REPORT OF THE AUDITOR GENERAL

ON THE FINANCIAL STATEMENTS OF THE GOVERNMENT OF TUVALU FOR THE YEAR ENDED 31 DECEMBER 2019

Parliamentary Paper
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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.

Statutory Audit Report

Government of Tuvalu Audit
For the year ended 31 December 2019

To: Honourable Members of the Tuvalu Parliament

Dear Members

I have audited the financial report and transactions of the Government of Tuvalu as required by the Public Finance Act. This Statutory Audit Report outlines the results of my audit for the year ended 31 December 2019 and detail any significant matters that in my opinion is essential for special notice. The Public Finance Act requires that I send this report to Parliament.

The audit approach used to audit the TWOG financial statements for the year ended 31st December 2019 has been changed due to the transition from elementary accrual basis to full cash basis as proposed by the Ministry of Finance and as detailed in the Foreword of the Financial Statements. This transition was supported by Cabinet as a result of material issues raised in previous audit reports which are all directed towards the inability of government to meet the full accrual accounting requirements.

This report is not the Independent Audit Report, which expresses my opinion on the Government of Tuvalu's financial report. **I have enclosed the Independent Audit Report for the year ended 31 December 2019, together with the Government of Tuvalu's financial reports in Appendix 4.**

Audit Result 2019

I expressed a qualified adverse audit opinion on the Government of Tuvalu's financial report for the year ended 31 December 2019. There are matters of audit concern in regards to figures disclosed in the financial statements which are, significant and pervasive.

Basis for Qualified Audit Opinion

- **Non-Existence of an Accounting Framework (Tuvalu GAAP)**
  In the preparation of Financial Statements, it is very important to make references to an Accounting Framework as it sets out the criteria that is used to measure, recognize, present and disclose the information appearing in an entity's financial statements. The TWOG Financial Statements were prepared in accordance with General Accepted Accounting Practice in Tuvalu (Tuvalu GAAP) and Tuvalu GAAP looks to the international Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS) as guidance where necessary. However, it was noted during the TWOG audit for the year 2019 that a written document referred to as the Tuvalu GAAP does not exist.

- **In-consistency in basis of accounting used in the preparation of TWOG Financial Statements**
  This is the second year for the implementation of the TWOG transition from elementary basis to cash basis accounting. The 2019 TWOG financial statements were being prepared using the cash basis accounting, a medium-term practice of the roadmap to full accrual accounting. Audit noted that revenues are recognised when earned and expenditures when incurred or generally upon receipt of goods or performance of

services. It is a concern as there are inconsistency in recording of transactions to truly reflect the cash basis of accounting adopted.

- **Cash balance as per Bank Reconciliation unable to be reconciled to General Ledger / Trial Balance.**
  During the audit, we noted that there exists a variance between the cash (General Current Account) balance as per the General Ledger and the cash (General Current Account) balance reflected in the ACCPAC bank reconciliation. The variance of **$510,839.31** was noted, of which the general ledger amount is greater. This could be the result of mis-posting errors or errors of omission, which is an overall concern on the processes of recording and reconciling cash balances.

- **Uncertainty surrounding existence, completeness and accuracy of expenditures accommodating Property, Plant and Equipment in the Financial Statements**
  With the transition in accounting basis mentioned in 3.2019 above, Property, Plant and Equipment purchased in 2019 were expensed during the year. However, audit was unable to verify the following audit assertions regarding TWOG fixed assets;

  - **Existence**: Existence of an UPDATED fixed Asset Register to record all fixed assets.
  - **Completeness**: Ensure that all assets procured or purchased during the year are completely recorded and recognized.
  - **Accuracy** and Classification: to ensure that the balance of total expenses in Financial Statements accurately reflects the amount of assets procured during the year.

  Sufficient disclosure surrounding Property, Plant and Equipment balance were not provided within the TWOG financial accounts.

- **Limitation of scope surrounding Cabinet minutes and decisions**
  Audit requested copies of cabinet minutes for the year 2019 to enable us review the decisions made (which could have an effect on the financial position of the Government of Tuvalu), were actually being reflected in the financial statements. None of the cabinet minutes and decision were provided to audit.

- **Virements variances within the Budget System**
  Audit performed an analysis over virement processes by the planning and budget team for the year 2019. Virement is the approval to move budgeted funds within a Head of expenditure, hence within each head the movement should always add up to zero. It was found that virement processed in 2019 had a total balance of $2.8 million.

  This implies that the Planning and Budget processes fails to properly allocate decreasing amounts to relevant and appropriate heads to facilitate the virement processes. Funds are available to be spent but were not appropriated.

- **Marine Accounts Receivables**
  The marine department used to collect revenues from freight, wharfage and hiring of Marine Truck. All of these services are normally charged on a cash basis. It was noted during the audit that a large number of receivables from marine services not being collected by the marine department, and there is no evidence of reporting or reconciling

these receivables with Treasury Department. This is a concern as the marine department continues to offer services on a credit basis to customers.

Additionally, there are also instances (in which the audit was made aware of) whereby the marine department facilitates a service-to-service trading, for which the department offer a service as payment for services received. This practice has the potential to understate government revenues and expenditures, and creates opportunity for fraudulent practices.

- **TDF Allocation Errors and Unreconciled Amounts**
  Audit noted the frequent use of these entries "*Allocation Error*" and "*Unreconciled Amounts*" to reconcile the TDF balance with the balance as per Bank Statements. It is a concern as there are no proper disclosures on what are the economic activities and transactions that make up these balances. Contrariwise, if these balances are related to human posting errors, what sort of practices the Department should consider to mitigate these balances from occurring.

  TDF Allocation Errors and Unreconciled Amounts since 2015 are tabulated below;

	2015	**2016**	**2017**	**2018**	**2019**
Allocation Errors	$ 3,109.00	$ 9,433.00	-$18,324.00	$ 310,534.00	$574,393.00
Unreconciled Amounts	$ 24,904.00	-$159,504.00	-$84,630.00	-$323,682.00	-$55,636.00

In addition, audit also noted that TDF opening balances (for projects) for the year 2019 does not agree with TDF closing balance for 2018. A variance of **$62,200** was found of which the 2018 closing balance amount is greater. It is an issue that has the potential to affect the level of assurance placed on TDF Unreconciled Amount balances.

I, therefore, have not been able to obtain sufficient appropriate audit evidence to support the completeness and accuracy of budget amounts and the completeness of the corresponding Revenue and Expense transactions in the Statement of Revenues and Expenditures which constitutes to a qualified audit opinion, material and likely to be pervasive.

Report on Other Legal and Regulatory Requirements

In auditing the Financial Statements of the Government of Tuvalu for the year ended 31 December 2019, due to the matters in the Basis for Qualified Audit Opinion above and the matters raised in the Statutory Audit report below, it is considered that the requirement of Section 23 and Section 38 of the Audit Act and Section 31(2) of the Public Finance Act has not been completely complied with.

Scope of the Audit

My audit procedures are targeted specifically towards forming an opinion, on the Whole of Government's financial report. This includes testing whether the Government of Tuvalu has complied with key legislation that may have a materially impact on the financial report. The results of the audit are reported in this context.

Acknowledgment

I would like to thank all Government Ministries staff for their courtesy and assistance during the audit process. I would also like to acknowledge the effort made by Treasury Department in the preparation of the 2019 financial statements given the transition from full accrual to full cash

basis of reporting, which has made improvements in the annual reporting process except for some other issues that were raised in the report.

Yours sincerely

Mrs Selai Managreve
Auditor General for Tuvalu (Ag)
Funafuti Tuvalu
21st April 2021.

Executive Summary

Audit Opinion

I expressed a qualified adverse audit opinion on the Government of Tuvalu's financial report for the year ended 31 December 2019. This was due to matters that I would like to draw a particular attention to, which are significant and pervasive surrounding;

- Non-existence of an Accounting Framework (Tuvalu GAAP)
- In-consistency in basis of accounting used in the preparation of TWOG Financial Statements
- Cash Balance as per the Financial Statement unable to be reconciled to General Ledger/Trial Balance
- Uncertainty surrounding existence, completeness and accuracy of expenditures accommodating Property, Plant and Equipment in the Financial Statements.
- Final Budget Expenditure Figures in Financial Statements and General Ledger, and Final Budget Expenditure Figures as per Budget department not reconciling with Appropriation Acts
- Marine Accounts Receivables

The Independent Audit Report is attached to the Financial Statements in **Appendix 4** of this report.

