confirm that we are independent. There are no unresolved disagreements at year end. The matters raised in previous management reports have not been adequately addressed. There have been no significant changes to the Government of Tuvalu's accounting policies. Unusual accounting policies were noted surrounding asset accounting through equity, prior year error accounting performed prospectively, consolidation of controlled entities and the expensing of Inventories at time of purchase rather than when consumed.

Areas of Audit Emphasis
We note in respect of the areas of audit emphasis that:

- the 2015 Qualification issues which remain unresolved are:
    - valuation, completeness and existence of Property Plant and Equipment in the Financial Statements;
    - lack of evidence to support prior year comparatives;
    - non-consolidation of NAFICOT, TMTI and TPL;
    - non-inclusion of Inventory in the Financial Statements;
    - lack of evidence to support Accounts Receivable and Revenue;
    - limitation of scope surrounding Cabinet minutes and decisions; and
    - movement of Statement of Receipts and Payments unable to reconciled to Cash balances.
- there has been an effort to resolve issues raised in prior years with 18 issues marked as closed during the 2016 audit;
- the Financial Statements were largely in compliance with the Public Finance Act in terms of presentation, however were not in compliance with GAAP in asset accounting through equity, prior year error accounting performed prospectively, consolidation of controlled entities and the expensing of Inventories at time of purchase rather than when consumed;
- financial statement supporting documentation was presented, however, further improvements are recommended;
- the fraud policy was approved in 2016, however enforcement of the fraud policy is crucial to guide employees on the proper method for handling fraud and provide deterrent for those tempted by an opportunity to perpetrate fraud;
- the management control environment in the Government was assessed as ineffective, however, there were some improvements;
- performance waste and probity issues were noted, particularly surrounding the finance and planning function of Government of Tuvalu and the management of TC Pam assistance;
- the Compliance audit report issued in September 2017 identified a number of non-compliance issues with the Procurement Act and Regulations and the recommendations raised for improvement. See the Compliance Audit report for further details;

- the Property Plant and Equipment accounting process was reviewed, with issues noted in the Qualification;
- the implementation of the revised Financial Instructions was reviewed and breaches were noted surrounding payment made from the Climate Change and Disaster Survival Fund, payments made without purchase orders not certified by the Permanent Secretary for Finance and no proper closure of project after completion;
- TC Pam relief expenditure was reviewed and issues were noted surrounding having multiple bank accounts, lack of rules surrounding expenditure, and follow up of pledges from development partners;
- the SELF scheme was reviewed and the accounting treatment was found to be inadequate; and
- the Tuvalu Development Fund (TDF) was tested and issues were noted surrounding the negative project balances within the TDF, no acquittal reports submitted to the Aid and Coordination Unit, vote ledgers not updated, non-reconciliation, the accountability of the fund and the non-production of estimates of expenditure.

Legislative Compliance

There were breaches of significant legislation noted. The most significant breaches were:

- the over expenditure of Budget Heads which is in breach of the Constitution;
- non-compliance with the Climate Change and Disaster Survival Fund Act in terms of payments made;
- non-compliance with the Schedule 2 of the Prescription of Salary Act in terms of Minister's Spouse travel Expenditure; and
- the non-provision of estimates of expenditure and supplementary estimates of expenditure surrounding the Tuvalu Development Fund to Parliament.

Significant Matters Arising from the Audit

The most significant matter for attention is the qualification of the Financial Statements and the issues causing the qualification. There has been an improvement in the quality of the Financial Statements, however, we recommend that efforts are continued to ensure the Financial Statements are in compliance with GAAP, the Public Finance Act and that appropriate supporting documentation is provided to audit. The following significant matters were noted during the 2016 audit:

- Minister's Spouse travel Expenditure;
- Expenditure made not in compliance with the Climate Change and Disaster Survival Fund Act;
- Lack of documentation surrounding suppliers expenses;
- Payment Vouchers not certified by the Permanent Secretary for Finance where Purchase Orders are not attached to Payment Vouchers;
- Lack of documentation surrounding the benefits received by the Missions;
- No proper closure of projects after completion;

The significant matters outstanding from the previous audits are:

- Over expenditure of budget heads;
- Incorrect accounting for Assets;
- Expenditure not in compliance with the Procurement system;
- Strategic planning for the Government of Tuvalu is not linked to the TKIII;
- Loans to SELF and RSE participants not being accounted for correctly;

- Promotion and education of users on the updated Financial Instructions and the finalisation of the Finance Circulars;
- Incomplete Disclosures surrounding Property Plant and Equipment;
- Valuation of Property Plant and Equipment not robust
- non consolidation of NAFICOT and TMTI into the Financial Statements;
- Non-inclusion of Inventory in the Financial Statements.
- Limited accountability of the Tuvalu Development fund as estimates of expenditures are not being produced and tabled into Parliament;
- Weaknesses in management of Customs revenues surrounding documentation and reconciliations;
- No financial link between Inland Revenue Department and Treasury; and
- Lack of debt management policy to manage the Government of Tuvalu's receivables.
- Transhipment not reconciled to Financial Statements
- Unpaid pledges from Development Partners for TC Pam assistance
- Advances improperly accounted for in 2015
- Payment out of Coin Security Fund without proper declaration under the Currency Act
- Cash only reconciled at year end, causing expenditure reporting to be inaccurate
- Minister spouse travel entitlements not clear in the policies and laws
- Local purchase orders and transfers to be taken into account when deriving cash movement

Contents

The Office of the Auditor General of Tuvalu has completed the financial audit of the Government of Tuvalu for the year ended 31 December 2016. This report summarises our findings from the audit and draws attention to areas where the Government of Tuvalu is doing well or could improve.

Table of Contents

List of Abbreviations

ACCPAC: the Tuvaluan Government's Accounting Software

GAAP: Generally Accepted Accounting Principles

IBD: Interest Bearing Deposit

IFRS: International Financial Reporting Standards

IPSAS: International Public Sector Accounting Standards

IRD: Internal Revenue Department

ISSAI: International Standards of Supreme Audit Institutions

k: Thousands

MCE: Management Control Environment

NAFICOT: National Fishing Corporation of Tuvalu

NBT: National Bank of Tuvalu

OAG: Office of the Auditor General Tuvalu

PE Act: The Public Enterprises (Performance and Accountability) Act.

PE: Public Enterprise

RSE: Recognised Seasonal Employer

SELF: Student Education Loan Fund

TC: Tropical Cyclone

TDF: Tuvalu Development Fund

TMTI: Tuvalu Maritime Training Institute

TMTS: Tuvalu Medical Treatment Scheme

TPL: Tuvalu Post Limited

Government of Tuvalu: Government of Tuvalu

UCL: Undelivered Cargo List

Introduction

The Format and Mandate of this Report

This report is tabled under Section 45 of the Audit Act. The Auditor General's mandate for this report comes from Section 32 of the Public Finance Act. This report contains the recommendations for improvement for the Government of Tuvalu for the year ended 31 December 2016 as well as:

- auditing standards used;
- compliance with ISSAI auditing standards;
- performance, waste and probity;
- subsequent events;
- changes in accounting policy;
- unusual accounting policies;
- statement of auditor independence;
- unresolved disagreements;
- status of areas of audit emphasis;
- legislative compliance systems;
- legislative compliance;
- breaches of significant legislation;
- status of prior year audit issues; and
- audit issues closed in 2016.

Auditing Standards Used

The auditing standards used in the performance of the financial statement audits were the International Standards for Supreme Audit Institutions (ISSAI). The audit approach is a risk based approach and is considered to be compliant with the ISSAIs.

Compliance with ISSAI Auditing Standards

Our audit is considered to be in compliance with the requirements of ISSAI auditing standards.

Performance, Waste and Probity

During the planning and fieldwork stages of this audit, the Auditor General briefed the team on the need to maintain awareness for performance, waste, probity, and fraud issues.

Performance, waste and probity issues were noted as part of the financial statement audit and are detailed in the Status of Areas of Audit Emphasis. Commentary regarding efficiency and effectiveness has been made in the significant matters arising from the audit, where appropriate.

Subsequent Events

No subsequent events were noted during the 2016 audit.

Changes in Accounting Policy

There have been no changes to the accounting policies of the Government of Tuvalu in 2016.

Unusual Accounting Policies

The following accounting policy was considered unusual by the Auditor General:

- accounting for movements in Property Plant and Equipment through retained earnings;
- not accounting for errors made in prior years and changes in accounting policies retrospectively, rather they are accounted for in the current year; and
- accounting for controlled entities by taking their net asset balance, rather than performing a proper consolidation; and
- expensing all Inventories at time of purchase rather than when consumed.

These issues form part of our audit qualification or have been raised in significant matters arising from the audit.

Statement of Auditor Independence

Independence

We confirm that, for the audit of the Financial Statements of the Government of Tuvalu for the year ended 31 December 2016 we have maintained our independence in accordance with the requirements of the Constitution of Tuvalu, the Audit Act and the International Organisation of Supreme Audit Institutions.

Other than the audit, we have not provided any engagements for the Government of Tuvalu during the year ended 31 December 2016. In addition, we confirm that we have no relationships with, or interests in, the Government of Tuvalu.

Unresolved Disagreements

We have no unresolved disagreements with management. Management has not sought to influence our views on matters relevant to our audit opinion.

Status of Areas of Audit Emphasis

In the audit arrangements letter issued to the Government of Tuvalu we identified areas of audit emphasis that we would pay particular attention to during the audit. Our response to these areas of audit emphasis is outlined below:

Issues Surrounding the Prior Year (31 December 2015) Qualification

A disclaimer of audit opinion was issued for the year ended 31 December 2015 Government of Tuvalu accounts. A disclaimer of audit opinion means that we were unable to form an opinion whether the financial statements present a true and fair view due to all evidence reasonably expected to be available not being available.

The 2016 audit opinion was also a disclaimer of audit opinion. We acknowledge there has been improvement in the presentation of the Financial Statements and the resolving of issues within the qualification. The further evolution to a set of Financial Statements which is approaching compliance with general accepted accounting practice (GAAP) was the major improvement in the financial statement reporting process.

The 2015 issues which are considered to be unresolved are:

- valuation, completeness and existence of Property Plant and Equipment in the Financial Statements;
- lack of evidence to support prior year comparatives;
- non-consolidation of NAFICOT and its joint ventures, TPL and TMTI into the Financial Statements;

- non-inclusion of Inventory in the Financial Statements;
- lack of evidence to support Accounts Receivable and Revenue; and
- movement of statement of Receipts and Payments by Heads unable to be reconciled to Cash balances

We recommend that the Government of Tuvalu continue its efforts to improve the financial statement preparation and reporting process.

Issues Raised in Previous Management Reports

The progress that the Government of Tuvalu has made in addressing the issues raised in the 2015 management report issues has been commented on in the Appendices to this report.

Financial Statement Compilation and Compliance with GAAP

The Government of Tuvalu's 2016 Financial Statements were not prepared in compliance with international Generally Accepted Accounting Policies (GAAP) as required by Section 3(3)(e) of the Public Finance Act. The major departure was the non-inclusion of Inventory in the Financial Statements and the accounting for Property Plant and Equipment (including in-kind assets) in the Financial Statements.

There has been considerable improvement in the presentation of the accounts, namely the production of the Financial Statements largely in accordance with the Public Finance Act requirements. The usability and understandability of the Financial Statements has improved.

The following are instances where there has been a departure from Tuvalu GAAP in the Financial Statements:

- The Property Plant and Equipment accounting policy was changed in 2013, to begin recognising Property Plant and Equipment as assets rather than expensing them in the year of acquisition. This was accounted for in 2013 by writing on the value of Property Plant and Equipment and increasing equity. This practice has continued for assets which are included in the Property Plant and Equipment balance in 2014, 2015 and 2016. Accounting for Property Plant and Equipment should not be performed through equity.
- GAAP requires that changes in accounting policy and errors are applied retrospectively (i.e. by updating comparative figures and the opening balances) rather than accounting for these changes in the current year.
- Public Enterprises are considered to be controlled by the Government of Tuvalu. GAAP accounting for these entities would be to consolidate all their operations into the Government of Tuvalu's Financial Statements and eliminate any related party transactions. The Government of Tuvalu does not perform this consolidation; rather, the net assets balance of each of the Public Enterprises is taken and included as an asset.
- Inventories in the Government of Tuvalu are expensed at time of purchase, rather than recognised as an asset until consumed. Accounting for Inventories on hand is required under GAAP.

The Government of Tuvalu Financial Statements are not considered by the Auditor General to be in compliance with GAAP.

Financial Statement Supporting Documentation

Financial statement supporting documentation was presented to audit with the Financial Statements.

While acknowledging the improvements made to the supporting documentation, further work could be performed by Treasury in reviewing the accounts, performing variance explanations surrounding the movements in the Financial Statements and attaching additional supporting documentation.

Going forward we will continue to work with Treasury to ensure that they continue to improve their documentation process.

Fraud Policy

The Auditor General expects that every public entity should formally address the matter of fraud, and formulate an appropriate policy on how to minimise it and (if it occurs) how it will be dealt with.

In 2016, the Finance Circular covering the Fraud, Misuse and Loss Policy was approved by the Secretary for Finance. The implementation and progress of awareness made on the Policy will continue to be an area of audit emphasis in future audits.

Management Control Environment

The control environment of an entity co-ordinates all systems used in order to safeguard the entity's assets, check the accuracy of the accounting information, promote efficiency, encourage staff to be productive and assist management to adhere to the policies of the entity.

The purpose of the control environment is to monitor how the entity is performing and to implement plans that will help the entity perform. Controls also deter and prevent people from doing things their own way, and from committing fraud.

With a strong control environment in place, it is possible to carry out effective accounting over the assets, liabilities, income and expenses of the entity. We have completed a management control environment (MCE) assessment of the Government of Tuvalu (Government of Tuvalu) and overall we have concluded that the MCE is "Ineffective".

We will continue to review the MCE in the future to assess if further improvement has been made.

Legislative Compliance

Legislation breaches were noted during the audit. These are explained in the legislative compliance Section below.

Performance, waste and probity issues

The following issues raised in 2016 and in the past have recommendations which related to performance waste and probity. See the issues for more detail.

- 1.2016 Minister's spouse travel Expenditure.
- 2.2016 Disaster relief funds to be paid into the Climate Change and Disaster Survival Fund.
- 8.2016 No acquittal reports submitted to the Aid Coordination Unit upon completion of projects.
- 9.2016 No proper closure of project after completion.
- 14.2016 TDF vote ledgers were not updated and the non-performance of vote ledger reconciliations.

- 3.2015 Unpaid pledges from Development Partners for TC Pam assistance are followed up and system to track pledges, payments, conditions and reporting requirements is developed.
- 7.2014 Strategic Planning for the Government of Tuvalu.
- 9.2014 Terminated scholarship students approved to continue studying under the SELF scheme.
- 10.2014 No recording of annual leave and sick leave balances by Government of Tuvalu.
- 11.2014 Observer's fund accountability.
- 13.2014 Information and Communication Technology weaknesses.
- 18.2014 Creation of Special Fund and rules for maintenance and replacement of assets funding.
- 20.2014 Monitoring of upper airspace revenue.
- 26.2014 Grants and Subsidies weaknesses.
- 5.2013 Lack of Assets Management Plan.
- 4.2012 Tuvalu Development Fund accountability.
- 17.2011 Fisheries to keep minutes of negotiations on file.
- 1.2008 Guarantees and Commitments Issued by Government.
- 5.2008 Debt Management Policy.
- 9.2008 Employee Entitlements.
- 18.2007 Government Policy Register.
- 19.2007 Government Contracts Register.

Travel and Medical Scheme Expenditures

The process surrounding the incurring of travel and medical expenses was reviewed and audit testing was performed. Audit selected 30 samples for travel expense and 30 samples for medical scheme expense and performed audit testing.

Audit was unable to obtain supporting documentation for $123k of the sampled travel expense transactions and $65k of the sampled medical scheme expense transactions. This has formed part of the qualification of the 2016 Financial Statements audit. Additionally the following audit issues were also noted surrounding travel and medical scheme expenditures:

- 1.2016 Minister's Spouse travel expenditure
- 4.2016 Lack of documentation surrounding suppliers expenses
- 5.2016 Payment vouchers without Purchase orders not certified by the Permanent Secretary for Finance.

See audit issues for further details.

Implementation of Procurement Act and Regulations

The Compliance audit report on Procurement was completed in September 2017 and provides in depth information on the non-compliance issues with the Procurement Act and Regulations and the recommendations raised for improvement.

We will review the progress made by the Procurement in implementing the Procurement Act and Regulations as part of 2017 audit.

Property Plant and Equipment

Audit conducted documentation and walkthroughs of the Property Plant and Equipment process including reconciliation to the General Ledger, stocktake processes, asset management process, maintenance plans.

The accounting treatment and management of Property Plant and Equipment was found to be inappropriate, this has formed part of the qualification of the 2016 Financial Statements. Additionally the following audit issues have been raised surrounding Property Plant and Equipment.

- 2.2014 Incorrect accounting for acquisitions, disposals and depreciation of assets
- 3.2013 Incomplete disclosures for Property Plant and Equipment as per Tuvalu GAAP
- 4.2013 No depreciation charge for Property Plant and Equipment
- 5.2013 Lack of Assets management plan
- 6.2013 Management of Property Plant and Equipment and Inventory
- 7.2013 Review of in year purchases for Property Plant and Equipment
- 8.2013 Portable and Attractive Assets register to be kept

Implementation of the revised Financial Instructions

The revised Financial Instructions came into effect on 1 January 2015. We reviewed the changes to the Financial Instructions and enquired regarding compliance with the Financial Instructions.

Some breaches of the revised Financial Instructions were noted, these have been raised in the following audit issues:

- 5.2016 Payment Vouchers not certified by Permanent Secretary of Finance and Economic Development where Purchase Orders are not attached to Payment Vouchers as required by the Financial Instructions
- 8.2016 No acquittal reports submitted to the Aid Coordination Unit upon completion of projects
- 9.2016 No proper closure of project after completion
- 15.2016 Preparation of monthly reports not in compliance with the Financial Instructions
- 18.2014 Bank accounts not controlled by the Chief Accountant
- 22.2014 Goods receipting process not being followed
- 17.2012 Follow up of Special Imprests

The majority of Finance Circulars which provide additional guidance to the Financial Instructions remained in draft form in 2016. The approved Finance Circulars are yet to be fully implemented. Limited public awareness of the Financial Instructions has been carried out.

Management of Public Works

Public Works expenditures will be reviewed as part of the 2017 audit.

Managing of Revenues

The process surrounding revenue was reviewed and audit testing was performed.

Significant misstatements were noted surrounding receivables not being recognised in the Financial Statements which also affects the revenue and expense balances in the Financial

Statement. This has formed part of the basis for qualification of the Financial Statements for 2016.

Further improvement is also required for the following audit issues raised in previous year's audit;

- 8.2009 Reconciliation between Customs and ACCPAC
- 8.2011 Tax reconciliation issues
- 16.2011 No reconciliation between Fisheries and Treasury Records
- 17.2011 Fisheries to keep Minutes of Negotiations on File
- 3.2014 Records Management System Monitoring Revenues (RMS) not updated in 2014 and 2015
- 20.2014 Monitoring of Upper Air Space Revenue
- 7.2015 Transhipment Revenue not reconciling to Financial Statements
- 14.2015 Customs receivables
- An issue surrounding the lack of reconciliation between the Marine (Stevedoring and Wharfage) and the Treasury has also been raised as audit issue 16.2016.

See audit issues for further details.

Managing of Payroll System

Documentation and walkthrough of the Salaries payment process was reviewed and audit testing was performed. There were no issues identified in 2016 audit.

Audit will further focus on Salaries in 2017 as a new payroll system has been implemented.

Management of Foreign Embassy returns

Documentation of the management of Foreign Embassy returns was reviewed and limited audit testing was performed. An issue regarding the lack of documentation surrounding the benefits received by the staff was noted and raised as audit issue 7.2016.

We will review the management of Foreign Embassy returns as part of the 2017 audit.

Disaster Relief Fund Expenditures

Documentation of the disaster relief fund expenditures was performed. The following audit issues were noted surrounding Disaster relief fund expenditures;

- 3.2015 Unpaid pledges from Development Partners for TC Pam assistance are followed up and system to track pledges, payments, conditions and reporting requirements is developed.
- 2.2016 Disaster relief funds to be paid into the Climate Change and Disaster Survival Fund.
- 3.2016 Expenditure from the Climate Change and Disaster Survival Fund not in accordance with the requirements.

See audit issues for further details.

Scholarship Educational Loan Scheme (SELF)

Documentation of the SELF scheme was reviewed and audit testing was performed. An issue regarding supporting documentation were unable to be obtained for $52K was noted. This has been raised and has formed part of the basis for qualification.

Further improvement is required surrounding the accounting and management of the SELF Scheme.

- 8.2014 Loan to SELF (Student Educational Loan Fund) awardees and RSE workers being treated as expense and repayments treated as revenue
- 9.2014 Terminated scholarship students approved to continue studying under the Student Education Loan Fund (SELF) scheme

See audit issues for further details.

Management of Special Funds

Audit noted a few special funds accounts which are not included as part of the 2016 accounts. This has been raised as audit issue 18.2016.

We will review the management of Special Funds as part of the 2017 audit.

Compliance with Legislative Requirements

Legislative Compliance (LC) Systems

We reviewed the systems and procedures the Government of Tuvalu uses to identify and comply with legislative requirements. There is no formal system in place for monitoring, compliance and reporting.

We recommend that the Government of Tuvalu put in place a system to monitor compliance of key legislation and ensure processes are in place to report breaches in legislation to the governing body.

Breaches of Significant Legislation

During the audit, our main focus has been on the Government of Tuvalu's financial reporting obligations. As part of our planning we identified the Public Finance Act and the Financial Instructions as key legislation and regulations that government officers should comply with. While our focus is on financial reporting obligations, we do maintain an awareness of other legislation that impacts on the entity. We noted the following breaches of legislation which are detailed in our audit issues:

- Constitution of Tuvalu, Public Finance Act:
    - 1.2014 Over Expenditure of Budget Heads
- Currency Act Section 7 and Section 5, reporting of the Commissioner of Currency and declarations.
    - LC 2013.3 Section 7 of the Currency Act
    - 10.2015 Payments out of Coin Security Fund without proper declaration under the Currency Act
- Procurement Act and Procurement Regulations
    - 21.2014 Lack of Procurement Planning
- Public Finance Act Schedule– Estimates of Expenditure for the Tuvalu Development Fund not produced.
    - LC 2013.1 Schedule to the Public Finance Act – Estimates of Expenditure
- Climate Change and Disaster Survival Fund Act
    - 2.2016 Expenditure from the Climate Change and Disaster Survival Fund not in accordance with requirement.
- Schedule 2 of the Prescription of Salary Act

    - 1.2016 Minister's Spouse travel Expenditure
- Financial Instructions Section 20
    - 13.2015 Written delegations register to be created and submitted to Auditor General
- Financial Instructions Section 193
    - 9.2015 Advances improperly accounted for
- Financial Instructions Section 235
    - 18.2014 Bank accounts not controlled by the Chief Accountant
    - 18.2016 Registered Government Bank accounts with the NBT not included in the accounts.
- Financial Instructions Section 135
    - 22.2014 Goods receipting process not being followed.
- Financial Instructions Section 74, overspend of budget allocations
    - LC 2013.2 Section 74 of the Financial Instructions
- Financial Instructions Section 201
    - 17.2012 Follow up of Special Imprests
- Financial Instructions Section 159
    - 5.2016 Payment Vouchers without Purchase Orders were not certified by the Secretary for Finance.
- Financial Instructions Section 259
    - 8.2016 No acquittal reports submitted to the Aid Coordination Unit
    - 9.2016 No proper closure of project after completion
- Financial Instructions Section 318
    - 15.2016 Monthly report preparation not in compliance with FI
- Student Education Loan Fund Policy and Student Education Loan Fund Manual
    - 8.2014 Loan to SELF (Student Educational Loan Fund) awardees and RSE workers being treated as expense and repayments treated as revenue
    - 9.2014 Terminated scholarship students approved to continue studying under the Student Education Loan Fund (SELF) scheme

Significant Matters Arising From the Audit

1.2016 Minister's Spouse travel Expenditure

Findings and Analysis

While testing travel expense it was noted that a minister's spouse had exceeded their number of trips which they were entitled to. Minister's spouses are entitled to 2 official business trips per year funded by the government as per Schedule 2 of the Prescription of Salaries Act.

Additionally there was insufficient supporting documentation to identify whether the trips taken over the entitled number were partially or fully funded by donors and whether this affects the entitlements.

Implication

Given the unclear definition in the Travel Guide and the Prescription of Salaries Act of a trip and the entitlements of Minister's spouses when a donor is partially or fully funding a trip, there is an increased risk of abuse of privileges.

Recommendation

- Travel policies are updated to clearly define a trip and address the level of entitlement when a trip is partially funded.
- Supporting documentation for travel should clearly state if trips are partially or fully covering spouse travel for verification of reimbursements.

Management Comment

Since 2017, Treasury has been monitoring the number of overseas trips taken by Ministers spouses through a spreadsheet maintained by the Finance and Reporting Team. MFED and OPM will work on updating the Travel Policy as per the Auditor's recommendation.

2.2016 Disaster relief funds to be paid into the Climate Change and Disaster Survival Fund

Findings and Analysis

Disaster relief funds are currently held in separate bank accounts from the Government of Tuvalu, and a portion held in the Tuvalu Development Fund.

The most appropriate mechanism to distribute these funds is the Climate Change and Disaster Survival Fund.

Implication

Having multiple sources of funds for disaster relief within the Government of Tuvalu increases the risk of mismanagement, fraud, incorrect reporting and inappropriate expenditure.

Recommendation

- Funds for disaster relief in the separate bank accounts and the Tuvalu Development Fund are all paid into the Climate Change and Disaster Survival Fund.
- The bank accounts which contained these funds are closed.
- In future, any contributions by development partners or external parties for disaster relief are made directly into the Climate Change and Disaster Survival Fund's bank account.

Management Comment

We will carefully investigate the reasons behind the establishment of the separate bank accounts and the conditions imposed by respective donors and if there are no strong reasons for maintaining separate accounts, they will all be closed and paid into the Climate Change and Disaster Survival Fund. Future donations from various donors for climate change and disaster relief will be encouraged to be paid into the Climate Change and Disaster Survival Fund, unless the donor requirements dictate otherwise.

3.2016 Expenditure from the Climate Change and Disaster Survival Fund not in accordance with the requirements of the Climate Change and Disaster Survival Fund

Findings and Analysis

In 2016, a payment of $3.5 million was made out of the Climate Change and Disaster Survival Fund into the Tuvalu Development Fund, in order to make payment for a project to build resilience to sea level rise. The amount was considered a loan out of the Climate Change and Disaster Survival Fund and was expected to be repaid by a development partner in the future, once certain criteria had been met.

Approval of the project expenditure was granted out of Climate Change and Disaster Survival Fund without the proper documentation and board authorisation. An opinion from the Attorney General was sought surrounding the eligibility of the payment; however, their response did not provide a clear conclusion.

The amount was repaid into the Climate Change and Disaster Survival Fund within a month, after alternative funding arrangements were made by the Government of Tuvalu.

Implication

The controls surrounding funds being expended from the Climate Change and Disaster Survival Fund are weak. This increases the risk of an inappropriate payment being made out of the Climate Change and Disaster Survival Fund.

With this payment made without proper authorisation the risk that the Climate Change and Disaster Survival Fund is used for the ineligible purposes is also increased.

Recommendation

- No funds are paid out of the Climate Change and Disaster Survival Fund without following the proper procedure outlined in the Climate Change and Disaster Survival Fund Act.
- Stronger controls are put in place to prevent ineligible payments being made in the future.
- Further detail surrounding the payment and approval process of eligible expenditures is detailed in Regulations to the Climate Change and Disaster Survival Fund Act.
- Any ineligible payment requests are made through alternative funding sources, including the Consolidated Fund after a Supplementary Budget has been approved or the Tuvalu Development Fund.

Management Comment

Total amount withdrawn from the TSF was $3,500,000.75. The repaid amount was $3,500,000 which was $0.75 short. This will be paid back to TSF in the 2018 financial year.

4.2016 Lack of documentation surrounding suppliers expenses

Findings and Analysis

A sample test was performed by audit on a series of recurrent expenditure transactions excluding payroll expenditures. These include significant and randomly selected expense amount transactions, travel, scholarship, medical scheme and social development expense transactions.