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 some noncompliance with generally accepted accounting principles.
We confirm that we are independent. There are no unresolved disagreements at year end. Now that there is a significant change to the preparation of the Financial Statement from the elementary accrual to full cash basis as approved by Cabinet, some of the issues raised in the previous reports will be disregarded as they were related to the full accrual accounting system. We will focus only on matters that are related to our new audit approach, considering cash basis audit approach.

Areas of Audit Emphasis

We note in respect of the areas of audit emphasis that:

- with the transition of the preparation of the TWOG financial statements from the Accrual Accounting Basis to the Elementary Accrual, the following items in the statements of Assets and Liabilities are excluded;
    - Property Plants and Equipment,
    - Public Entities net assets
    - Inventory

  Although these items are not disclosed in the financial statements, we will focus much on these items to ensure that proper recording and monitoring are adhered, at all times.

- the 2018 Qualification issues which remain unresolved are:

  - Final Budget Expenditure Figures in Financial Statements and General Ledger note reconciling with the Appropriation Act
  - Budget Appropriation not Utilized
  - Non-submission of asset registers and summary of changes in asset to Treasury;
  - Cash unable to be reconciled to bank statement, and movement in cash balance unable to be reconciled to movements in the Statement of Receipts and Payments.
  - Lack of evidence to support Accounts Receivable and Revenue in the Financial Statements; and
  - Poor record keeping and lack of TMTS Database
  - Aviation Receivables

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

- Late submission of the Tuvalu Whole of Government 2019 Final Accounts
- Over expenditure of Budget Heads which is in breach of the Constitution;
- Final Budget Figures in the Financial Statement not reconciling with Appropriation acts;

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 raised in our report for the 2018 TWOG audit;

- Non-existence of an Accounting Framework (Tuvalu GAAP)
- In-consistency in basis of accounting used in the preparation of TWOG Financial Statements
- Cash Balance as per the Financial Statement unable to be reconciled to General Ledger/Trial Balance
- Uncertainty surrounding existence, completeness and accuracy of expenditures accommodating Property, Plant and Equipment in the Financial Statements.
- Final Budget Expenditure Figures in Financial Statements and General Ledger, and Final Budget Expenditure Figures as per Budget department not reconciling with Appropriation Acts
- Marine Accounts Receivables

Content

The Tuvalu Office of the Auditor General has completed the financial audit of the Government of Tuvalu for the year ended 31 December 2019. This report summarises our findings from the audit and draws attention to areas where the Government of Tuvalu is doing well or could improve.

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
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
SSL: Safety and Security Levy
MOH: Ministry of Health

Types of Audit Opinions

The following are the types of audit opinions issued by the Tuvalu Office of the Auditor-General;

- Unqualified: In our opinion the Financial Statements present a true and fair view.
- Qualified except for: In our opinion except for the matters noted in the qualification paragraph the Financial Statements present a true and fair view.
- Qualified adverse: In our opinion the Financial Statements do not present a true and fair view.
- Qualified disclaimer: We are unable to form an opinion whether the Financial Statements present a true and fair view.
- Unqualified with an emphasis of matter paragraph: In our opinion the Financial Statements do present a true and fair view, however, emphasis which we consider important to the user is drawn to a certain disclosure within the Financial Statements.
- Unqualified with another matter paragraph: In our opinion the Financial Statements do present a true and fair view, however, users' attention is drawn to a matter relevant to their understanding of the audit of the Financial Statements or the audit report.

Introduction

The Format and Mandate of this Report

This report is tabled under Section 36 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 results of the audit of the Financial Statements of the Government of Tuvalu for the year ended 31 December 2019 including:

- 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;
- significant matters arising from the audit;
- status of prior year audit issues; and
- audit issues closed in 2019.

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 compliant with 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 and where appropriate.

Subsequent Events

During the year, the Pacific Island Forum secretariat held its 50th meeting in Tuvalu. Leaders of PIFs member countries came to Tuvalu for the 1 week meeting.

Changes in Accounting Policy

In the preparation of the TWOG Financial Statements for the year ending 31 December 2019, full cash basis of accounting was used.

Unusual Accounting Policy

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

- not accounting for errors made in prior years and changes in accounting policies retrospectively, but they are accounted for in the current year.
- Revenues are recognized when earned and expenditure when incurred

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 2019 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 2019. In addition, we confirm that we have no relationships with, or interests in, 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 attention to during the audit. Our response to these areas of audit emphasis is outlined below

Issues Surrounding the Prior Year (31 December 2018) Qualification

A qualified opinion was issued for the year ended 31 December 2018 Government of Tuvalu accounts. A qualified opinion means that in our opinion except for the matters noted in the qualification paragraph the Financial Statements present a true and fair view.

The 2019 audit opinion is a qualification opinion. We acknowledge there has been considerable improvement in the presentation of the Financial Statements and the resolving of issues within the qualification.

The 2018 issues which are considered to be unresolved as from considering the elementary accrual basis as from previous years are:

- Final Budget Expenditure Figures in Financial Statements and General Ledger not reconciling with the Appropriation Act
- Budget Appropriation not Utilized
- Non-submission of asset registers and summary of changes in asset to Treasury;
- Cash unable to be reconciled to bank statement, and movement in cash balance unable to be reconciled to movements in the Statement of Receipts and Payments.
- Lack of evidence to support Accounts Receivable and Revenue in the Financial Statements; and
- Poor record keeping and lack of TMTS Database
- Aviation Receivables

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 previous years management report has been commended on in the Appendices to this report.

Financial Statement Compilation and Compliance with GAAP

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. There are room for improvements especially in terms of understandability of the Financial Statements.

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

- 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.

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

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.

The Finance Circular covering the Fraud, Misuse and Loss Policy has been approved by the Secretary for Finance in 2016. 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 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 controls over the assets, accounting for liabilities, income and expenses of the entity. We have completed a management control environment (MCE) assessment of the 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.

Performance, waste and probity issues

The following issues raised in 2018 and in the past have recommendations which related to performance waste and probity. See the issues for more detail.

- 3.2018 Final Budget Expenditure Figures in Financial Statements and General Ledger not reconciling with the Appropriation Acts
- 4.2018 Budget Appropriations
- 6.2018 Non-submission of asset registers and a summary of changes in asset to Treasury
- 9.2018 Poor record keeping and lack of TMTS Database
- 12.2018 Aviation Receivables
- 8.2017 Communication and Transport payables
- 9.2017 Member of Parliament privilege under the TMTS
- 14.2017 Poor record keeping and lack of TMTS database
- 16.2017 Lack of reconciliation of TMTS outstanding bills
- 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.
- 10.2014 No recording of annual leave and sick leave balances by Government of Tuvalu.
- 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.

Implementation of Procurement Act and Regulations

We have gained an understanding of the procurement process and have performed sample testing to ensure that the Government of Tuvalu is in compliance with the procurement legislation. Some issues which were noted in prior years surrounding the non-compliance with the Procurement Act and Regulations were still have not been addressed in 2019.

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:

- 6.2018 Non-submission of asset registers and a summary of changes in asset to Treasury
- 2.2017 Final Budget Expenditure Figures in Financial Statements and General Ledger not reconciling with Appropriation Acts and Estimates of Statutory Expenditure
- 15.2017 Monthly submission on receivables not prepared and submitted to Treasury by departments
- 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

The majority of Finance Circulars which provide additional guidance to the Financial Instructions remained in draft form in 2019. The approved Finance Circulars are yet to be fully implemented. Limited public awareness of the Financial Instructions has been carried out. The Ministry of Finance also commented on this issue in our previous audit report, that finance circulars for 2019 (approved on 30 August) will be submitted to Auditor General's Office, however these copies are yet to be received.

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 2019.