It was noted that supporting documentation for $2.4m of the sampled expense transactions was unable to be obtain from Treasury. Hence no testing was able to be performed.

Implication

- The Unauthorised payments may be made without the knowledge of the TWOG
- We are unable to ascertain if fraud may be occurring (in the transactions sampled) given missing documentation
- Without the approved PVs it is unknown if the financial instructions chapter 6 sections 155 to 162 were followed surrounding the payment and approval process of PVs.

- It is unknown if these expenditures were for assets or expenses, thereby potentially misclassifying the purchases of assets.

Recommendation

- The Treasury shall ensure additional attention is paid to the filing of payments.
- Multiple staff are trained on the process of filing PV's
- Treasury to strictly prohibit anyone apart from the treasury staff to take the original payment voucher after it has been paid out and filed.

Management Comment

We are not agree with the amount mention, we start today 31/1/2018 our reconciliation as we just received the list of missing PV's from Audit Office, a total of $160K sort of PV's was found and we are still continue reconcile on other missing PV's, copies are ready to submit.

5.2016 Payment Vouchers not certified by Permanent Secretary of Finance and Economic Development where Purchase Orders are not attached to Payment Vouchers as Required by the Financial Instructions

Findings and Analysis

According to section 159 of the Financial Instructions, Payment Vouchers must be certified by the Permanent Secretary for Finance where for any payment the Purchase Order is not available.

Audit noted 80 instances in our sample testing of Payment Vouchers where Purchase Orders were not available. No certification of these Payment Vouchers by the Permanent Secretary for Finance was performed.

Implication

The Government of Tuvalu is not in compliance with section 159 of the Financial Instructions. Without Purchase Orders being raised for all expenditures, there is less control surrounding the commitment of Government of Tuvalu funds. This increases the risk of over expending budgets and purchase of goods before approval is granted.

Recommendation

- Purchase orders are raised for all appropriate purchases, in compliance with the Financial Instructions. These are approved as per the Financial Instructions.
- Where Purchase Orders are not available, the Secretary for Finance certifies the Payment Voucher before payment is made, as required by section 159 of the Financial Instructions.

Management Comment

Agree that section 159 of the FI is not being followed strictly. This section (and other relevant sections) needs revision to give more authority and financial responsibilities to Accounting Officers, to be in sync with the HR reforms surrounding the employment of CEOs. At present, no payment (with the exception of salaries) is processed unless there are sufficient funds in the appropriate allocation. In line with section 16(2) of the Public Finance Act, responsible Accounting Officers are personally accountable for committing public funds where there are sufficient budgetary allocations.

6.2016 Reconciliation of Asset and Liability Accounts to the Sub-ledger or Third Party Evidence is performed

Findings and Analysis

Treasury in 2016 provided some reconciliation of the assets and liabilities General Ledger Accounts to the Sub ledger or third party evidence, however, not all were provided. Those not provided included:

- All Accounts Payable General Ledger Accounts to the Accounts Payable Sub-Ledger.
- Government Current Account General Ledger to the Bank module balance.
- Tax Debtors General Ledger Account to the Accounts Receivable Sub-Ledger.
- Purchase Order Clearing General Ledger Account to the Accounts Payable Sub-Ledger.
- Tuvalu Development Fund Bank Account General Ledger Account to the Bank Module Balance.

Implication

Without these reconciliations, variances cannot be identified and addressed before the audit. This increases the risk of variances between the source information and the General Ledger, which are considered to be misstatements.

Recommendation

- The reconciliations are performed for all asset and liability accounts. Any variances identified are explained and amended.
- Depending on the level of variance (if any) and complexity, more frequent than annual reconciliations are completed.

Management Comment

Most of the issues raised has been solved in 2017 where the reconciliation of Asset and Liability are taking place as well as other sub-ledgers.

7.2016 Lack of Documentation Detailing the Benefits Entitled by the Overseas Missions Top Management

Findings and Analysis

Audit noted through performing walkthrough testing for Overseas Mission's returns that there are a number of benefits that the Overseas Missions top management received every year that were not reflected in their signed contracts. These include the children school fees and meal allowances for each semester, spouse allowance, cost of living adjustment (COLA) etc.

Audit could not find any documentation surrounding the benefits received by the Missions hence we could not be able to verify whether the payments made were appropriate.

Implication

Without documentation of these benefits we could not confirm whether these payments are legitimate and should be received by the Missions' staff.

Recommendation

- The responsible Ministry/department concern to look into the benefits received by the Overseas Missions to ensure they are appropriate and valid. Discontinue payment if payments are not valid.

- Documentation of all of the entitlements of Overseas Mission staff benefits is performed to ensure consistency.
- Ensure that these benefits are well documented and reflected in their signed contracts of staff.

Management Comment

MFATTEL will be conducting a review in 2018 of all benefits (including COLA) received by Tuvaluan diplomats in all overseas missions. Documentation of this process will be of high priority.

8.2016 No acquittal reports submitted to the Aid Coordination Unit upon completion of projects within the Tuvalu Development Fund

Findings and Analysis

The Accounting Officer of each respective Aid project is required under the Financial Instructions section 257 upon completion of the project to submit to the Planning Budget and Aid Coordination department, and Treasury an acquittal report in the format prescribed by the donor.

The Treasury department under the Financial Instructions section 258 shall carry out a full and final check of the project vote ledger against the equivalent ACCPAC report to ensure that there are no outstanding commitments for which payments have not been made.

Audit noted that the above procedures have not been executed by both the respective projects officers, the Planning Budget and Aid Coordination department and the Treasury. There were no acquittal reports submitted to the Aid Coordination department and Treasury therefore did not perform proper checking of these projects to ACCPAC.

Implication

- There is a risk that the project may overspend its budget or expenditure on ineligible items is performed.
- Without acquittal reports being presented to the Aid Coordination department and Treasury for review and reconciliation there is a risk that financial information contained in the project completion reports to the donor may be misstated.

Recommendation

- Accounting Officers at the completion of projects under their respective ministries prepare and submit acquittal reports to the Planning Budget and Aid Coordination department and Treasury for their full and final check of project accounts.
- The Accounting Officers and the Aid Coordination department and Treasury familiarise themself with the procedures surrounding the Tuvalu Development Fund outlined in the Financial Instructions so that they are aware of their roles, responsibilities and the procedures required for projects.

Management Comment

The officer in charge if the project from line ministries should reconcile their records with Treasury records before submitted the report to the Aid Unit.

In 2017 a project module was integrated into ACCPAC. The project module enables MFED to enter budget data out of project documents. This enables MFED to track expenditure

according to budgeted amount. As a result ACCPAC can now provide information as to when projects are completed. Then the Aid Coordination Unit can follow-up with project acquittal reports.

9.2016 No proper closure of projects in the Tuvalu Development Fund after completion

Findings and Analysis

Audit noted that there was no proper closure of projects in the Tuvalu Development Fund when completed as required under Financial Instructions section 259 which states, *"Once the project vote ledger and FMIS have been reconciled satisfactorily, and the Planning, Budget, and Aid Coordination department have reviewed the status of the project the project may be closed within the FMIS".* There are projects dating back to 2009.

It is the responsibility of the Accounting Officer for each respective project and the Aid Coordination department and Treasury to carry out a proper closure of projects in accordance with the Financial Instructions.

Implication

- Without a proper reconciliation performed between the FMIS (ACCPAC) and the project vote ledgers, there is a high risk that the Government may be paying significant amount of money on projects that have overspent their budgets.
- Without a proper closure of the projects any overspent amount will not be identified and reported to the donor for reimbursement.

Recommendation

- Projects which have been completed are closed out of the Tuvalu Development Fund.
- The project Accounting Officer ensure that proper reconciliation of the vote ledgers to ACCPAC is performed to ensure all payments have been accounted before submitting to the Aid Coordination Unit for final review.
- When there is overspent or underspent in the project account, it is recommended that proper procedures as stated in the Financial Instruction and in the Circulars are adhered to.

Management Comment

MFED agreed with the findings of the Auditor General. As above, a project module have been installed into the ACCPAC that will improve control and management of projects.

10.2016 Negative Project Balances within the Tuvalu Development Fund to be Cleared

Findings and Analysis

Within the Tuvalu Development Fund, it was noted that there were 33 projects with negative closing balances totalling $76k, implying they have been overspent. This may have resulted from:

- a lack of monitoring of balances of projects by vote keepers, and
- approved payments for an individual project located and processed after the remaining fund balances were returned to the Donor.

Implication

The spending controls out of the Tuvalu Development Fund are weak, increasing the risk of overspending of projects continuing to occur.

These projects are using funds allocated to other projects that will require the funds going forward.

Recommendation

- The interest earned on the Tuvalu Development Fund since its establishment is used to clear as many of the projects with negative balances as possible;
- A payment from the Consolidated Fund is made to clear the remaining negative balance projects;
- Controls are put in place to ensure that overspending of projects is prevented; and
- Monitoring is conducted in the future on balances of projects, to ensure that projects are not overspent.

Management Comment

Encourage officers in charge of the project from line ministries should reconcile their record with Treasury records before clearing out. Agreed with recommendations.

11.2016 Accounts Payable balances which are negative and payables not allocated appropriately

Findings and Analysis

Within the accounts payable balance in 2016 there were negative balances payable to some vendors. These are not considered to be payables, rather amounts which are either receivable by the Government of Tuvalu or which are due to mispostings.

Implication

These negative Account Payable balances understate the accounts payable balance.

Recommendation

- Review is undertaken as part of the financial statements preparation process to ensure that all vendors within Accounts Payable have a positive balance.
- Any negative balances are investigated and are either amended if they are misstatements or are reported as Accounts Receivables.

Management Comment

The solution is the reconciliation for both accounts is to be done in order to clear or minimise negative amounts, as mention it might be misposted transaction.

To review Treasury records that have negative balances with vote ledgers from line ministries.

12.2016 Monthly analysis between bank reconciliation module and General Ledger is performed.

Findings and Analysis

Audit performed testing surrounding bank reconciliation and noted a variance of $241,152k between the cash balance in ACCPAC in the General Ledger module to the Cash balance in the banking module.

This variance has been increasing over the years and could have been identified and solved if analysis between the bank reconciliation module and General Ledger is performed on a monthly basis.

Implication

The Cash balance presented in the Financial Statements is misstated by $241,152k.

Recommendation

Reconciliation of the Bank module to the General Ledger should be performed monthly, with any variance investigated promptly. It is understood that there will be a legacy variance of $241,152k from 2016, however the variance should not differ from this amount. If there are unexplained movements in the variance (as in the variance is not $241,152k) occur, than investigation of the reason for the movement should occur.

Management Comment

ACCPAC training are scheduled in 2018 for all staff.

13.2016 Tuvalu Development Fund Account Payable

Findings and Analysis

The Tuvalu Development Fund (TDF) account payable amount as per ACCPAC was approximately $40k. We were unable to obtain supporting documentation of these payables for verification. The officer in charge is also not aware of these payables. The TDF is currently using the cash basis of accounting which does not raise Account Payables rather the receipt is recognised when cash is received and payments are recognised when cash is paid out. These payables are considered to be misstatements.

We noted that some of the payables have already been settled. However, when the payment was made and posted in Accpac, it was entered as a new payment rather than applying it to the invoice which has already been posted. This practice is not considered appropriate as it creates double payment and will not offset the relevant payable amount within the TDF.

Implication

- There is a high risk that payable and expenditure amount is overstated in the TDF account.
- The project balances could be understated due to double posting of TDF expenditure.

Recommendation

- Regular review of TDF accounts and reconciliation of vote ledgers to ACCPAC is performed so that errors are detected and rectified in a timely manner.
- The Accounts Payable balance is investigated and removed from future reporting and accounting processes.

Management Comment

Agreed.

14.2016 TDF vote ledgers were not updated and the non-performance of vote ledger reconciliations

Findings and Analysis

Audit noted through observation and interview with the responsible officer in charge that vote keepers do not maintained updated records of their votes. A few instances were noted where vote keepers were enquiring their vote balances from ACCPAC. It was also noted that reconciliation of vote ledgers to FMIS was not regularly performed.

The above issues were also raised in the Internal Auditor's report 2016 issue 10. A sample of projects was selected and the vote ledgers were obtained for their review. It was noted that

there were instances where a number of transactions were not updated in the vote ledgers maintained by the projects. Additionally, no reconciliations have been performed for the selected samples in 2016.

Implication

Without updating the vote ledgers the vote keeper is unable to provide proper information to the Accounting Officer when requested. There is a high risk of overspent in the project account if the vote ledgers are not updated on a regular basis.

Recommendation

- Vote ledgers should be updated by the vote keepers for all the commitments raised under the projects and should be maintained appropriately for accountability purposes.
- Monthly reconciliations for vote ledgers should be performed on a timely basis with treasury to ensure any variances are rectified and resolved in a timely manner.

Management Comment

MFED have issued a time for vote keepers to reconcile their vote ledgers with Treasury. In the long run and as encouraged by the FI (s.39 and 151a), record keeping will be eventually migrated to the FMIS.

15.2016 Preparation of the monthly reports not in compliance with Financial Instructions

Findings and Analysis

The Financial Reporting section under the Treasury Department prepares the monthly and final accounts for the Government of Tuvalu. Audit noted that the monthly accounts were prepared in a timely manner, however, do not contain all the relevant information as required under the Financial Instructions section 318.

Audit noted that the following are not included in the Whole of Government monthly reports;

- Government borrowings and guarantee balances and details
- Account receivable balances
- Assets and inventory details
- Summary of projects funded from Development Fund outlining funds received, funds expended, and the remaining funds available.

Implication

- Without the inclusion of the above information the Government of Tuvalu monthly report is not in compliance with the requirements of the Financial Instructions.
- There is a risk that these accounts will not be updated and reviewed in a timely manner.

Recommendation

- All the required information in the Government of Tuvalu monthly report is provided as required under the Financial Instructions.

Management Comment

The new FI came into force in 2015 and in 2016 MFED is still in the process of improving the Whole of Government monthly report including information as provided by the Auditor General. Currently MFED is in the process of including these information in the monthly report.

16.2016 Reconciliation between the Marine (Stevedoring and Wharfage) and Treasury

Findings and Analysis

Audit noted that there is a significant amount of receivables maintained by the Marine Department which were not included in the Government of Tuvalu Financial Statements. A significant amount of these receivables related to the shipping agencies.

It is noted that these agencies sometimes make payments directly to the Government General account but not through the Marine cashier. These direct payments would not be recognised and updated in the Marine books as reconciliation is not performed on a regular basis.

Implication

- Without regular reconciliation to the Treasury there is a risk that receivables in the Marine books may be overstated.
- Without the inclusion of these receivables, the financial statements are incomplete and Treasury would not be able to monitor these receivables when received. Revenue will also be understated.

Recommendation

- Marine reconcile with Treasury on a regular basis to ensure payments made directly to the General account are updated in their books.
- Marine at the end of the year to submit all its receivables to Treasury to be included in the Whole of Government accounts.
- ACCPAC is used to monitor the Marine receivables, reducing the need for reconciliations and other systems.

Management Comment

Agreed.

17.2016 Agreements between Development Partners and Government of Tuvalu not on file

Findings and Analysis

When the Office of the Auditor General requested a sample of agreements between Development Partners and the Government of Tuvalu, they were unable to be located. These agreements detailed funding amounts, assets to be provided to the Government of Tuvalu and the obligations of the Government of Tuvalu and the Development Partner.

Implication

There is an increased risk that without these agreements:

- the Government of Tuvalu does not receive all the support that it is entitled to under the agreements;
- in the case of a project, the project is not completed to the specifications of the agreement and the benefit is reduced;
- monitoring of the projects without these agreements is not able to be performed effectively as deliverables and milestones are contained within the agreements; and

- the resource commitments that the Government of Tuvalu has made will not be accounted for in future financial forecasting.

Recommendation

- Agreements are kept on file, in soft copy and are easily accessible when requested by Audit.
- Agreements are used to monitor the progress of projects, record commitments and the value of assets provided.

Management Comment

As mentioned above, a project management module has been installed into ACCPAC that will enable Treasury and the Aid Coordination Unit to store project document for each project in the system. The Aid Coordination Unit will only provide recommendation to issue accounting warrant for a new project once all project document and other information are submitted.

18.2016 Registered Government Bank accounts with the National Bank of Tuvalu not included in the Whole of Government accounts.

Findings and Analysis

Audit noted through the bank confirmation obtained from the National Bank of Tuvalu (NBT) that there are bank accounts which were registered as government bank account but were not recorded in the Government of Tuvalu Financial Statements. Details are as follows;

1. Gov't UK/Tuv O/S C/A No.3 – 01-420002-03
2. Gov't Tuvalu DBI – 01-420002-08
3. Tuvalu/Japan Fuel CPF – 01-420002-10
4. Outer Islands tax – 01-420002-11
5. Gov't Tuvalu CF Acc – 01-420002-30
6. Gov't Tuvalu SPF Art – 01-420002-32
7. Gov't Tuvalu HRR – 01-420002-33
8. Gov't Tuvalu No.5 Acc – 01-420002-35
9. Gov't of Tuvalu BKP – 01-420002-37
10. Gov't of Tuvalu Agri HDT S – 01-420002-38
11. Gov't of Tuvalu PRY FR – 01-420002-39

Additionally, audit also found three bank accounts which are currently operating under the respective departments and are not included in the Government of Tuvalu Financial Statements. These accounts were not included in the bank confirmation received from the NBT. Details are as follows;

1. Aviation Safety and Security Levy – 01-927583-30
2. Tuvalu Survival Fund – 01-985409-01
3. Tuvalu Eye Spectacles

Audit is unsure whether the establishment of most of the above bank accounts have gone through the proper procedures for the approval of establishing government bank account. The management of these bank accounts is also a breach of the FI section 235 which states that, "The Chief Accountant, on behalf of the Ministry, must manage and maintain all bank

accounts held by Government, and there shall be, for no reason, accounts held outside of the control of the Treasury Department".

Implication

- Without the involvement of the Chief Accountant in administering these accounts, the risk of funds being misused will be increased.
- Without the inclusion of these bank accounts the Government of Tuvalu Financial Statements will not be complete.

Recommendation

- Treasury to investigate and confirm the above bank accounts whether they are actually Government bank accounts.
- Treasury to advise the bank not to allow any government department to register new bank accounts.
- All Government bank accounts which are currently not with the Treasury should be handed over to the Government Accountant for proper administration of these funds.
- Any confirmed government bank account which was opened without the approval of the Finance Secretary should be closed and funds shall be transferred to the Consolidated Fund.

Management Comment

A circular had been circulated to all line Ministries to close all accounts that are not registered in MFED. We will continue to monitor this issue. However some donors have specific conditions requiring the setting up of bank accounts for the projects operation. In such cases, proper approval of the Minister for Finance will be sought as required by the Public Finance Act and FI.

Appendix 1: Prior Year Audit Issues Which Remain Unresolved as at 31 December 2016

3.2015 Unpaid pledges from Development Partners for TC Pam assistance are followed up and system to track pledges, payments, conditions and reporting requirements is developed.

Findings and Analysis

During TC Pam, Development Partners pledged funding for assistance to Tuvalu. While some of these pledges have been paid and have been put to use, there is a significant amount of pledges which are yet to be paid.

The tracking of these pledges and the follow-up of unpaid pledges was not performed adequately. Additionally there was limited information documented surrounding any conditions of the payments which were made by Development Partners and if these conditions had been met.

Implication

These pledges which are unpaid represent funding which could be used to mitigate the effects of TC Pam. Without these pledges, the re-building efforts may be significantly reduced.

Even though a considerable period of time has passed between TC Pam and now, these monies could be used to further strengthen Tuvalu's resistance to natural disasters.

Without tracking the pledges, payments and conditions of the Development Partner assistance there is an increased risk that Tuvalu is not compliant with the requirements of the funding provided and that the Development Partners will not provide assistance in the future.

Recommendation

A record of all pledges is established and all un-paid pledges are followed up and payment requested.

Going forward a tracking system of the pledges made, payments made, any conditions and reporting requirements is developed. This could be a partnership between the existing Aid co-ordination unit and the Disaster Relief Unit and using the Tuvalu Development Fund Projects Module of ACCPAC

Management Comment

No response received from Management

7.2015 Transhipment Revenue not reconciling to Financial Statements.

Findings and Analysis

The listing of the transhipment revenue as recorded by the Ministry of Natural Resources – Fisheries department was unable to be reconciled to the amount of revenue in ACCPAC for the 2015 year. The variance between ACCPAC and the fisheries department listing was $74k.

No reconciliations have taken place for this revenue which is monitored and recorded by the Fisheries Department.

Implication

Without the reconciliation, the transhipment revenue is mis-stated in the financial statements by $74k.

Recommendation

Monthly reconciliations between the transhipment revenue listing and ACCPAC is completed. Consideration is given to using ACCPAC to monitor the transhipment revenues, reducing the need for reconciliations and other systems.

Management Comment

No response received from Management

9.2015 Advances improperly accounted for in 2015

Findings and Analysis

The Minister for Finance under section 193 of the Financial Instructions can approve an advance out of the consolidated revenue fund. The advances in 2015 and 2016 were not registered as an advance, rather as an expenditure and then if there was a subsequent repayment, a decrease in the expense.

Implication

Without accounting for advances as a receivable, the amount and who the advance is to be collected from is not able to be easily monitored in ACCPAC. This increases the risk that advances issued which are due for repayment are not followed up or a listing is easily able to be obtained from ACCPAC.

Additionally, with the payment out of a Ministries budget, even if the advance is repaid to that expenditure account, the amount cannot be expended, given the legislation surrounding payments from the consolidated revenue fund.

Additionally, the advances are considered to be receivable assets from the entity who has made the commitment, the financial statements are understating the receivables and overstating expenses.

Recommendation

Advances are entered into ACCPAC as a receivable and then after a certain period of time, taken out of the appropriate ministries budget.

Regular monitoring of the repayment of advances is completed and follow up with parties who committed to making payment is performed.

Management Comment

No response received from Management

10.2015 Payments out of Coin Security Fund without proper declaration under the Currency Act

Findings and Analysis

The Coin Security Fund Special Account has been established under the Currency Act. A payment of $400,000AUD was made from the Coin Security Fund to the General Current Account.

Royalties of the sales of Tuvaluan commemorative coins are paid into the Coin Security Fund. It is unclear whether these payments are required to be paid into the Coin Security Fund.

Section 5(4) and 5(5) of the Currency Act requires:

(4) The net profits of the [Coin Security] *Fund in any financial year shall be determined after meeting or providing for all expenditure for that year and making such provision for contingencies as the Commissioner may consider desirable.*
(5) Any net profits of the Fund as determined in accordance with subsection (4) shall be transferred to and form part of the Consolidated Fund.

There was no determination of net profits by the Fund in 2015 and 2016.

Implication

The transfer of funds out of the Coin Security Fund is contrary to the requirements of the Currency Act.

Recommendation

In future, all payments out of the Coinage Security Fund are made in accordance with the Currency Act.

Investigation is performed by the Government of Tuvalu into the purpose of the Coin Security Fund. If sales of commemorative coins are not required to be deposited into the Coin Security Fund, than they are deposited into the Consolidated Revenue Fund.

Management Comment

No response received from Management

11.2015 Cash only reconciled at year end, causing budget expenditure reporting to be inaccurate

Findings and Analysis

ACCPAC uses the accrual basis for accounting, including for expenditure. The expenditure reported includes non-cash transactions for example expenses incurred by not paid. This is the correct practice for financial reporting, however, when reporting against appropriation

expenditure and budget, the non-cash items should be excluded, as the budget is approved and monitored on the cash basis.

The Treasury uses the cash basis to perform the reporting of the Receipts and Payments, and the Statement of Unauthorised Expenditure at the end of the year, however, no cash reporting is performed during the year, in order to monitor budget expenditure.

Implication

- Without performing the cash reporting during the year, the controls over the payments made will not be effective. There will be no controls preventing expenditure from occurring.

Recommendation

- In future, all movements in the assets balance should be through the Statement of Assets and Liabilities and the Statement of Revenue and Expenditure rather than equity.
- In future, assets purchases should not be recognised as an expense and subsequently recognised as an asset through equity. Rather asset purchases should be recognised as an asset.

Management Comment

No response received from Management

14.2015 Custom receivables

Findings and Analysis

The Custom has its own system where it records revenues collected by the department. The receipting is done manually and then the system is updated. Currently the system is being used to reconcile bill of entries posted into the system to the manifest listing. This enables the department to identify imported goods which have not been cleared and still outstanding in the manifest.

The system however could not identify entries posted in the system which have not been paid as the recording of payments is not performed in the system. The department is unable to reconcile entries paid in the receipt book to entries posted in the system.

Implication

Without performing the reconciliation from the system to the amount collected, Customs are unable to determine any amounts which are yet to be paid. This increases the risk of Bills of entry not being paid and also understates the amount of receivables for the Government of Tuvalu.

Recommendation

A process is developed to ensure that the system is reconciled to the cash receipted and revenue in ACCPAC. This could be through the usage of ACCPAC directly by the Customs Department, and using unique identifiers (such as Bill of Entry numbers) to reconcile the system to the cash received.

Management Comment

No response received from Management

17.2015 Minster's spouse travel entitlements not clear in the policies and laws

Findings and Analysis

The Prescription of Salaries (Amendment) Act, schedule 2 details additional allowances and privileges of Ministers, including Ministers being entitled to bring their spouse on 1 trip for Ministers and 2 trips for the Prime Minister and Governor General.

In the Travel Policy Part B, Civil Servant Travel Guide section 8.1 it was noted that the Spouses' trips are to be funded under the recurrent budget.

During our testing it was noted that Ministers spouse accompanying ministers on official trips more that the approved amount in the prescription of salaries Act. The reason for the spouses exceeding the number of trips was due to donor funded travel where the spouse was considered to be part of the delegation.

It is unclear if partially funded trips claimed by spouses are considered to funded trips under the Travel Guide.

Implication:

Given the Travel Guide and the Prescription of Salaries Act is unclear surrounding partially funded donor trips, there is increased risk of abuse of the privileges.

Recommendation:

Make the travel policy clear on the number of trips spouses are entitled with respect to fully funded and partially funded trips to avoid ambiguity.

Define what a trip is.

Any refunds by donors for overseas travel should indicate if they agree to fully or partially cover travelling expenses of the spouse.

Management Comment

No response received from Management

18.2015 Local purchase orders and transfers to be taken into account when deriving cash movement

Findings and Analysis

Local purchase orders are used to acquire goods and services from within the Government of Tuvalu, by the Government of Tuvalu. Some examples are travel on the passenger vessels and the ICT department fixing a computer.

These are entered into ACCPAC as an expense for the receiving department and revenue for the provider. These transactions are not removed when deriving the cash movement in the Statement of Receipts and Payments and the Statement of Unauthorised Expenditure.

Implication:

The receipts and payments in the Statement of Receipts and Payments are overstated.

The payments calculated in the Statement of Unauthorised Expenditure are overstated.

Recommendation:

Going forward, local purchase orders are taken into account when calculating the cash movements in the Statement of Receipts and Payments and Statement of Unauthorised Expenditure.