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

Revenue Issues unresolved;

- 20.2014 Monitoring of Upper Air Space Revenue
- 16.2016 Reconciliation between the Marine (Stevedoring and Wharfage) and the Treasury
- 12.2018 Aviation Receivables
- 9.2018 Marine Accounts Receivables

Revenue Issues resolved during the year;

- 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)
- 7.2015 Transhipment Revenue not reconciling to Financial Statements
- 14.2015 Customs receivables

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.
Audit will review the management of Foreign Embassy returns as part of the 2020 audit.

Disaster Relief Fund Expenditures

Documentation of the disaster relief fund expenditures was performed. The following outstanding audit issue was 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.

See audit issues for further details.

Scholarship Educational Loan Scheme (SELF)

Documentation of the SELF scheme was performed, and audit issues were noted. 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

See the audit issues for further details.

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
    - 2.2017 Final Budget Expenditure Figures in Financial Statements and General Ledger not reconciling with Appropriation Acts and Estimates of Statutory Expenditure
- 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
- 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
- Financial Instructions Section 135
    - 22.2014 Goods receipting process not being followed.
- Financial Instruction Section 184
    - Monthly submission on receivables not prepared and submitted to Treasury department
- 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 Instruction Section 285
    - 6.2018 Non-submission of asset registers and summary of changes in asset to Treasury
- Financial Instruction Section 301
    - 17.2017 Non-performance and reporting of asset and inventory stocktake by departments
- 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

Significant Matters Arising from the Audit

1.2019 Late Submission of the Tuvalu Whole of Government 2019 Final Accounts

The Public Finance Act section 31(2) states that the TWOG Financial Statements shall be prepared and submitted to the Auditor General within a period of six months after the end of the financial year. The Government of Tuvalu financial statement was submitted to audit on September 2020, a period of 9 month after the end of the financial year. This is a non-compliance with Public Finance Act requirements.

IMPLICATION

- Timely submission of the TWOG Financial Statements will ensure that there is ample time for the Office of the Auditor General to carry out the audit and for the report to be submitted to Parliament on time. This issue resulted in the delay of the overall process from auditing up towards the tabling of the audit report to parliament.

RECOMMENDATION

- Ministry of Finance to submit the Government of Tuvalu financial statements to the Office of the Auditor General within six months after the end of the financial year
- Treasury to submit Financial Statements in draft form to the Office of the Auditor General to facilitate audit engagement processes, rather than waiting for the final draft. This will allow enough time for the Office of the Auditor General carry out examination of the accounts effectively.

Management Comments
An area that need to be improved.

2.2019 Non-Existence of an Accounting Framework (Tuvalu GAAP)

In the preparation of Financial Statements, it is very important to make references to an Accounting Framework as it sets out the criteria that is used to measure, recognize, present and disclose the information appearing in an entity's financial statements. The TWOG Financial Statements were prepared in accordance with General Accepted Accounting Practice in Tuvalu (Tuvalu GAAP) and Tuvalu GAAP looks to the international Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS) as guidance where necessary. However, it was noted during the TWOG audit for the year 2019 that a written document referred to as the Tuvalu GAAP does not exist.

IMPLICATION

- Inconsistency surrounding the reporting and disclosures of financial statements items
- Inconsistency in the adoption of accounting policies and estimates.

RECOMMENDATION

- TWOG to ensure that a written document such as the Tuvalu GAAP to be developed to accommodate reporting and disclosure requirements that are applicable to Tuvalu's financial context.

Management Comments

Agree to the fact that there is no Tuvalu GAAP document. However as explained this basically refers to the PF Act and the adopted accounting standard (IPSAS) which framed the disclosure requirement in the WOG financial statement.

For that reason, it is hard to argue that the preparation of TWOG financial statement is not consistent in terms of reporting and disclosure.

3.2019 In-consistency in basis of accounting used in the preparation of TWOG Financial Statements

This is the second year for the implementation of the TWOG transition from elementary basis to cash basis accounting. The 2019 TWOG financial statements were being prepared using the **cash basis accounting**, a medium-term practice of the roadmap to full accrual accounting. Audit noted that revenues are recognised when earned and expenditures when incurred or generally upon receipt and performance of services. It is a concern as there are inconsistency in recording of transactions to truly reflect the cash basis of accounting adopted.

IMPLICATION

- Statement of Income and Expenditure does not truly reflect receipts and payments of the TWOG, compromising the true and fair view of the Income Statement.
- Inconsistency in recognising and recording of receipts and payment transactions
- This inconsistency may cause confusion amongst users of financial statements.

RECOMMENDATION

- It is recommended that the TWOG consistently use the cash basis of accounting to measure, recognize and record income and expenditures. Revenue to be recognised when cash is received and expenses is recognised when cash is paid
- A statement of cash receipt and payment to be prepared and to form part of the financial statement and to be in compliant with IPSAS cash basis.

Management Comments

Agree. Need to revisit the accounting policy. However as discussed government is using a modified cash accounting basis whereby revenues and expenses are recognised under cash basis, and the only exception applies to the drawing and repayment of imprest, advance etc, unless additional regulation is imposed by Government under the Act.

4.2019 Limitation of scope surrounding Cabinet minutes and decisions

Audit requested copies of cabinet minutes for the year 2019 to enable us review the decisions made (which could have an effect on the financial position of the Government of Tuvalu), were actually being reflected in the financial statements. None of the cabinet minutes and decision were provided to audit.

Section 38 (2) of the Audit Act 2016;

> "For the purpose of an audit or an inquiry the Auditor-General, or an authorised auditor, is entitled to full and free access at all reasonable times to—

(a) all accounts, information, documents, systems and records that the Auditor- General considers to be relevant to the audit or inquiry; or
(b) public money, money of a public sector entity, or other money; or
(c) public property, property of a public sector entity, or other property,
in the possession or under the control of any person and the Auditor-General shall make copies of or take extracts from any of the accounts, information, documents and records.

IMPLICATION

- With the limitation of scope, audit was unable to ascertain whether the financial statements actually reflect the key decisions made by cabinet.

RECOMMENDATION

- Cabinet minutes to be available and to be easily access by the Office of the Auditor General during the audit of the Government of Tuvalu's accounts.

Management Comments

Releasing of cabinet decisions/minutes is beyond treasury control as they are manage by OPM. However base on the mentioned implication of the issue, it is suggest that treasury is provided with the specific matter of concern so proper documentation is presented for clarity purposes.

5.2019 Cash balance as per Bank Reconciliation unable to be reconciled to General Ledger / Trial Balance.

During the audit, we noted that there exists a variance between the cash (General Current Account) balance as per the General Ledger and the cash (General Current Account) balance reflected in the ACCPAC bank reconciliation. The variance of **$510,839.31** was noted, of which the general ledger amount is greater. This could be the result of mis-posting errors or errors of omission, which is an overall concern on the processes of recording and reconciling cash balances.

IMPLICATION

- Understatement of cash balance in the financial statement as Trial Balance show $510,839.31 greater than the amount reflected in the financial statements.
- Has the potential to affect revenues, expenditure and retained earning balance to adjust for the cash variance.

RECOMMENDATION

- Treasury Department to instilled proper controls in terms of a monitoring mechanism to properly monitor cash posting or data entry into the system to ensure that balances appearing in the Trial Balance agree with Accpac bank reconciliation balance.
- As part of the quarterly reports, treasury department to reconcile these balances to address variances at the earliest.

Management Comments

The variance of $510k was a result of internal cash transfer between the general account and special funds (TDF & SI) which are related to different financial year. It is also good to note that the cash balance had been written off to retained earnings in 2018 causing a mismatch of cash balance in 2019.

It is suggest that further reconciliation with proper justification is undertake by treasury before further adjustment is made.

6.2019 Uncertainty surrounding existence, completeness and accuracy of expenditures accommodating Property, Plant and Equipment in the Financial Statements

With the transition in accounting basis mentioned in 3.2019 above, Property, Plant and Equipment purchased in 2019 were expensed during the year. However, audit was unable to verify the following audit assertions regarding TWOG fixed assets;

- **Existence**: Existence of an UPDATED fixed Asset Register to record all fixed assets.
- **Completeness**: Ensure that all assets procured or purchased during the year are completely recorded and recognized.
- **Accuracy and Classification**: to ensure that the balance of total Expenses in Financial Statements accurately reflects the amount of assets procured during the year.