Management Comment

No response received from Management

Recommendation	Risk	Management response
1.2014 Over expenditure of Budget Heads 1. The reason for the occurrence of these overpayments is investigated. 2. Further strengthening of the payments process is performed to make the controls in preventing these over payments from occurring is performed.	During the audit, analysis was performed between the total amount of payments approved by the Appropriation Acts and the total cash payments made for 2015. In 2016 this analysis was not performed as audit was unable to obtain all of the Appropriation Acts for the year. It was noted that the payments made for the Office of the Prime Minister and the Ministry of Health was greater than the amount appropriated. Implication • The payments made out of the three heads which payments exceeded the appropriation are in breach of the Constitution, the Public Finance Act and the Financial Instructions. Section 9 © of the Constitution of Tuvalu states that: *"No money shall be issued from the Consolidated Fund except upon the authority of a warrant under the hand of the Minister responsible for Finance.* *No warrant shall be issued by the Minister responsible for Finance for the purpose of meeting any expenditure unless — (a) the expenditure has been authorised for the relevant financial year by an Appropriation Act;…"* • Payments are being made without due consideration of the budget framework. • The controls in place to prevent these overpayments are not effective.	No response received from Management

Recommendation	Risk	Management response
2.2014 Incorrect accounting for acquisitions, disposals and depreciation of assets • In future, all movements in the assets balance should be through the Statement of Assets and Liabilities and the Statement of Revenue and Expenditure rather than equity. • In future, assets purchases should not be recognised as an expense and subsequently recognised as an asset through equity. Rather asset purchases should be recognised as an asset.	Property Plant and Equipment assets have been included in the Government of Tuvalu's Financial Statements for the first time in the 2013 Financial Statements and have since been included in 2014, 2015 and 2016. The movement in Property Plant and Equipment from 2014 to 2015, and 2015 to 2016 (deprecation, additions and disposals) have been performed via an Equity journal entry. There is no accounting for these asset movements in the Statement of Income and Expenditure or Statement of Assets and Liabilities. The method of accounting for these Property Plant and Equipment is not consistent with the requirements of Tuvalu GAAP which looks to IFRS and IPSAS. These accounting standards require that any asset movements are accounted for through the Statement of Income and Expenditure and Statement of Assets and Liabilities, rather than through equity. The write on of assets in 2013 should have been used only to initially account for assets, with asset accounting as described in the Accounting policies being implemented in 2015 onwards. Implication • Suppliers Expense for 2015 and 2016 is over stated as assets purchased in year have been expensed rather than capitalised (put on the Statement of Assets and Liabilities). • Depreciation Expense for 2015 and 2016 is understated as no depreciation calculations have been performed. • The equity movement of the net of additions, disposals and depreciation is incorrectly accounted for. These movements should be through the Statement of Assets and Liabilities and the Statement of Revenue and Expenditure. • Assets provided by Development partners in 2015 and 2016 are incorrectly accounted for as they should be	No response received from Management

Recommendation	Risk	Management response
	recognised as deferred income over the period in which the asset is used, rather than in equity.	
3.2014 Records Management system monitoring tax revenues (RMS) not updated in 2014 2015 and 2016. • Continue updating RMS in the future. Ensure that the 2016 receivable balances are correct. • Reconcile the tax revenues and receivables from RMS to ACCPAC on a monthly basis, updating ACCPAC if need be. • Produce listings of tax receivable/outstanding from RMS and follow up taxpayers to ensure that they make payment. • Discontinue usage of manual excel based recording to account for tax returns. • Consider directly entering into ACCPAC the taxation revenue identified by the IRD staff, for ease of reconciliation to RMS.	During our review of the Internal Revenue Department's accounting system for tax returns, the Records Management Database, it was found that the database had not been updated for all transactions occurring in 2014, 2015 and 2016. Implication • The database was unable to be reconciled to ACCPAC at the end of 2015 and 2016. • There is limited comfort that the tax receivable and revenue figures in 2015 and 2016 are materially stated. • Taxpayers who have not lodged a return for 2015/2016 or who have lodged a return for 2015/2016, however, not made payment may not be able to be identified and followed up, given the data is incomplete.	No response received from Management
7.2014 Strategic planning for the Government of Tuvalu to be improved, including linking Corporate plans to the TKIII • The function of monitoring and reporting on the TKIII progress is performed by the Headquarters of each Ministry. • Emphasis is placed on performance of the	The TKIII (National Strategy for Sustainable Development) has been prepared and is the document which states the Government of Tuvalu's development priorities. Underneath this document should be the Corporate Plans for each of the Government of Tuvalu's Ministries and Departments which detail how they plan to implement the TKIII strategies. Currently there are Corporate Plans for most Ministries and	No response received from Management

Recommendation	Risk	Management response
functions required to achieve the goals in the TKIII and any goals identified in Corporate Plans which are not aligned to the TKII, are not considered a high priority. • Performance of a review of the Corporate Plans of each Ministry and Department by the ECU to ensure that the strategies contained within the plans are aiming to achieve the goals of the TKIII. If they are not, the ECU works with the Ministry to update their Corporate Plan. • If there is a priority goal not identified in the TKIII, than the ECU recommends that the TKIII is updated with that goal. • Identify during the Strategic Planning process the risks of not completing the tasks in order to achieve the goals. Approaches to minimise these risks should also be considered. Include these risks in the TKIII Progress Report Updates. • Further detail is provided in the TKIII Progress Report Updates including any likely risks to the milestones not being implemented, milestones identified for the future, reference to Corporate Plan in which the goal is included, summary of steps to be completed, links to more detail, likelihood of completion within timeframe, any issues causing delays, contact details of responsible staff. • The ECU continues the practice of monitoring the Special Development Expenditure (SDE), links the	Departments; however, they are not well linked to the TKIII. There is limited monitoring of the process of being accountable for each Ministry and Department's Corporate Plan. The Government of Tuvalu used program based budgeting in 2015. There has been limited reporting on the effectiveness of the programs administered each year. The Finance Ministry in 2015 had responsibility for the monitoring of progress against the program budget, the TKIII or the Corporate Plans. This is performed on a quarterly basis with limited annual reporting. In April 2016 the Evaluation and Co-ordination Unit (ECU) was established under the Office of the Prime Minister to monitor the progress against the TKIII. A TKIII Progress Report is in use to review progress against the TKIII, however, the detail was limited and the ECU was not monitoring the progress against Ministries' Corporate Plans. Implication • There is limited accountability of the Ministries and Departments surrounding their Corporate Plans. • Without effective monitoring of the progress against these plans, the Government of Tuvalu will not be able to identify when a Ministry or Department is either not performing their planned tasks or is performing tasks which are not identified as a priority.	

Recommendation	Risk	Management response
SDE expenditure to the TKIII milestones and provides more detail in the SDE sheet similar to the TKIII Progress Report.		
8.2014 Loan to SELF (Student Educational Loan Fund) awardees and RSE workers being treated as expense and repayments treated as revenue • We recommend that the department concern should make an effort to send out reminder letters to SELF and RSE awardees who have loans due to be re-paid. • SELF and RSE payments should be recognised as a Loan (Asset) when they are paid out, rather than an expense. • SELF and RSE repayments should be recognised as reduction in the loan amount i.e. reduction to receivables but not charged as revenue. • The Treasury Department should assist the Education Department and Labour Department in setting up a monitoring system of Loans paid out in ACCPAC (similar to the imprest or advances currently performed), to ensure ease of reporting, all amounts (and repaid) to the Government of Tuvalu are recorded.	The student educational loan fund (SELF) was an initiative to open up further education to all Tuvaluans who wishes to pursue further studies up to the top of their abilities. Successful applicants are awarded the loans and will have to repay to Government of Tuvalu after completion of studies or returning home on failure. No interest is charged on these loans. The student educational loan fund policy Section 4.7 states that "*loans will not be repaid to Government until after the applicants have completed their studies, or returned home on failure, or whatever the case may be*". There has not been any repayment made by students who have completed their studies or by students who have been terminated. Some of these students are now employed full time. The Government of Tuvalu not made any actions to recover these loans. The Recognised Seasonal Employer (RSE) scheme allows workers from the number of Pacific countries including Tuvalu to take seasonal jobs in New Zealand. These jobs are in horticulture and viticulture industries. Successful applicants who do not have sufficient funds to travel to and from New Zealand can apply for a loan under the department of labour and the loan will be paid under the RSE worker allocation. The Labour Department were not able to provide the updated list of outstanding loans in the RSE scheme and their balances when requested.	No response received from Management

Recommendation	Risk	Management response
	The SELF and RSE loans are not being recognised as loans in the Government of Tuvalu's Financial Statements, rather they are recognised as expenses when paid out and revenues when they are re-paid. There is limited monitoring of the balances of amounts owed by each SELF awardee and RSE participant, nor is there any follow up on amounts which are now due. Implication • If the Government of Tuvalu does not make any effort to collect these loans, there is an increased risk that these loans will never be recovered. • As there is limited monitoring and recording of the amounts loaned and to whom, the recovery of loans will become more complicated and less likely to occur in the future. • Expenses in the year that the loans are paid out are overstated and the Loan balance (Asset) is understated. • Revenues in the year which loans are repaid are overstated.	
9.2014 Terminated scholarship students approved to continue studying under the Student Education Loan Fund (SELF) scheme • The SELF Management Board should ensure that terminated scholarship students are not permitted to apply for the SELF. • The SELF Management Board must adhere to the policy and manual in place, to ensure objectivity and fairness is achieved for all applicants under the SELF scheme.	Students have been approved to continue studies under the SELF scheme after their studies have been terminated by other sponsors. One student who was terminated in 2013 and one student who was terminated in 2014 were both approved by the SELF scheme in the same year they were terminated. This is a breach of Section 4.1.4 of the SELF manual which states: *"Any applicant suspended, expelled or terminated from any institution on fault based reasons such as poor performance, disciplinary matters, and serious offence etc. will not be eligible for any award under this scheme within the next three years."* Implication	No response received from Management

Recommendation	Risk	Management response
	• Funding is allocated to students who are ineligible to receive funding under SELF.	
10.2014 No recording of annual leave and sick leave balances by Government of Tuvalu • A system is developed where staff enter their annual leave requests in before they go on leave and this is approved by their superior and personnel and training before they go on leave. This could be incorporated into the current database system which has been developed to approve staff's overseas travel. • Further effort is placed in obtaining staff's annual leave forms, approving and updating the annual leave balance, before the staff member actually goes on annual leave. • Annual leave and sick leave balances are calculated for each staff member and are updated with each leave form submitted. • Instructions for Personnel are developed in order to consistently and effectively manage annual leave balances.	No annual leave and sick leave balances are being recorded by the Government of Tuvalu, instead annual and sick leave is reconciled to the staff member's file with the records of their annual leave on it. This process is time consuming and prone to errors, if a miscalculation or misfiling of an annual leave form or sick leave certificate occurs. We acknowledge that a new payroll module within ACCPAC has been installed in 2016. Implication Given that the annual and sick leave files are not being updated in a timely manner, there is an increased risk of excessive annual or sick leave being taken, annual or sick leave taken and not recorded, annual leave payouts at end of the staff's service may be over paid and unidentified or unrecorded annual leave is taken.	No response received from Management
11.2014 Observer's fund accountability. • Payments and administration of the amounts owing out of the Observers Fund should be managed by Treasury. • A set of rules surrounding the governing of the fund should be established and reviewed before each payment is made.	The observer fund within the Tuvalu Development Fund is used for payments to observers in the form of advances, imprests and salary. It was unclear who is monitoring the receipts and the subsequent either collection or retirement of the imprests and advances made out of the Observer's fund. It was unclear if any monitoring of the Fishing companies who are obliged to make these payments is	No response received from Management

Recommendation	Risk	Management response
• Imprests and advances should be monitored by the Treasury department in ACCPAC with the Fisheries department performing the follow up of overdue imprests. • The $40k transferred to a different program is re-paid.	being performed, to ensure that all payments owed to the Government of Tuvalu are collected. Payments from the Observer's fund have been made without any description of the payment, making verification and administration challenging. Additionally in 2014 an amount of $40k was transferred out of the Observer's fund and into Fisheries program activities. Implication There is limited accountability of the Observers fund, surrounding completeness of receipts in and acquittal of advances and imprests which are paid out.	
13.2014 Information and Communications Technology Weaknesses 1. An ICT strategic committee is formed and meets on a regular basis. 2. The National ICT policy is approved and implemented. 3. An ICT security policy is drafted and approved. 4. Detailed process and procedures are documented for the requirements of the above policies. 5. The Antivirus software defined in the Standardisation policy is rolled out to all computers. 6. New upgrades are formally and rigorously tested in an isolated environment. 7. Physical access policies are defined and adhered to. 8. Appropriate environmental controls are put in	During our discussions with the Information, Communications and Technology (ICT) Department in the Ministry of Communications and Transport, the following issues were noted: 1. There is no ICT strategic committee giving overall strategic guidance and direction to the ICT Department. 2. A National ICT policy has been drafted, and presented to the DCC for approval, however, is yet to be approved by Cabinet or implemented. 3. No ICT security policy is in place, ensuring that ICT security is appropriate. The standardisation policy does provide some detail, however, this need to be expanded to cover security. 4. Lack of documented processes surrounding the implementation of the above policies. This also includes a lack of desktop instructions for the performance of routine or repetitive tasks. 5. Lack of consistent antivirus software usage and antivirus management. This is included in the Standardisation policy,	No response received from Management

Recommendation	Risk	Management response
place in the server room and wherever else key IT infrastructure is located. 9. A backup process is formalised and followed. 10. A DRP and subsequent procedures are put into place and are tested on a regular basis. 11. User access controls are defined and reviewed to ensure that they are appropriate. 12. A consistent framework of IT platforms is approved and rolled out to all Government of Tuvalu IT users.	however, further effort is required to implement. 6. Lack of testing of new upgrades to computer software and servers. 7. No physical access policies in place restricting access to key IT areas. This includes the server room. 8. Lack of appropriate environmental controls in the server room, ensuring correct humidity, temperature and consistent power supply. 9. Lack of documented backup processes and lack of offsite backups performed. 10. No disaster recovery plan and procedures are in place. 11. Lack of user access control policies and processes, apart from the Standardisation Policy. 12. Lack of consistent framework of IT platforms. We acknowledge that the Standardisation Policy is attempting to implement this. Implication 1. Without an ICT strategic committee, there is limited guidance given to the ICT department on what their overall goals are and what they should be striving towards. This is particularly important when requested to take on new roles or when requested to perform something which is not considered a priority. 2. This could result in IT goals not contributing to the Government of Tuvalu's overall strategic objectives and increase related costs and risks. While not approved and distributed, it is unable to be implemented. 3. There is no clear direction to maintain information security across the organisation and to properly safeguard the Government of Tuvalu's assets. Without an IT security policy attempts to maintain information security will be	

Recommendation	Risk	Management response
	performed inconstantly and without direction. 4. With a lack of processes, the risk of these tasks being performed inconsistently is greatly increased. If there is a turnover of staff, without processes in place, it is unlikely that these processes will be followed consistently. 5. Without consistent antivirus software regularly updated, the risk of services being interrupted and data corruption is increased. This could potentially cost the Government of Tuvalu in terms of lost data, reputation, and theft of data and in computers which are rendered useless. 6. Without testing new upgrades in a systematic and thorough way, there is an increased risk of changes made which do not address user requirements, downtime to computer users if the change is unsuccessful or causes issues and unknown effects on the ICT service being delivered. 7. Without control physical access to IT hardware, there is an increased risk of unauthorised access which could lead to theft, damage to hardware and misuse of Government of Tuvalu assets. 8. Without proper environmental controls, there is an increased risk of loss of data due to failure of the current environmental controls, loss of performance of assets, premature failure of assets and aging of expensive IT equipment. 9. Without a formal documented backup process of key information, in the event of a failure of an information system, there will be significant cost and risk to the loss of key information of the Government of Tuvalu. 10. Without a Disaster Recovery Plan, in the event of a disaster, the response will not be co-ordinated with limited guidance on what to prioritise. There will be an increased risk of downtime, loss of data and assets, disruption of key	