Sufficient disclosure surrounding Property, Plant and Equipment balance were not provided within the TWOG financial accounts.

IMPLICATION

- Without any disclosure on the amount expended on fixed assets, there is limited assurance on whether fixed assets procured during the year were properly accounted for (Particularly assets acquired for Tuvalu's preparation for 50th PIF meeting during the year).
- Risk for assets not being properly recognized or being unaccounted for in the financial statements
- Risk of misappropriation of assets if there is no updated Fixed Asset Register

RECOMMENDATION

- As part of the financial statement, and in accordance with IPSAS cash basis, a disclosure on Property, Plant and Equipment is to be included withing the TWOG financial statements
- Treasury to make an effort to update their Fixed Asset Register and to encourage vote keepers to submit their respective asset registers as per s285 of the Financial Instruction

Management Comments

In 2019 treasury faced the issue of staff turnover result in the delay of gathering asset register from line ministries and so the undertaking of the stock count. At the meantime treasury have manage to gather 85% of total department of Government register, which now form a basis of assessing payments when procuring new PPE. The asset count is currently a top priority in the department work plan.

7.2019 Final Budget Expenditure Figures in Financial Statements and General Ledger, and Final Budget Expenditure Figures as per Budget department not reconciling with Appropriation Acts

This issue was also raised in the 2018 audit report as Issue **3.2018**

The Final Budget Expenditure figures used by Treasury Department (FS) to formulate the Statement of Revenues and Expenditures and Final Budget Provision figures from the Planning and Budget Department were compared with the corresponding Appropriation Acts (Both original and Supplementary) .

Audit noted significant variances (positive and negative) in each Head when comparing Final Budget Provision on the Financial Statement with total of Appropriation Acts. Negative variances indicate that the Final Budget expenditure figures in the Financial Statements exceeded the corresponding Appropriation Acts. This actually implies that $26.9 millions of available funds in the accounting system were not properly appropriated or approved by Parliament.

Audit further noted that Treasury Final Budget provision for expenditures also exceeds Planning and Budget Department Final Budget provision by $25.5 million. This show that there is no reconciliation mechanism or control in place to ensure that treasury budget records are reconciled with the Planning and Budget records

The variances shown below are for heads with final budget expenditure figures exceeding the total amount appropriated for that head:

Head		Financial Statement (FS)	Budget Department	(Appropriation - FS)
	Total Appropriation	**Final Budget Provision**	**Final Budget Provision**	**Variance**
A	282,819.00	388,081.00	423,889.00	(105,262.00)
B	9,950,508.20	14,381,915.80	10,379,539.20	(4,431,407.60)
C	870,689.00	1,221,072.80	902,357.00	(350,383.80)
D	1,042,970.00	1,242,880.00	1,655,456.00	(199,910.00)
E	429,141.00	542,809.08	458,364.00	(113,668.08)
F	5,496,421.80	14,836,872.62	5,614,495.14	(9,340,450.82)
G	17,983,548.00	19,041,097.03	17,336,084.00	(1,057,549.03)
I	4,500,965.00	4,816,595.76	4,489,175.00	(315,630.76)
J	10,850,410.00	15,766,666.88	10,966,708.00	(4,916,256.88)
K	2,557,323.00	3,515,968.00	2,586,666.00	(958,645.00)
M	15,800,636.00	20,277,463.12	15,933,901.00	(4,476,827.12)
N	709,657.00	985,656.96	549,657.00	(275,999.96)
O	4,888,671.00	5,260,531.04	4,842,365.20	(371,860.04)
	$ 98,877,346.93	**$ 124,678,514.01**	**$ 99,180,693.10**	**$ (26,913,851.09)**

IMPLICATION

- The $26.9 million variance shows available funds to be spent, but were not subjected to Statutory Approval or an Appropriation Act. It is unclear whether this amount has been expended.

- If payments were made under the available funds, the payment will not be in compliance with s165 of the Constitution of Tuvalu, s4 of the Public Finance Act and the Financial Instructions.

RECOMMENDATION

- Planning and Budget Department together with the Treasury Department to put in place an internal control mechanism to ensure that their budget records agrees to each other.
- Investigation is performed into whether the Appropriation Acts and Statutory Estimates agree to the budget figures within the Accounting System in the future. If figures do not agree, take measures to reconcile the figures

Management Comments

Ministry of Finance had taken action to resolve this recurring issue within the system with the service provider in 2019. However, there has been additional problems encountered by the department when trying to implement this new budget module and therefore decide to put aside the module and looking at procuring a new system. This internal failure in the existing system at the time is basically a major cause of these variances.

8.2019 Virements variances within the Budget System

Audit performed an analysis over virement processes by the planning and budget team for the year 2019. Virement is the approval to move budgeted funds within a Head of expenditure, hence within each head the movement should always add up to zero. It was found that virement processed in 2019 had a total balance of $2.8 million.

This implies that the Planning and Budget processes fails to properly allocate decreasing amounts to relevant and appropriate heads to facilitate the virement processes. Funds are available to be spent but were not appropriated.

IMPLICATION

- There is an increased risk of not detecting over expenditure of funds and breaching of the appropriation acts.
- This is contrary to the requirements of the Public Finance Act and the Financial Instructions

RECOMMENDATION

- In future, the reasons for the variances in virement and supplementary are investigated and the practices which cause this are ceased.
- Regular analysis and review of virement and supplementary is performed to ensure errors are being detected and rectified on a timely manner.

Management Comments

An issue that is also related to issue 7.2019 above.

9.2019 Marine Accounts Receivables

The marine department used to collect revenues from freight, wharfage and hiring of Marine Truck. All of these services are normally charged on a cash basis. It was noted during the audit

that a large number of receivables from marine services not being collected by the marine department, and there is no evidence of reporting or reconciling these receivables with Treasury Department. This is a concern as the marine department continues to offer services on a credit basis to customers.
Additionally, there are also instances (in which the audit was made aware of) whereby the marine department facilitates a service-to-service trading, for which the department offer a service as payment for services received. This practice has the potential to understate government revenues and expenditures, and creates opportunity for fraudulent practices.

IMPLICATION

- This has the potential to understate TWOG receivables and revenues in the financial statements.

RECOMMENDATION

- Marine department to make an effort to follow up and collect all unpaid marine services.
- Perform monthly receivable reconciliation with treasury to ensure that outstanding receivables are properly accounted for.

Management Comments

Treasury has taken the leading role of ensuring that these arrangements is not practise going forward. Treasury is currently in the process of tracking and recovering of outstanding revenues due to Government through the respective department.

10.2019 TDF Allocation Errors and Unreconciled Amounts

Audit noted the frequent use of these entries "*Allocation Error*" and "*Unreconciled Amounts*" to reconcile the TDF balance with the balance as per Bank Statements. It is a concern as there are no proper disclosures on what are the economic activities and transactions that make up these balances. Contrariwise, if these balances are related to human posting errors, what sort of practices the Department should consider to mitigate these balances from occurring.

TDF Allocation Errors and Unreconciled Amounts since 2015 are tabulated below;

	2015	2016	2017	2018	2019
Allocation Errors	$ 3,109.00	$ 9,433.00	-$ 18,324.00	$ 310,534.00	$ 574,393.00
Unreconciled Amounts	$ 24,904.00	-$ 159,504.00	-$ 84,630.00	-$ 323,682.00	-$ 55,636.00

In addition, audit also noted that TDF opening balances (for projects) for the year 2019 does not agree with TDF closing balance for 2018. A variance of **$62,200** was found of which the 2018 closing balance amount is greater. It is an issue that has the potential to affect the level of assurance placed on TDF *Unreconciled Amount* balances.

IMPLICATION

- High potential to increase in the future if not dealt with
- It can be assumed as a balancing item for the Financial Statement or earnings management practice

RECOMMENDATION

- It is recommended for the treasury department to provide more disclosure on the amount associated with these balances
- Treasury department to perform the necessary reconciliation to ensure that TDF *Unreconciled Amount* are being reconciled before year end, and that TDF opening balances during the year agrees to TDF closing balance of the previous year.
- If it is a result of human posting errors, treasury to put in place enough internal controls to ensure that someone else to review entries made by another staff into the system

Management Comments

This is a balance sheet item created to accommodate unidentified inflows within the fund. Further reconciliation on this item is suggested to carry out by our department going forward.