Recommendation	Risk	Management response
	services, and the priority systems will not be restored. 11. Without a user control and access policy, there is an increased risk that excessive access is given to some users. This increases the risk of loss of data, accidental deletion of data, inappropriate user rights being granted to certain staff members and incorrect modifications made to systems by staff members who are not qualified to do so. 12. Without a consistent IT platform (for example all staff using a single version of Windows and single version of Office), there are inefficiencies in managing these systems by the ICT department. This includes not being able to roll out updates to one platform, having to ensure that different user platforms work with the infrastructure in place, and an increased risk of virus infection	
14.2014 Publication and approval of the Finance Circulars • The Finance Circulars are finalised, approved and are distributed for use. This will enable consistency of the application of finance functions and will give guidance in the application of the financial instructions. • Education of key stakeholders is performed on the requirements of the revised Finance Circulars.	The financial instructions have been revised and re-issued with the effective date of 1 January 2015. Much of the guidance in the previous Financial Instructions has been removed from the Financial Instructions and has been placed into Finance Circulars which remain in draft form. These draft Finance Circulars are yet to be reviewed, approved and published in 2016. Implication Without these Finance Circulars being approved, circulated and implemented there are significant processes which required to be performed with limited guidance.	No response received from Management
15.2014 Promotion and education of stakeholders of the revised financial instructions • Appropriate education and promotion of the	The financial instructions have been revised and re-issued with the effective date of 1 January 2015. To date there has been limited promotion and education of the requirements of the revised Financial Instructions.	No response received from Management

Recommendation	Risk	Management response
requirements of the updated financial instructions is performed by Finance. This could be in the form of workshops, presentations, meeting with individual staff in key positions and through email communications. • Feedback on the implementation of the revised Financial Instructions is obtained and considered for the next revision of the Financial Instructions.	No further progress has been assessed by during 2016. Implication • Without performing education on the requirements of the new financial instructions, there will be limited change in the practices of the Government of Tuvalu staff. • The requirements of the revised financial instructions will not be adhered to.	
18.2014 Bank accounts not controlled by the Chief Accountant • All departments and projects (including the above) hand over to the Chief Accountant all the accounts that are separately administered by them. • These accounts are then closed and consolidated in the Consolidated Revenue Fund and are appropriated in the normal budget process.	Several departments within the Government of Tuvalu manage and maintain accounts outside the control of the Treasury Department. These accounts were set up to assist activities within the departments or projects which are not funded under the Annual budget, however, are part of the Consolidated Revenue Fund. In 2016 these accounts included: • Solar Energy account. • Disaster account. • Aviation Safety and Security Levy account • Tuvalu Survival Fund account • Tuvalu Eye Spectacles account and ; The holding of these accounts management of these accounts breaches the new Financial Instructions Section 235 which states that, "The Chief Accountant, on behalf of the Ministry, must manage and maintain all bank accounts held by Government, and there shall be, for no reason, accounts held outside of the control of the Treasury Department". Implication • Without the involvement of the Chief Accountant in administering these accounts, the risk of funds being misused will be increased.	No response received from Management

Recommendation	Risk	Management response
	• Given these bank accounts are considered to be part of the Consolidated Revenue Fund, it is prohibited to expend money from these accounts without a valid appropriation (i.e. budget allocation in the current year).	
19.2014 Reconciliation of Aged Purchase Order listing to the General Ledger • Reconciliation between the Aged Purchase Order listing and the General Ledger is performed on a regular basis. • The reason for the variance is determined and amended in the General Ledger. • Once the practice which causes the variance between the General Ledger and the Purchase Order Module is identified, this practice is discontinued.	The Government of Tuvalu is currently implementing the use of purchase orders prior to preparation of a payment vouchers. This new system was introduced in early 2014 and is proving to be an effective tool in preventing over spending within the Government of Tuvalu. A purchase order ensures that there are adequate funds in the Government of Tuvalu's budget to expend funds before they are committed. Additionally a purchase order ensures that it is clear to the supplier what the Government of Tuvalu wishes to order. Audit noted when performing testing of payables that the General Ledger balance of the purchase order clearing account which is recognised as a payable, was not able to be reconciled to the aged purchase order listing. Implication • Audit was unable to receive a listing of outstanding purchase orders which reconciled to the General Ledger account at 31 December 2015 and 2016. • Due to the account not reconciling, audit was unable to gain assurance surrounding the accounts payable figure for 2015 and 2016. • There is an increased risk that purchase order amount is misstated in the financial statement.	No response received from Management
20.2014 Monitoring of upper air space revenue • A copy of the agreement is obtained, reviewed	Government of Tuvalu has entered into an agreement for the management and collection of revenue from aeroplanes utilising Tuvalu's air space, with the Nadi Flight Information Region (NFIR).	No response received from Management

Recommendation	Risk	Management response
for the revenue share calculation and filed properly for ease of access in the future. • The revenue share in the agreement should be agreed with the payments received by the Government of Tuvalu to ensure that all revenues that the Government of Tuvalu is entitled to are being collected. • The agreement with NFIR should be reviewed to ensure that there is adequate transparency of reporting of information relating to the distribution of revenue shares and other entitlements of the Government of Tuvalu.	There has been limited monitoring by the Government of Tuvalu of the shares of the revenue which is received from the NFIR agreement, nor is the Government of Tuvalu fully aware of the conditions contained in the agreement with NFIR. The agreement was unable to be located when requested by audit. We acknowledge that the Aviation Department is aware of this issue. Implication • Given the split of revenue shares was unable to be reconciled with the agreement as the agreement was unable to be located, there is an increased risk that Government of Tuvalu receives less revenue from the NFIR agreement than it is entitled to. • The Aviation Department is unaware if it is receiving all of the benefits from the NFIR agreement.	
21.2014 Lack of Procurement Planning • Annual Procurement plan should be prepared in advance of each fiscal year and aligned with the annual budget application to the ministry responsible for finance. • The Central Procurement Unit should follow up with Ministries and Departments who are yet to submit their Annual Procurement Plan.	An annual procurement plan is required to be compiled for every ministry as per the Public Procurement Regulations Section 14. The purpose of the annual procurement plan maximise efficiency and economy. The annual procurement plans enable timely actions on individual procurement transactions and to allow the Central Procurement Unit to consolidate the procurement of common user items into bigger packages in order to ensure economies of scale are gained. No procurement plans were submitted for 2015 to the Central Procurement Unit. Implication • Without procurement plans being submitted, limited planning and grouping of common procurements are able to be performed, leading to inefficiencies and multiple bid	No response received from Management

Recommendation	Risk	Management response
	documentation requests for similar items being issued. This is likely to increase costs of the Government of Tuvalu to procure the same items, frustrating major suppliers having to fill out multiple bid documents for similar items and may cause compatibility issues if different items are purchased (for example computers and software). • The Central Procurement Unit is unable to plan major procurements nor is the budgeting process in allocating funds effective. • The Ministries and Departments who have not submitted procurement plans are in breach of the Section 14 of Procurement Regulations.	
22.2014 Goods receipting process not being followed • Goods receipting is performed as per the financial instructions. Invoices presented to Treasury which do not have a Goods Receipt on them are returned to the accounting officer for them to verify that the goods/services have been received. • Education of accounting officers is performed surrounding the requirements of raising POs before a commitment is made and goods receipting on the invoice.	The Government of Tuvalu has in 2014 implemented the use of Purchase Orders. A Purchase Order is raised in order to ensure that: • funds are available within the budget for the purchase of the goods and services, • the Government of Tuvalu does not commit to purchase goods in which is does not have funds allocated, • it is clear what goods are to be purchased, and • approval of purchases is made prior to committing to purchase or receive goods. This is an improvement from the past. As part of the purchasing process, goods receipting should also occur. The updated financial instructions paragraph 135, require a goods receipt to be written on the invoice before being presented to Treasury for payment. Goods receipting is when the goods/services are received they are matched to the invoice and the purchase order, to ensure that the goods/services which have been received are consistent with the goods/services required in the purchase order and charged to the Government of Tuvalu on	No response received from Management

Recommendation	Risk	Management response
	the invoice. It was noted in 2014 that: • Some Purchase Orders (POs) were raised after the commitment of funds and goods were received. • There was limited goods receipting occurring. Implication • When a PO is raised after the commitment of funds and goods received (i.e. when the invoice is presented for payment), there is increased risk of overspending of budgets, incorrect goods are received or an unfavourable pricing change occurs. • Without goods receipting, there is increased risk of goods/services being provided which are not consistent with the goods/services committed to in the purchase order and billed on the invoice.	
24.2014 Timely reconciliation of Imprest • Imprests should be reconciled on a timely basis to ensure over payment and under payment is identified and addressed on a timely manner. • Review of all negative amounts in Accounts Receivable should be performed and the amounts either removed from the system if they are mispostings or re-paid to staff members if they are over payment of imprests.	An Imprest is initially recognised as receivable in the Government of Tuvalu accounts, when paid out to staff members as a travel advance. Once the amount is retired (either re-paid or acquitted against an expense) in full it will be transferred out of receivables. Audit noted that there were quite a few receivables in the Government of Tuvalu accounts which have negative amounts which imply they are payables rather than receivables. It was noted that this could be either due to an over repayment of imprest amount by the staff member or a misposting made in the system. These negative amounts have not been reconciled to the imprest documentation and will only be reconciled once a staff member raises a refund claim for the overpaid imprest. Implication	No response received from Management

Recommendation	Risk	Management response
	• Without timely reconciliation of imprests, the receivable may be understated as the negative amounts offset or reduces positive amounts. • Mispostings may remain in the system, causing misstatement of the receivables balance.	
26.2014 Grants and Subsidy Weaknesses 1. That the Government of Tuvalu produces a grant agreement and requests all recipients to review and sign the agreement. This agreement should be developed in conjunction with the Attorney General. This will ensure that grants are paid consistently and there is formal agreement on the obligations of both parties and the purpose the grant. 2. A consistent standard acquittal report template is created (in conjunction with the Ministry of Finance), approved and put to use. Training is provided to grant recipients on how to fill out the acquittal form. 3. A USP Reimbursement policy is drafted and approved, which details which courses will be reimbursed as well as ensuring that only relevant courses are reimbursed. 4. The In-service scholarship policy is followed and ineligible applicants are not considered. 5. The Housing Committee should compile a list of all civil servants who are accommodated in housing which they are not entitled to as well as a listing of all civil servants who are currently in Government Housing. In future the housing policy should be followed.	During our discussions with the Office of the Prime Minister, Ministry of Finance, Ministry of Public Utilities, Ministry of Health, Ministry of Home Affairs, Ministry of Education, Ministry of Foreign Affairs, Trade, Tourism, Environment & Labour, the following issues were noted. 1. There is no formal agreement in place with the recipients of the grants for each of the Ministries above. 2. There is no standard acquittal report template format in use for recipients of grants to use to report to the Ministry administering the grant. 3. There is no formal policy in place for the administration of the Distant Flexible Learning (DFL) courses through the Tuvalu USP Campus. Reimbursements are being processed without guidance on subjects which are not considered to be relevant to the staff members role in the Government of Tuvalu. 4. The selection criteria defined under the In-service training policy is not being followed. Staff members are required to serve for a minimum of three years before being eligible for an In-service scholarship. It was noted that two staff members who were approved for the scholarship had not met this requirement of minimum service time. 5. It was noted that there are civil servants accommodated under the Government housing scheme who are not entitled to the grade of rental house in which they are housed. 6. Lack of guidance and proper documentation in the justification and approval of decisions on which civil	No response received from Management

Recommendation	Risk	Management response
6. The department should document and justify the decision of allocating houses under the Kaupule Housing Scheme. Either the GAO is updated or the policy is amended in order for the policy and GAO to be consistent.	servant to allocate accommodation to under the Kaupule Housing Scheme. 7. There was a decision approved by Cabinet in order to allow all civil servants to apply for housing allowances. This change in policy was not updated in the GAO. Implication 1. Without the agreement policy for grants and subsidies, there is limited guidance given to each Ministry on what the overall purpose and criteria are in relation to distribution and reporting of grants and subsidies. 2. Without a standardised report the Ministry creates an acquittal report, which may not contain all the information required by the Treasury and implementing Ministry. 3. Without a formal policy in place, there is a risk that the refunding of courses will be paid for in appropriate courses studied by staff, making the policy more costly and less efficient. 4. The policy is not being adhered to and there is an increased risk of selecting a less eligible applicant. This is unfair to applicants who are adhering to the requirements. 5. Civil servants are receiving benefits which they are not entitled to and are causing civil servants who are entitled to miss out on their entitled house. 6. Not documenting the justification for decision of the Government of Tuvalu on the allocation of housing, decreases the transparency of the application process and increases risk of inappropriate allocations occurring in the future. 7. There is confusion as to whether the new policy has legal effect or not given that the GAO has not been updated.	

Recommendation	Risk	Management response
32.2014 Payroll committee record of minutes Prepare a fortnightly workpaper to show the movement of the current fortnightly payroll costs from previous period. The reconciliation can also be signed off by the Payroll committee to indicate review of approval prior to payroll payment.	From our review of the payroll system we noted that there is no evidence of check by payroll committee after payroll is processed. We suggest that a fortnightly workpaper be prepared by the payroll officer to indicate differences occurring between pay weeks for the payroll committee. This will allow the payroll committee to easily identify the causes of any changes in payroll costs from week to week. Implication • Without a record of review by the Payroll Committee, audit was unable to gain assurance whether this task had been completed and how effective the review process was in finding and correcting errors within the payrun process. • Without movement from pay to pay analysis performed, the payroll committee's review will take longer and will be less targeted.	No response received from Management
LC 2013.1 Schedule to the Public Finance Act – Estimates of Expenditure • Estimates of the expenditure should be produced in line with the expectations of Parliament as part of the budget process and the expenditure limits are adhered to.	The schedule to the Public Finance Act requires that all expenditure from the Tuvalu Development Fund (TDF) is performed via a Development Warrant and that no Development Warrants are to be issued unless the expenditure has been authorised by resolution of Parliament. No resolution of Parliament has been performed in order to approve expenditure out of the TDF for 2014, 2015 and 2016. • The expenditure made out of the TDF is considered to be unlawful because there has been non-compliance with the Public Finance Act requirements.	No response received from Management
LC 2013.2 Section 74 of the Financial Instructions • Further investigation into the reason for the overspending is performed.	Section 74 of the Financial Instructions specifies that no accounting officer shall incur or commit any expenditure that shall exceed the approved estimates of expenditure for any sub head item under his control. By incurring expenditure above the estimates for sub	No response received from Management

Recommendation	Risk	Management response
• Further emphasis is placed on the implementation of the purchasing controls designed to prevent the overspending.	head items, the accounting officer will be in breach of Section 74 of the Financial Instructions. We note that during the year there has been expenditure above the estimates for sub head items. This was indicated by an overspend in the budget sub head expenditure. The expenditure estimates were updated for virements (approved movements) between sub head expenditure items before the calculation of overspends.	
LC 2013.3 Section 7 of the Currency Act • The Currency Act should be amended to make clear the purpose of the Fund. • The Commissioner of Currency should begin reporting on annual basis the financial position of the Fund. This could be incorporated into the Government of Tuvalu Report for ease of reporting.	Section 7 of the Currency Act requires the Commissioner of Currency (Minister for Finance) to: *(d) not later than the 31st day of March each year prepare a report on all coin issued and redeemed during the preceding financial year together with an account of all expenditure incurred and revenue therefrom;* *(e) publish as at the 31st day of March each year by such means as he may think appropriate to inform the public a statement of the liabilities and assets of the Coin Security Fund;* *(f) perform all such other duties as are or may be imposed on him by or under this Act.* No report under Section (d) and (e) was produced by the Commissioner of Currency for the year ended 31 March 2014. Additionally, it is not clear from the Currency Act what the Coin Security Fund (the Fund) purpose is, nor are there any detailed reporting requirements in the Currency Act. There is limited transparency surrounding the Fund, its usage and the distributions from the Fund. Payments may be made into the Fund which should be paid into the Consolidated Fund. Given the purpose of the Fund is not clear, the funds use is considered to be unclear as well.	No response received from Management

Recommendation	Risk	Management response
3.2013 Incomplete disclosures for Property Plant and Equipment as per Tuvalu GAAP • A comprehensive disclosure of Property Plant and Equipment in compliance with the accounting policies is performed in the Financial Statements.	The Government of Tuvalu 2013 Financial Statements do not include disclosures of Property Plant and Equipment as required by the Tuvalu GAAP (which looks to IPSAS and IFRS). Asset disclosures not included which are required include: • Disclosure of Property Plant and Equipment in the Financial Statements by defined classes (e.g. Property, motor vehicles, boats, office equipment etc.) • Disclosure of accumulated depreciation • Disclosure of the comparative period asset values and accumulated depreciation • Disclosure of deferred income relating to donated assets. The implications are that: • Assets are not appropriately disclosed as per Tuvalu GAAP. • The users of the Financial Statements have less of an understanding of the Government of Tuvalu's asset base and values and what type of asset is held by the Government of Tuvalu.	No response received from Management
4.2013 No depreciation charge for Property Plant and Equipment • In future, depreciation charges are calculated and included in the Statement of Income and Expenditure. • Assets purchased in the future are identified and included as assets, rather than being initially expensed and then written on through an equity adjustment.	In the Government of Tuvalu Financial Statements, there is no depreciation expense recognised for Property Plant and Equipment. The depreciation expense for 2015 is understated.	No response received from Management
5.2013 Lack of Assets management plan An assets management plan is developed which details for major assets:	The Government of Tuvalu does not have any plan in place for the replacement/ maintenance of key assets of the Government of Tuvalu. The Government of Tuvalu holds many strategically important assets which serve the people of Tuvalu	No response received from Management

Recommendation	Risk	Management response
• planned replacement dates; • planned maintenance and repair schedules, including resources and skills required to perform maintenance; • estimated costs of replacement and repairs, along with timelines for the replacement/repair work so it can be budgeted for; • if asset is planned to be replaced or not; • contingency plan if asset becomes unusable; and • if a spare/ replacement asset needs to be held.	• In the event that these assets become unusable, there would be quite a disruption to the performance of the Government of Tuvalu's activities. • There may be a considerable delay/ disruption to the services the Government of Tuvalu provides while a replacement is sought/ repair is made. This may include critical functions like transport and medical care. • We acknowledge that in 2015 a Deferred Maintenance Fund has been established within the Tuvalu Development Fund, however, there has been no documentation detailing the plans for these funds.	
6.2013 Management of Property Plant and Equipment and Inventory • Assets are added to the asset register as soon as they are purchased, rather than being added at the year-end stock count. • Instructions are documented on how to perform the stock count for both Assets and Inventory. • The name and date of the staff member who performed the count is documented. • Sign-off on the accuracy of the count by two staff members is performed. • A stock take report is compiled which contains: the results of the count; requests approval for write off of items which are unable to be located; requests approval to write on for items located which are not on the asset listing; and details the investigations performed during the count. This report is presented to the Secretary for Finance for approval. • A stock take of both assets and Inventory in the	Government of Tuvalu begun accounting for Property Plant and Equipment in 2013. There is no asset management policy in 2015 and the process in accounting for assets and Inventory was considered to be weak. We acknowledge that the Government of Tuvalu has recruited an asset manager in 2014, however, more needs to be done to ensure that Property Plant and Equipment and Inventory are managed appropriately. Additionally, we acknowledge that the Finance Circulars approved in September 2016 contain guidance on asset management, however, these were not used for the 2015 audit and the Finance Circular still requires major drafting efforts for it to be user friendly, compliant with the Financial Instructions and able to be implemented. • Without a strong process in managing assets, the risk of assets being stolen, used for personal gain and used inappropriately is increased. • Without a Fixed Asset management policy, there is an increased risk of assets being managed inconsistently.	No response received from Management

Recommendation	Risk	Management response
middle of the year is performed, to ensure that staffs are familiar with and understand the process. • The stock take is performed with representatives of the OAG being observers. • The Property Plant and Equipment register is updated with the results of the stock count. • Labels are used on assets to ensure ease of identification. • Assets located during the stock count which were not on the register are written onto the register and their value is estimated.		
7.2013 Review of in year purchases for Property Plant and Equipment • Every quarter the Government of Tuvalu should review all expenditure transactions over the asset recognition threshold to ensure that all assets have been capitalised rather than expensed. • Repairs and Maintenance expenditure should be reviewed for improvements which have been incorrectly booked as repairs and maintenance which should be capitalised. • Future budgets should split out planned capital purchases from recurrent expenditure to ensure increased value to the budget documentation, ease of reporting of planned asset purchases and identification of Property Plant and Equipment.	The Government of Tuvalu did not perform a review of all expenses during the 2014 year to ensure that all assets which were purchased in 2014 have been capitalised (put on the asset register). Instead the assets purchased in 2014 were expensed and written on via an equity journal at the end of the year. • This method of capitalising assets is not in line with Tuvalu GAAP and the Government of Tuvalu's accounting policies. • Expenses in 2014 are overstated by the amount of assets which should have been capitalised, as is the movement in equity.	No response received from Management
8.2013 Portable and Attractive Assets register to be kept	Portable and attractive assets are those which are considered to have a high value and are easy to re-locate. These can be mobile phones, laptops, radios, USB sticks,	No response received from Management

Recommendation	Risk	Management response
• A portable and attractive register is maintained and rules surrounding the addition of assets to this register are developed. • Office expenses transactions are reviewed to ensure that all portable and attractive items are entered on the register and are properly managed. • Government of Tuvalu should ensure that all assets provided by Development Partners to individuals are included as assets on the Portable and Attractive register and remain Government of Tuvalu property. • There should be frequent counting of Portable and Attractive items to ensure they remain in the possession of the Government of Tuvalu. • A policy of clearly marking Portable and Attractive items as the Government of Tuvalu's property should be developed and introduced. • If a fraud plan is developed, there could be some commentary surrounding management of Portable and Attractive items.	tablets and projectors. While the value of the items may be less than the asset capitalisation and management threshold, the Government of Tuvalu needs to ensure that these assets remain in their possession. Currently there is no register for portable and attractive items, nor is there any controls preventing theft or misuse. Without active management, there is an increased risk that portable and attractive items are stolen, pilfered and misused	
12.2013 Non-inclusion of Inventory in the Financial Statements • Similar to the assets write on process undertaken in the 2014 Financial Statements, Inventories are documented and counted on a regular basis. • Inventory is included in the Financial Statements and the accounting policy note in the Financial Statements is updated. • Additional detail is provided in the draft finance circular surrounding Inventories, to ensure that they are accounted for correctly.	• Inventories have not been disclosed as assets in the Financial Statements. They have been expensed when purchased, rather than when consumed. There is no record of Inventory. • Assets in the Financial Statements of the Government of Tuvalu are understated by the value of Inventory on hand at 31/12/15 • Expenses are overstated and retained earnings understated in the Financial Statements of the Government of Tuvalu by the value of Inventory	No response received from Management

Recommendation	Risk	Management response
13.2013 Financial Statements for PEs not included as they have not been compiled • That the Public Enterprises ensure that they submit Financial Statements for audit and consolidation before 30 June the following year.	A review of the Public Enterprises found that the Nation Fishing Corporation of Tuvalu (NAFICOT), Tuvalu Philatelic Bureau (TPB), Tuvalu Post and Travel Limited (TPTL), Tuvalu Post Limited (TPL), Pacific Forum Lines, and the Tuvalu Maritime Training Institute (TMTI) had not finalised their 2015 Financial Statements at time of the Financial Statements being published. The figures used in the Financial Statements were either estimates or the prior year figures. The values of the Public Enterprises disclosed in the Financial Statements do not reflect their true financial position	No response received from Management
15.2013 Payment of Honorarium Allowances to Civil Servants • In future, no payments of Honorarium allowances are made to civil servants. • Any Payment Voucher requesting allowance payments should be rejected by the Secretary for Finance.	A review of the Ministry of Education, Youth and Sports' expenses found that Honorarium payments were being made by the Government of Tuvalu to civil servants who are attending or presenting workshops. Payment of honorarium allowances is prohibited by the Government of Tuvalu Policy on meeting allowances. Attendance or presentation at these workshops is considered part of the role of these civil servants. • These payments are not in compliance with the Policy developed surrounding payments to civil servants, and should not have been made.	No response received from Management
16.2013 Non-inclusion of donated services in the Financial Statements • In the future, Government of Tuvalu should record the services being provided by Development Partners and include these costs in the Financial Statements. • We acknowledge that getting a full list and estimating the value of the services provided by all Development Partners is not a simple undertaking.	The Government of Tuvalu receives some professional services from development partners without any cost to the Government of Tuvalu. This is in the form of the provision of people to perform functions that the Government of Tuvalu are unable to provide either due to lack of expertise or lack of capacity. These provided services are not being accounted for in the Financial Statements. We acknowledge that some of these services are estimated in the budget documentation. • The non-inclusion of services provided by development	No response received from Management

Recommendation	Risk	Management response
We recommend that a lesser priority is placed on this issue.	partners without any cost to the Government of Tuvalu, understates the expenses of the Government of Tuvalu in the year in which the services were received. The Financial Statements do not show the full costs of all of the goods and services provided by the Government of Tuvalu.	
18.2013 Monthly votebook reconciliation process to include assets reporting and counting • The votekeepers and accountable officers on a regular basis in accordance with the Financial Instructions perform a count of all of their Property Plant and Equipment, Inventory and Portable and Attractive assets and report the results of the count to Treasury. Any unaccounted items from the previous count must be investigated and justified.	With the recent introduction of Property Plant and Equipment into the Financial Statements and management of Property Plant and Equipment within the Government of Tuvalu, there are limited measures in place to ensure that Property Plant and Equipment , Inventory and Portable and Attractive assets are accounted for. • Without some form of accounting process being performed, Property Plant and Equipment , Inventory and Portable and Attractive items may not be reported accurately, may be subject to fraud and may be not be included within the Financial Statements.	No response received from Management
21.2013 Establishment of the TMTS Liaison Officer • The TMTS Liaison Officer post should be established and filled so that the Clerk/Registry Officer can perform their duties.	• During our review of the functions of the Tuvalu High Commission (THC), we found that the current Clerk/Registry Officer is dealing with the responsibilities of the Tuvalu Medical Treatment Scheme (TMTS) Liaison Officer. The TMTS Liaison Officer post remains vacant. • The Clerical/Registry Officer's responsibilities are left unperformed due to the additional effort required of taking on the functions of the TMTS Liaison Officer. This has the risk of affecting communication links between the THC and line ministries, communications with other embassies and the day to day functions of the THC.	No response received from Management
25.2013 Non reconciliation of Undelivered Cargo List to the warehousing file • The UCL continues to be updated until all goods are	When a ship unloads its goods, the total amount of goods unloaded is detailed in a manifest. This manifest is reconciled to the bills of entry prepared to clear the goods into Tuvalu. The goods which do not have a bill of entry appear in the Undelivered	No response received from Management

Recommendation	Risk	Management response
either cleared by Customs or are seized by Customs and auctioned.	Cargo List (UCL). This represents goods on which Customs duty has not been paid. As part of our audit testing we found that the UCL is not being updated for duty which has been paid subsequent to the initial compilation of the UCL. • Customs will not know which items on the UCL that Duty has not been paid on. They will not know which items should remain in their possession. • There is an increased risk that Customs will not identify goods that are taken without payment if the UCL is not updated for cleared goods.	
1.2012 Non Consolidation of NAFICOT and its Joint Ventures • The Joint Ventures are consolidated into the Financial Statements of the Government of Tuvalu in the future; • Proper monitoring of the Joint Ventures' performance occurs through NAFICOT; and • The Government of Tuvalu requests that NAFICOT produce Financial Statements and present them to the Office of the Auditor General for audit as required by the PE Act.	Although NAFICOT is a company scheduled as a public trading enterprise under the PE Act, it is under the definite control of the Ministry of Natural Resources and should be incorporated into the Government of Tuvalu's Financial Statements. The Government of Tuvalu has via NAFICOT entered into multiple joint ventures with companies who are fishing within Tuvalu's waters. These are not recognised in the Government of Tuvalu's Financial Statements, given NAFICOT have not produced Financial Statements since 1999. The assets, liabilities, expenses and revenues of the Government of Tuvalu will be understated given the non-consolidation of the NAFICOT and through NAFICOT the Joint Ventures, into the Government of Tuvalu's Financial Statements. Without proper reporting by NAFICOT and the Joint Ventures, the Government of Tuvalu does not have any oversight of the operations of the Joint Ventures.	No response received from Management
3.2012 Tuvalu Development Fund (TDF) Opening and Closing Balances and Budget Estimates	The TDF is required by 2(2) of the Schedule of the Public Finance Act to produce budget estimates annually. No budget estimates were produced for 2012 for the Tuvalu	No response received from Management