11.2019 Insufficient disclosure for Account Payable movement

It was noted that Accounts Payable amount disclosed in the Statement of Assets and Liabilities has a total increase of $6.5 million from 2018 amount. Audit found that there is insufficient disclosure to properly detail the reason of the increase in the financial statements or in the notes to the Financial Statements.

IMPLICATION

- Current ratio and Net Working Capital of the TWOG will be impacted, showing an unfavourable image on the ability of the TWOG to meet or pay off short-term obligations
- Overstatement of expenditures

RECOMMENDATION

- Audit recommends that treasury department to put sufficient disclosures in terms of a note to the financial statement to properly justify the $6.5 increase in Government Debt.
- If it was a result of a Government policy, audit recommends treasury department to provide relevant disclosures on such policy as part of Note 2 to the Financial Statements.

Management Comments

The increase of $6m was a result of remaining SI project funds in 2019 that were not able to transfer at the end of the financial year due to the cash flow position at the time. This is a special fund account that was established under the PF Act to deposits infrastructure project funds appropriated during that year and allow to be rollover to the next financial year. Thus, it was treated as a current obligation in the financial statement with the intention that it will be cleared once the government cash position permits. (Attached the regulation for your general information)

12.2019 Statement of Cash Receipt and Payments / Cashflow Statement

Under the Cash Basis of accounting and as per Cash Basis IPSAS, it is very important for a Statement of Cash Receipt and Payment or a Cashflow Statement to form part of the Financial Statements. Audit requested for the abovementioned statements to be prepared and provided to audit, however these were not being provided to audit during the course of the audit.

These statements will ensure that the financial statements provide a comprehensive information about the cash balances of the TWOG, and also the cash changes (receipts and payments) that have occurred are disclosed in a format that is understandable to users. More importantly enhance transparency and accountability on matters like TWOG cash is generated from which source of income, or expended on what sort of expenditures.

IMPLICATION

- Confusion amongst users of the Financial Statements as to what extent is the cash basis of accounting being used in the preparation of the TWOG financial statement
- Inability for TWOG to see its current cash resources, and the likely sources towards sustainability of future cash inflows

RECOMMENDATION

- Audit recommends that these statements (Statement of Receipts and Payments or Cashflow Statements) are being prepared to form part of the Financial Statements
- TWOG to be more cognisant on what type of Financial Statements that are required under IPSAS cash basis of accounting.

Management Comments
Recommendation is noted for future reports.

13.2019 Aviation Receivables

This issue was also raised in 2018 TWOG audit report Issue **12.2018**

The aviation department collects departure tax of $30 and safety and security levy (SSL) of $5 on every passenger departing Funafuti. These charges are incorporated into the airline ticket costs and the total amount collected will be deposited into the authorised airline (Fiji Airways) bank account. As stated in the Disbursement Framework the aviation department must prepare and submit the confirmation of the number of passengers departed from Tuvalu to the authorised airline. The Fiji Airways then prepares payment (total departure tax and levy less commission of 3%) which will be deposited into the safety and security levy designated bank account.

Audit only obtained the total balance in the savings account which is amounted to $96,664 (a decrease of $97,655 from 2018) of interest earnings. Supporting documentation and Ending Balance of this account were not able to be obtained during the course of the audit.

IMPLICATION

- Without proper recordings of Aviation receivables, government would unable to collect the actual amount that should be earned from Fiji Airways.

RECOMMENDATION

- The aviation department to regularly review the payments made into the SSL bank account
- Ensure Fiji Airways pays all the amount due to the Government of Tuvalu. Any underpayment by Fiji Airways is informed as soon as possible.

- Ensure proper checking and reconciliation of the number of passengers departing Funafuti with Immigration and Customs before submission of confirmation to Fiji Airways.

Management Comment

The respective department plays the overall management of this special fund, in particular the reconciliation of revenues earned by the Government base on the number of travellers. Treasury ensure that the department submit the necessary documentation when making the payment for checking purposes.

Last recommendation is noted for future verification.

Appendix 1: Prior Year Audit Issues Which Remain Unresolved as at 31 December 2018

4.2018 Budget Appropriations not Utilized

Findings and Analysis

Audit perform an analysis on Actual Expenditure against Final Budget Appropriation Act and found that there are 2 Ministries that have utilized funds that exceeded their budget appropriation according to the Appropriation Acts.

The table below justifies Actual Expenditure against the Final Budget Provisions by Heads;

Head	Ministry	Actual Expenditure	Final Budget Provision	Variance
A	Office of the Governor General	243,672	249,368	5,696
B	Office of the Prime Minister	7,736,981	8,549,692	812,711
C	Legal Services	895,953	972,339	76,386
D	Parliament	1,431,500	1,445,015	13,515
E	Office of the Auditor General	323,804	432,126	108,322
F	Finance and Economic Development	12,268,405	12,887,187	618,782
G	Public Utilities	16,821,250	17,122,576	301,326
H	Health	10,147,239	11,558,951	1,411,712
I	Natural Resources	3,504,074	3,866,046	361,972
J	Home Affairs	6,528,251	7,983,513	1,455,262
K	Police and Prison Services	1,922,240	2,117,401	195,161
L	Transport and Communication	6,681,005	6,596,801	(84,204)
M	Education. Youth and Sports	13,618,354	14,039,698	421,344
N	Judiciary	613,396	604,765	(8,631)
O	Foreign Affairs, Trade, Tourism, Environment & Labour	4,370,438	4,619,587	249,149
	TOTAL	**87,106,563**	**93,045,065**	**5,938,502**

According to the table above, the Ministry of Transport and Communication exceeded its budget by $84,204 while the Judiciary by $8,631. These amounts are below the material level in which we do not acquire any clarifications.

The only matter here is that, it is very unusual to apply for supplementary for additional fund from the consolidated fund and they are not fully utilized. If the total Appropriation Acts was $12,368,183, only 51% of this total was utilized.

Implication

All effort and time consuming have been attended for the entire processes of issuing supplementary to fulfil the requirement of Ministries, not forgetting the endorsement of Parliament for these additional funds but in the end, appropriated funds are not fully utilized.

Recommendation

It is recommended that Accounting officers should be more specific on forecasting how much fund they should acquire from the Consolidated Fund for the continuation of their operations to ensure this current situation is not repeated in future.

Management Comments

Treasury team is working closely with relevant agencies on ways to improve monthly reconciliation to ensure Votekeepers cashbooks are updated regularly. In addition, monthly training organised by Treasury in 2019 has addressed key risk areas one of them being overspending. AG will notice this improvement when 2019 audit commences.

Agree that Accounting Officers shall critique and have a thorough review of submissions from their subordinates to ensure that submissions are justified to acquire money from the Consolidated Fund.

6.2018 Non-submission of asset registers and a summary of changes in asset to Treasury

Findings and Analysis

Following the issue raised in the audit report in 2017. The Accounting Officer is responsible for the maintenance of both the asset and the inventory register for their expenditure heads and shall maintain these registers in line with the format provided by the treasury department. This year, audit also noted that most line ministries and departments have not submitted their asset registers to treasury.

Audit noted that there were no annual stocktakes of asset and inventory been performed by the departments.

The Financial Instructions section 285 stated that *"an updated register summarising any changes to asset (such as addition of purchased or donated assets, removal for the disposal of existing assets and recording of the status of existing assets which are no longer in a serviceable state) must be provided to the treasury department during the monthly vote keeper reconciliation process".*

Although assets are excluded in the financial statements based from the transition adopted for the preparation of the 2018 financial statements, it is the duty of Accounting Officers to keep all their assets register updated and to legally monitor them according to regulations.

Implication

- Without proper registering of all assets in the asset register, assets will be easily misappropriated or misused illegally.
- It will be a burden for the Ministry of Finance to obtain a complete and reliable record of assets to fulfil the requirement of full accrual in the coming years.