Recommendation	Risk	Management response
We acknowledge that measures are being taken to improve the management of Aid and the Tuvalu Development Fund through the creation of the Aid Information Management System. The Government of Tuvalu should: • Produce budget estimates for the TDF within the budget process which occurs surrounding the expenditure from the Consolidated Fund. Perform monitoring of the expenditure which occurs to ensure that expenditure is in line with amounts warranted from the budget.	Development Fund. Without budget estimates for expenditure from the TDF, which are to be approved by resolution of Parliament, no development warrant should be issued, except under exceptional circumstances stated in the Schedule to the Public Finance Act. Payments made under exceptional circumstances (without prior approval) must be the subject of a supplementary development estimate and be tabled and approved by resolution at the next session of Parliament. Without this Parliamentary approval, all expenditures out of the TDF are illegal.	
4.2012 Tuvalu Development Fund Accountability Amend the Public Finance Act to make the Schedule part of the Public Finance Act, so that it can only then be changed by an Act of Parliament. Additionally, include further rules surrounding the expenditure from the TDF, to ensure that expenditure is for the purpose of the funds provided and made with Parliamentary approval.	Currently the TDF requirements are contained in the Schedule to the Public Finance Act , which can be amended by the Minister for Finance, by giving notice to Parliament. Given these requirements are surrounding the expenditure and provision of estimates from the TDF, they are considered to be important. With these limited controls over the amendment of the TDF schedule, the Minister for Finance could potentially change the reporting and expenditure requirements of the TDF and further limit the Government of Tuvalu's accountability in terms of expenditure of funds from the TDF. This has the potential to undermine Parliaments responsibility for the control of public finances.	No response received from Management
8.2012 Management of .TV Contract The agreement is reviewed and all the benefits to Tuvalu are documented and provided by VeriSign.	We have reviewed the .TV agreement with VeriSign and subsequent amendments to the agreement. We found that there were provisions in the contract with benefits to the Government of Tuvalu. The Government of Tuvalu is yet to take these benefits up with VeriSign.	No response received from Management

Recommendation	Risk	Management response
	Tuvalu is missing out on benefits of the VeriSign contract	
11.2012 Special Funds Rules and Governance That the Minister establishes regulations for the operations and control of the Special funds, or closes the funds.	Under Section 167(2) of the Constitution, special funds have to be established under the authority of an Act of Parliament. During the audit we requested the documentation for the establishment of each of the special funds in existence by Ministerial Order under the authority of the Public Finance Act or under a dedicated Act of Parliament. The documentation we received was satisfactory in the establishment of the funds, however, it was not comprehensive surrounding the rules and governance of each of the funds. We acknowledge there has no expenditure from the funds except for a transfer to the consolidated fund from the Coinage Security Special Fund. Without rules surrounding the usage, governance and purpose of the funds, monies could be expended without proper justification and management scrutiny. There are inadequate controls for ensuring Parliamentary oversight of the receipt and expenditure of public monies from special funds.	No response received from Management
12.2012 Review of Financial Statements Reconciliations and Provision of Supporting Documentation We recommend that supporting documentation, calculations and analytical review are attached to the working papers and they are evidenced as reviewed.	We acknowledge that there has been an improvement in the preparation of the financial statement supporting documentation; however, further effort is required. The issues which were noted by the Auditor General were: • The reconciliations to the balance sheet accounts were completed, but limited supporting documentation was attached. • No analytical review of movements to budget and the prior year was completed. • No evidence of review on most of the documentation presented to the Auditor General.	No response received from Management

Recommendation	Risk	Management response
	• No documentation of the payroll fortnightly reconciliation and payroll analysis of movements in the pays. Compiling supporting documentation and performance of analytical review demonstrates understanding of the formation of the Financial Statements and the key drivers of the figures. This demonstration assists in the audit process and also develops Government of Tuvalu staff understanding. Without review, the risk of errors being reported in the accounts is increased.	
13.2012 Improper Consolidation of Public Enterprises. Given the current stage of the Government of Tuvalu's accounts, it is recommended that a lesser priority be placed on the proper consolidation of the Public Enterprises. The Government of Tuvalu should continue to account for the Public Enterprises using the equity method until there is sufficient capacity to undertake the consolidation process. However, the improper consolidation is still considered an accounting and audit issue, and should not be ignored because of priorities currently taking precedence.	Currently the Government of Tuvalu consolidates the Public Enterprises by taking into account the equity movements (i.e. Assets minus Liabilities) of each of the Public Enterprises at the end of each year. This is not in compliance with Generally Accepted Accounting Principles (GAAP), which the Government of Tuvalu is using to prepare their Financial Statements. Under GAAP, entities that are controlled by the Government of Tuvalu should be consolidated into the Financial Statements of the Government of Tuvalu. That is all revenues, expenditures, assets and liabilities of the Public Enterprises and other controlled entities should be added to the all revenues, expenditures, assets and liabilities of the Government of Tuvalu. The process of consolidation should also include the elimination of the Government of Tuvalu's investment in each of the Public Enterprises with the Government of Tuvalu's equity in each of the entities; and the elimination of transactions between the Public Enterprises and the Government of Tuvalu, including Community Service Obligations.	No response received from Management

Recommendation	Risk	Management response
	The impact is that expenses and revenues of the Government of Tuvalu will be understated as well as the assets and liabilities. In net terms, assets and liabilities will be equivalent, as the PEs are accounted for as an investment.	
17.2012 Follow up of Special Imprests The requirements of the Financial Instructions surrounding imprests is adhered to, including sending timely reminders of overdue imprests and charging interest on outstanding imprest accounts.	• No reminder letters were sent to officers with outstanding special imprests to remind them to continue settling amounts owed. • Interest which should be charged on overdue imprests as per Section 201 of the Financial Instructions is not being charged. Reminder letters not sent and not charging interest on overdue imprest could lead to people with outstanding imprests neglecting to settle their overdue amounts with the Government of Tuvalu. The interest which is currently not charged on overdue imprests is lost revenue for Government of Tuvalu.	No response received from Management
8.2011 Tax Reconciliation Issues Monthly or more frequent reconciliation between ACCPAC and RMS is recommended. The audit team can provide an Excel template for the reconciliation. The purpose of the reconciliation is to identify mis-posting errors, payments received that are not in ACCPAC but recorded, arrears of tax which are recorded in RMS but not in ACCPAC, and payments received that appear in ACCPAC but are not recorded with IRD. Additionally we recommend the IRD document the reconciliation as audit evidence and to keep a record of variances.	In the past years, the Inland Revenue Department (IRD) had not performed any reconciliation from their records of taxation revenue due and collected with ACCPAC which records the actual revenue and receivables. No reconciliation was performed for 2014 between the IRD's Revenue Management System (RMS) and the Treasury's ACCPAC for both revenues and taxation amounts receivable. We acknowledge that there has been improvement in the documentation of the IRD's taxes due, however, no reconciliation is being performed. The non-performance of the reconciliation poses a risk in that: the IRD are not able to tell who has paid their tax or not, there have been posting errors into ACCPAC, that payment	No response received from Management

Recommendation	Risk	Management response
	of tax has been made but is not recorded, unpaid taxes are unable to be detected and other concealed fraudulent activities are occurring. Even though Tax and Customs have their own cashier, reconciliation with ACCPAC is essential.	
16.2011 No Reconciliation Between Fisheries and Treasury Records. The Audit recommends that the Fisheries department and Treasury department to perform a regular reconciliation of their fishing license revenue and fines to ensure that all amounts due are paid and that all payments are recorded in the Fisheries Management System (TUFMAN).	Fishing license Fees and Access Fees are collected by the Government of Tuvalu. Payment confirmation is sent to the Treasury Department and sometimes copied to the Tuvalu Fisheries Department to update their records of payments received. No reconciliation of fishing licenses between Treasury records and the Fisheries Department records is performed. The Fisheries Department needs to know if payment has been made in order to determine if a vessel is fishing illegally in Tuvalu's Exclusive Economic Zone. Vessels that are found to be illegally fishing in Tuvalu's waters are normally fined in accordance with the laws of Tuvalu. The monitoring of the fines imposed and payment of the fines is not performed by the Fisheries Department. There is no follow up on fines payment, nor any method to record all fines which are due to be paid. As treasury records and fisheries records are not reconciled, it makes it difficult for the fisheries department to trace whether a particular fishing vessel has paid for their fees and fines and also for Treasury to ensure that all revenues of the Government of Tuvalu are completely collected. This reconciliation would also assist in identifying payments which relate to multiple financial years.	No response received from Management
17.2011 Fisheries to Keep Minutes of Negotiation on File • Official records and minutes of negotiating to approve fishing licenses discussed via email	Fishing nations/companies interested in fishing in Tuvalu's waters will firstly negotiate with the Fisheries Department through the Permanent Secretary and Director for Fisheries. The negotiation is surrounding the terms and condition of the Access Agreements. We noted that the fisheries staff are using their personal email addresses for negotiation purposes	No response received from Management

Recommendation	Risk	Management response
should be filed for transparency. • The secretary for the Access Agreement and Licensing committee should file official records of decisions made (including printing or saving emails), to ensure transparency and accountability of the Access Agreement and Licensing committee.	and that there are no written minutes to confirm the negotiation outcomes. If negotiation records including emails and minutes are not kept properly the process becomes more vulnerable to fraudulent activities which can lead to decreased revenues from fishing or increased exploitation of Tuvalu's limited fisheries resource.	
8.2009 Reconciliation Between Customs and ACCPAC Develop a reconciliation which is performed monthly, to ensure that all transactions in the Customs database are accounted for in ACCPAC. Initially the monthly movements could be reconciled in order to simplify the reconciliation process.	Currently there is no reconciliation process between the Customs revenue collection system and ACCPAC. The amount of revenue noted in the Customs database does not agree to the amount collected in ACCPAC. The implication is that payments recorded by ACCPAC may not agree to the Customs revenue collection database. This may cause either issues surrounding the release of goods without payment or the refusal to release goods, even though payment has been made.	No response received from Management
5.2008 Debt Management Policy Develop and implement a debt management policy to assist in the timely recovery of debts owed to Government of Tuvalu. Approve advances based only on full and complete budget details. Ensure appropriate documentation is available for all advances made prior to processing payment.	That all debts which are owed to the Government of Tuvalu are not collected. We acknowledge that the *Accounts Receivable* and *Advances* finance circular has been approved in September 2016 and covers the issue of debt management. The implementation of this Finance Circular will be reviewed as part of the 2016 audit.	No response received from Management
9.2008 Employee Entitlements The Human Resources Management Department maintains a record of leave entitlement liabilities and provide this information at least quarterly to Treasury to include in the Financial Statements.	Liabilities for leave and sick leave may accrue without finance being able to forecast resultant cash flows. Leave may be taken, however, not recorded in the system. We acknowledge that within ACCPAC, the payroll module is in use in 2016, however, further work is required to ensure that the	No response received from Management

Recommendation	Risk	Management response
Reconcile the leave entitlements of staff to their leave records on an annual basis.	leave balances entered into the system are accurate and complete.	
4.2007 Unauthorised Expenditure That all expenditure is processed only within the approved vote appropriation. Any irregular expenditure should be drawn to the immediate attention of the Auditor General.	Unauthorised expenditure is processed without appropriate authority i.e. through the initial budget process, virements or supplementary funding.	No response received from Management
18.2007 Government Policy Register Compile a Government of Tuvalu policy register to log all Government of Tuvalu policies to ensure easy access and consistent application for all Government of Tuvalu employees. Once compiled the listing of all policies should be reviewed to ensure that any duplication of policies are addressed. The Government of Tuvalu policy register and corresponding policies are placed on the intranet site, for ease of access.	Government of Tuvalu officials apply Government of Tuvalu policy inconsistently giving rise to inconsistent practices across ministries and functions.	No response received from Management
19.2007 Government Contracts Register All Government of Tuvalu contracts are reviewed by the Government of Tuvalu legal division and monitored through a centralised contracts register. Centralising and updating Government of Tuvalu contracts will facilitate better decision making, better cash flow forecasting, better management and budgeting and increased transparency. It is understood that the Central Procurement Unit will	Government of Tuvalu is unaware at a global level what contracts they are counter-party to and the impact this has on Government of Tuvalu cash flows. That the Government of Tuvalu are not able to effectively manage contracts to its fullest extent.	No response received from Management

Recommendation	Risk	Management response
have a role in the creation of this register going forward.		

Appendix 2: Audit Issues Closed during the 2016 Audit

1.2015 Disaster Relief Bank Account to be controlled by Treasury
2.2015 Disaster Relief Account are consolidated into one account, managed by Treasury
4.2015 Rules on appropriate expenditures to be funded under the Government of Tuvalu Disaster relief account are developed
5.2015 Procurement of goods after the conclusion of an extreme urgency period are performed within the requirements of the Procurement Act and Regulations
6.2015 Annual budget for the Disaster Relief Unit is established for annual operating expenses
8.2015 Virement Warrants not issued in 2015 for Virements
12.2015 Interim Expenditure Warrants used inappropriately over two years
13.2015 Written delegation registered to be created and submitted to Auditor General
15.2015 Virement process to update to include approval and Warrant on same form
16.2015 Transfer of 3 million from Tuvalu Development Fund not in compliance with Public Finance Act
12.2014 TDF development warrant issued inappropriately and Development Fund accounts overspent
16.2014 Fraud policy implementation
28.2014 Lack of Internal audit function
11.2013 Non-reconciliation of the movement in Tuvalu Development Fund for the year to the movement in the Tuvalu Development Fund bank account
20.213 Settlement of Purchases to Overseas Suppliers
5.2012 Cabinet minutes and records of decisions
7.2012 Observer Fund Expenditure
1.2008 Guarantees and Commitments Issued by Government