Recommendation

- Accounting officer to ensure all assets purchased under their heads of expenditure and asset funded by donors as well as donated assets are included in the asset register and submitted to treasury during monthly reconciliation.
- Any change to asset as mentioned above must be reported to treasury immediately.

Management Comment

Asset register kept with Treasury records entire assets of the government following a vigorous stocktake in 2017 and 2018. Government has made consensus effort to ensure assets are properly accounted for and location identified. Votekeepers list all the assets purchased or built, the template is sent to Asset Clerk (Treasury) and the Asset master list is updated. The only pending work is new assets purchased or built during PIFS meeting in 2019. AG may have to examine asset register as it currently contains update list of assets.

9.2018 Poor record keeping and lack of TMTS Database

Findings and Analysis

This issue was also raised in the 2017 audit report on issue **No:14.2017**.

The Ministry of Health operates the Tuvalu Medical Treatment Scheme (TMTS) which aims at providing healthcare services that are not available at the Princess Margaret Hospital and medical centres on the outer-island to citizens of Tuvalu.

All information relating to TMTS expenses are recorded in ACCPAC as well as the supporting documentation are stored at the treasury. This information will not assist management to make better decision making and better management of TMTS resources. The Ministry of Health need someone with analysis skills to analyse data retrieved from ACCPAC and be able to provide reports that are relevant to enable management to make better decision making.

Audit noted that there has been not as much improvements made on records of the TMTS during this year.

We have the understanding that there is now a TMTS officer that have been established within this sector in late 2019. Audit will continue to assess records and functions of this sector in the 2019 audit.

Implication

- Without the Ministry of Health maintaining proper records of all information relating to TMTS, there is an increased risk of the Government of Tuvalu committing more monies without knowing the full extent of its commitment.
- There is a high risk that TMTS payments may exceed budget estimates due to lack of records and proper management of information relating to TMTS.

Recommendation

- The Ministry of Health to ensure that TMTS records are filed properly and stored in a safe place.
- The Ministry of Health to recruit a TMTS officer to record and analyse TMTS data and to produce reports that will assist management with their decision making.

Management Comment

The ministry takes heed of the issue and audit recommendation given the lack of a proper record keeping and storage of TMTS documents. With the recruitment of a TMTS coordinator and a TMTS financial manager, the ministry hopes that a sound and proper record keeping will be in place so that this repeating issue will not appear in the next financial audit.

11.2017 Non-submission of asset register and a summary of changes in asset to Treasury

Findings and Analysis

The Accounting Officer is responsible for the maintenance of both the asset and the inventory register for their expenditure heads and shall maintain these registers in line with the format provided by the treasury department. Audit noted that most line ministries and departments have not submitted their asset registers to treasury.

The Financial Instructions section 285 stated that *"an updated register summarizing any changes to asset (such as addition of purchased or donated assets, removal for the disposal of existing assets and recording of the status of existing assets which are no longer in a serviceable state) must be provided to the treasury department during the monthly vote keeper reconciliation process".*

Implication

- Not all assets of the Government of Tuvalu are included in the consolidated asset register which is managed and monitored by treasury department.
- Asset may be understated in the statement of assets and liabilities.

Recommendation

- Accounting officer to ensure all assets purchased under their heads of expenditure and asset funded by donors as well as donated assets are included in the asset register and submitted to treasury during monthly reconciliation.
- Any change to asset as mentioned above must be reported to treasury immediately.

Management Comment

Invoices and debit notes of revenue collecting points operates outside of the GL and not incorporated into ACCPAC. The new system that will replace ACCPAC will be able to integrate with line ministries and departments on debit notes and invoices.

17.2017 Non-performance and reporting of asset and inventory stocktake by departments

Findings and Analysis

The Financial instructions section 301 states that "*During June each year, and again in the final two weeks of the financial year, all Vote keepers and Accounting Officers must ensure that all assets on the Government asset register are identified, counted, and a copy of the expenditure head's asset register signed by the Accounting Officer and provided to the Treasury Department.*"

Audit noted that there were no stock-take of asset and inventory been performed by the departments. We acknowledge that the financial instructions were reviewed recently in 2014 and therefore its implementation is slowly underway.

Implication

Without the performance of asset and inventory stock-take the asset and inventory register are incomplete.

Recommendation

The Accounting Officer must ensure that asset and inventory stock-takes are performed during June each financial year and again in the final two weeks of the financial year. An updated signed asset register must then be provided to the treasury department.

Management Comment

No response received from Management

Recommendation	Risk	Management response
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 • 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.	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 when performing testing that there were Payment Vouchers where Purchase Orders were not available. No certification of these Payment Vouchers by the Permanent Secretary for Finance was performed. 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.	The purchase order module is operating efficiently. When this issue was raised, Treasury had to manually seek approval from Secretary – sometimes this is bypassed. However from 2018 todate, PO has improved processing of PVs

Recommendation	Risk	Management response
6.2016 Reconciliation of Asset and Liability Accounts to the Sub-ledger or Third-Party Evidence is performed • 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.	Treasury in 2017 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. 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.	Reconciliation has improved significantly from 2018 to date. For liability accounts, Government managed to extract 3rd party statements from Lenders and this provide an accurate position of the Government. Similarly in asset, the provision of bank accounts statements has improved significantly.

Recommendation	Risk	Management response
7.2016 Lack of Documentation Detailing the Benefits Entitled by the Overseas Missions Top Management • The responsible Ministry/department concern to investigate the benefits received by the Overseas Missions to ensure they are appropriate and valid. Discontinue payment if payments are not valid. • Documentation of all 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.	Audit noted through performing walkthrough testing for Overseas Mission's returns that there are several 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.	No response received from Management.
Recommendation	**Risk**	**Management response**

8.2016 No acquittal reports submitted to the Aid Coordination Unit upon completion of projects within the Tuvalu Development Fund • 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 themselves 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.	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. • 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.	No response received from Management.
Recommendation	**Risk**	**Management response**

9.2016 No proper closure of projects in the Tuvalu Development Fund after completion • 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.	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.	No response received from Management.
Recommendation	**Risk**	**Management response**

10.2016 Negative Project Balances within the Tuvalu Development Fund to be cleared • 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.	Within the Tuvalu Development Fund, it was noted that there was an increased in the number of projects with negative closing balances in 2017, 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. 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.	No response received from Management.
11.2016 Accounts Payable balances which are negative, and payables not allocated appropriately • 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.	Within the accounts payable balance in 2017 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 mis-postings. Implication These negative Account Payable balances understate the accounts payable balance.	No response received from Management.
Recommendation	**Risk**	**Management response**

13.2016 Tuvalu Development Fund Account Payable Findings and Analysis • 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.	The Tuvalu Development Fund (TDF) account payable amount as per ACCPAC has increased to $55k in 2017. 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. • 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.	No response received from Management.
Recommendation	**Risk**	**Management response**

14.2016 TDF vote ledgers were not updated and the non-performance of vote ledger reconciliations • 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	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. 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.	No response received from Management.
Recommendation	**Risk**	**Management response**

15.2016 Preparation of the monthly reports not in compliance with Financial Instructions • All the required information in the Government of Tuvalu monthly report is provided as required under the Financial Instructions.	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. Risk: • 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.	No response received from Management.
Recommendation	**Risk**	**Management response**

17.2016 Agreements between Development Partners and Government of Tuvalu not on file • 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.	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.	No response received from Management.

Recommendation	Risk	Management response
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. • 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	During TC Pam, Development Partners pledged funding for assistance to Tuvalu. While some of these pledges have been paid and have been 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 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.	No response received from Management.

Recommendation	Risk	Management response
9.2015 Advances improperly accounted for in 2017 • Advances are entered into ACCPAC as a receivable and then after a certain period, 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.	The Minister for Finance under section 193 of the Financial Instructions can approve an advance out of the consolidated revenue fund. The advances in 2016 and 2017 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 receivable assets from the entity who has made the commitment, the financial statements are understating the receivables and overstating expenses. a	No response received from Management.

<table>
<tr><th>Recommendation</th><th>Risk</th><th>Management response</th></tr>
<tr><td>10.2015 Payments out of Coin Security Fund without proper declaration under the Currency Act

• 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, then they are deposited into the Consolidated Revenue Fund.</td><td>The Coin Security Fund Special Account has been established under the Currency Act. A payment of $7k 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 2016 and 2017.
Implication
The transfer of funds out of the Coin Security Fund is contrary to the requirements of the Currency Act.</td><td>No response received from Management.</td></tr>
<tr><td>11.2015 Cash only reconciled at year end, causing budget expenditure reporting to be inaccurate

• 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.</td><td>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.</td><td>No response received from Management.</td></tr>
</table>

Recommendation	Risk	Management response
18.2015 Local purchase orders and transfers to be taken into account when deriving cash movement 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.	Local purchase orders are used to acquire goods and services from within the TWOG, by the TWOG. 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.	No response received from Management.
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 2017. Due to the variance of $9k between the Statement of Receipts and Payments and the movement in cash balance audit is not certain whether the adjustments made to remove non-cash items was completed. Audit is unable to verify the actual expenditure for each Head and identify whether there is over expenditure of budget Heads. Implication • The payments made out of the 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…"*	No response received from Management.

Recommendation	Risk	Management response
	• Payments are being made without due consideration of the budget framework. • The controls in place to prevent these overpayments are not effective.	
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 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	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 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	➢ Corporate Plans CPs) are considered as high priority by the Monitoring, Evaluation and Coordination Dept. (MECD) for reporting in order to well reflected the linkages to TKIII ➢ MECD does not work with line Ministries on their Corporate plans in terms of updating, it is the full responsibility of line Ministries to update their CPs and report to MECD; Thus, MECD will remind, follow up and report progresses ➢ MECD does not recommend in order for TKIII to be updated with a goal in line Ministries CPs, because all Ministries CPs MUST link with TKIII ➢ Risks are included in the report hence a Risk policy should be formulated by PBACD as it is the Dept. who formulate our National Development Plan and PBACD

Recommendation	Risk	Management response
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 SDE expenditure to the TKIII milestones and provides more detail in the SDE sheet similar to the TKIII Progress Report.	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.	knows well too why they had formulated such development ➢ MECD only monitors SDEs to meet the Cabinet's decision to monitor SDES as they want to know the projects status and not that they are link to TKIII because some projects are not highlighted in TKIII and another important factor is that Cabinet wants to ensure that projects funds are not vired or mismanage by line Ministries ➢ There are two CPs in place – MFED and MoH Strategic plan but line Ministries departments have their own and not yet consolidated into a Ministry CP, MECD by the way only monitors Ministries CPs and not departments CPs ➢ MECD monitors Line Ministries CPs meaning MFED and MoH

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 enough 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. 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	HRM has started to write to candidates last year who have completed under the SELF to repay the amount that was spent on them during the course of their studies. HRM have continue to dialogue with the Treasury to establish a head on which the loans repayments should be paid. To those civil servants who are working they should be deducted from their pay as whatever amount required. This amount is mounted like a rent that was also deducted from individual salary for those who rented government quarters. Further there is an intension to establish a debts recovery officer within the Department of HR to focus mainly on the recovery of loans and from those who are currently under the SELF It would be wise if the Treasury could set up a monitoring system for loans to be like the rents or etc. that have been deducted by Treasury.

Recommendation	Risk	Management response
	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.	

Recommendation	Risk	Management response
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 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 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 pay-outs at end of the staff's service may be over paid and unidentified or unrecorded annual leave is taken.	Individual leaves are filed in their own PFs. All annual leave and sick leaves are recorded in their personal files and database recording of all types of leaves. In fact, any officer who wish to take his/her leave must prepare a form and submitted to his/her supervisor to sign before submitted to HRM for records. Likewise, the sick leave must be filed in their individual personal files. The office of the HRM will focus mainly on updating records on the annual leave and sick leave for all personals within the public service.

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 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.	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, 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.	No response received from Management.

Recommendation	Risk	Management response
	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 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	

Recommendation	Risk	Management response
	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 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	

Recommendation	Risk	Management response
	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 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.	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 further progress has been assessed by during 2017. 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.	No response received from Management.

<table>
<tr><th>Recommendation</th><th>Risk</th><th>Management response</th></tr>
<tr><td>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.</td><td>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:
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.
Given these bank accounts are 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).</td><td>No response received from Management.</td></tr>
<tr><td>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</td><td>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.</td><td>No response received from Management.</td></tr>
</table>

Recommendation	Risk	Management response
Order Module is identified, this practice is discontinued.	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 2016 and 2017. • Due to the account not reconciling, audit was unable to gain assurance surrounding the accounts payable figure for 2016 and 2017. • There is an increased risk that purchase order amount is misstated in the financial statement.	
20.2014 Monitoring of upper air space revenue • A copy of the agreement is obtained, reviewed 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.	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). 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.	• Since the collection of the Tuvalu upper airspace revenue by Fiji (AFL) in the past and until now, Department of Civil Aviation at this stage had no idea of what the terms and condition on the collection of this revenue are. We only aware that there was an ICAO report made in 2002 perhaps, so the report seems to be in favour of Fiji. Therefore, ICAO did not come to Tuvalu during that time, they were only stayed in Fiji. • In 2013, this is one of our issue been brought up in the PASO meeting in Vanuatu for all countries under the Nadi FIR to make a new way forward, and this is due to the

Recommendation	Risk	Management response
	• The Aviation Department is unaware if it is receiving all the benefits from the NFIR agreement.	unfair distribution of shares by AFL to our airspace based from the formula that was made by ICAO in their 2002 report. During that meeting, ICAO were invited in to this meeting and PASO resolution on this issue was for ICAO to re-look in to this by correcting the formula in their 2002 report and try and solve the issue amicably with countries under the Nadi FIR. • NZ has indicated its interest/support in monitoring the Tuvalu, Kiribati and Vanuatu airspace. However, these three countries agreed that we discuss the matter with Fiji before we move on. Despite of this ongoing issue, there seems to be an increase in the amount of shares for the last two years as a result of the impact of PASO resolution, but the problem we need to know how that money was been calculated. • Further discussion on this upper airspace meeting was done early this year which our CEO attended this meeting. Need to discuss with him for an update. CCMU at this stage is in the process of working on this, and highly recommended that an agreement between Tuvalu and AFL need to be formulated asap.
21.2014 Lack of Procurement Planning	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 maximises efficiency and	No response received from Management.

Recommendation	Risk	Management response
• 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.	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 to ensure economies of scale are gained. Not all procurement plans were submitted for 2017 to the Central Procurement Unit. Implication • Without procurement plans being submitted, limited planning and grouping of common procurements can be performed, leading to inefficiencies and multiple bid 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	The Government of Tuvalu has in 2014 implemented the use of Purchase Orders. A Purchase Order is raised 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	No response received from Management.

Recommendation	Risk	Management response
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.	• 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 the invoice. It was noted in 2017 that: • There was limited goods receipting occurring. Implication 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.	
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	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. Implication	No response received from Management.

Recommendation	Risk	Management response
provided to grant recipients on how to fill out the acquittal form.	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.	
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 pay run process. • Without movement from pay to pay analysis performed, the payroll committee's review will take longer and will be less targeted.	There are no minutes taken in 2017. Treasury is implementing that in 2018.
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 to approve expenditure out of the TDF for 2015, 2016 and 2017.	No response received from Management.

Recommendation	Risk	Management response
	• The expenditure made from the TDF is unlawful because there has been non-compliance with the Public Finance Act requirements.	
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 2017. 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.
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	The Deferred Maintenance Fund is established to accommodate for these expenses.

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.	
8.2013 Portable and Attractive Assets register to be kept • 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.	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, 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	Treasury to be implement in 2018.

Recommendation	Risk	Management response
• If a fraud plan is developed, there could be some commentary surrounding management of Portable and Attractive items.		
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. We recommend that a lesser priority is placed on this issue.	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 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.	Not a priority issue. Treasury will consider this in future years.
25.2013 Non-reconciliation of Undelivered Cargo List to the warehousing file • The UCL continues to be updated until all goods are either cleared by Customs or are seized by Customs and auctioned.	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 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.	The item list on UCL are goods that are not been cleared. If the manifest is not in detail Customs will not know the amount of duty to be paid, therefore it is well spell out in the ACT for the master or shipping agent of any vessel to provide detail manifest as required, therefore. Furthermore, it is required for Customs to lift the security level to the next level. The amount known to be paid to Customs once we serve the importer with outstanding reminders. The risk will be reduced and well treated if we provided the importer with outstanding reminder, and in addition we will hold on to future imports,

Recommendation	Risk	Management response
	• 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.	unless the outstanding is cleared and payment due settled.
3.2012 Tuvalu Development Fund (TDF) Opening and Closing Balances and Budget Estimates 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.	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 2017 for the Tuvalu 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.	No response received from Management.
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.

Recommendation	Risk	Management response
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. Tuvalu is missing out on benefits of the VeriSign contract	• The Ministry has an annual talk with VeriSign, the company responsible for the administration of our .TV, where all issues relating to .TV were discussed and considered. • The next annual talk is scheduled to take place on 19 January 2019, and the Ministry intends to begin the ball rolling on the negotiation of the new agreement before the existing one expires in 2021. • The Ministry intends to set a Task Force or Negotiation Team to start working on this .TV issue.
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.

Recommendation	Risk	Management response
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 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 develops Government of Tuvalu staff understanding. Without review, the risk of errors being reported in the accounts is increased.	Treasury is improving on that and address these issues in the future.
17.2011 Fisheries to Keep Minutes of Negotiation on File • Official records and minutes of negotiating to approve fishing licenses discussed via email 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.	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 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.	No response received from Management.

Recommendation	Risk	Management response
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 issue surrounding the release of goods without payment or the refusal to release goods, even though payment has been made.	This is an issue Treasury is looking to install ACCPAC in the Custom Dept. This helps the department in reconciling their data with ACCPAC.
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.	Line Ministries has failed to report debts owe to the Treasury Department.
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. Reconcile the leave entitlements of staff to their leave records on an annual basis.	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 2017, however, further work is required to ensure that the leave balances entered into the system are accurate and complete.	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 contract register. Centralising and	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
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 have a role in the creation of this register going forward.		

Appendix 2: Audit Issues Closed during the 2019 Audit

- **1.2018** Limitation to conduct the Audit of the TWOG Financial Statements
- **5.2018** Incorrect Amount accounted for the Tuvalu Survival Fund Investment and Interest
- **10.2018** Incorrect Balance of the Tuvalu Trust Fund Disclosed in Financial Statement
- **11.2018** Overstated Maintenance Expenses in the Financial Statements
- **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 of the Climate Change and Disaster Survival Fund
- **12.2016** Monthly vote book reconciliation process to include assets reporting and counting
- **14.2015** Custom receivables
- **7.2015** Transhipment revenue not reconciling to Financial Statements
- **4.2015** Rules on appropriate expenditures to be funded under the Government of Tuvalu Disaster relief account are developed
- **11.2014** Observer's fund accountability
- **24.2014** Timely reconciliation of imprest
- **3.2014** Records Management system monitoring tax revenues (RMS) not updated in 2014 2015 and 2016.
- **15.2013** Payment of Honorarium Allowances to Civil Servants
- **18.2013** Monthly votebook reconciliation process to include assets reporting and counting
- **16.2011** No Reconciliation Between Fisheries and Treasury Records.
- **8.2011** Tax Reconciliation Issues
- **8.2009** Reconciliation Between Customs and ACCPAC

Appendix 3: Outstanding Audit matters to date

- Final Budget Expenditure Figures in Financial Statements and General Ledger not reconciling with the Appropriation Acts
- Non-submission of asset registers and a summary of changes in asset to Treasury
- Aviation Receivables
- Over expenditure of budget heads;
- 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;
- 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;
- lack of debt management policy to manage the Government of Tuvalu's receivables;
- lack of documentation surrounding supplier's expenses
- cash unable to be reconciled to bank statements and movement in cash balance unable to be reconciled to Statement of Assets and Liabilities;

Appendix 4: Government of Tuvalu Financial Statements and Independent Audit Report for 2018

INDEPENDENT AUDITOR'S REPORT for the year ending 31 December 2019

To: Honourable Members of the Tuvalu Parliament

Report on the Audit of the Financial Statements

Adverse Opinion

I have audited the financial statements of TWOG, which comprise the statement of financial position as at December 31, 2019, the statement of financial performance, statement of changes in net assets/equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not give a true and fair view of the financial position of the Ministry as at December 31, 2019, and its financial performance and statement of changes in net assets/equity for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

The Financial Report and Finance Minister's Responsibility

The Minister of Finance is responsible for the preparation and true and fair presentation of the financial report in accordance with the Public Finance Act and for such internal control as management determines necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

Basis for Adverse Opinion

Non-Existence of an Accounting Framework (Tuvalu GAAP)
In the preparation of Financial Statements, it is very important to make references to an Accounting Framework as it sets out the criteria that is used to measure, recognize, present and disclose the information appearing in an entity's financial statements. The TWOG Financial Statements were prepared in accordance with General Accepted Accounting Practice in Tuvalu (Tuvalu GAAP) and Tuvalu GAAP looks to the international Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS) as guidance where necessary. However, it was noted during the TWOG audit for the year 2019 that a written document referred to as the Tuvalu GAAP does not exist.

In-consistency in basis of accounting used in the preparation of TWOG Financial Statements
This is the second year for the implementation of the TWOG transition from elementary basis to cash basis accounting. The 2019 TWOG financial statements were being prepared using the cash basis accounting, a medium-term practice of the roadmap to full accrual accounting. Audit noted that revenues are recognised when earned and expenditures when incurred or generally upon receipt of goods or performance of services. It is a concern as there are inconsistency in recording of transactions to truly reflect the cash basis of accounting adopted.

Cash balance as per Bank Reconciliation unable to be reconciled to General Ledger / Trial Balance.
During the audit, we noted that there exists a variance between the cash (General Current Account) balance as per the General Ledger and the cash (General Current Account) balance reflected in the ACCPAC bank reconciliation. The variance of **$510,839.31** was noted, of

which the general ledger amount is greater. This could be the result of mis-posting errors or errors of omission, which is an overall concern on the processes of recording and reconciling cash balances.

Uncertainty surrounding existence, completeness and accuracy of expenditures accommodating Property, Plant and Equipment in the Financial Statements

With the transition in accounting basis mentioned in 3.2019 above, Property, Plant and Equipment purchased in 2019 were expensed during the year. However, audit was unable to verify the following audit assertions regarding TWOG fixed assets;

- **Existence**: Existence of an UPDATED fixed Asset Register to record all fixed assets.
- **Completeness**: Ensure that all assets procured or purchased during the year are completely recorded and recognized.
- **Accuracy** and Classification: to ensure that the balance of total expenses in Financial Statements accurately reflects the amount of assets procured during the year.

Sufficient disclosure surrounding Property, Plant and Equipment balance were not provided within the TWOG financial accounts.

Limitation of scope surrounding Cabinet minutes and decisions

Audit requested copies of cabinet minutes for the year 2019 to enable us review the decisions made (which could have an effect on the financial position of the Government of Tuvalu), were actually being reflected in the financial statements. None of the cabinet minutes and decision were provided to audit.

Virements variances within the Budget System

Audit performed an analysis over virement processes by the planning and budget team for the year 2019. Virement is the approval to move budgeted funds within a Head of expenditure, hence within each head the movement should always add up to zero. It was found that virement processed in 2019 had a total balance of $2.8 million.

This implies that the Planning and Budget processes fails to properly allocate decreasing amounts to relevant and appropriate heads to facilitate the virement processes. Funds are available to be spent but were not appropriated.

Marine Accounts Receivables

The marine department used to collect revenues from freight, wharfage and hiring of Marine Truck. All of these services are normally charged on a cash basis. It was noted during the audit that a large number of receivables from marine services not being collected by the marine department, and there is no evidence of reporting or reconciling these receivables with Treasury Department. This is a concern as the marine department continues to offer services on a credit basis to customers.

Additionally, there are also instances (in which the audit was made aware of) whereby the marine department facilitates a service-to-service trading, for which the department offer a service as payment for services received. This practice has the potential to understate government revenues and expenditures, and creates opportunity for fraudulent practices.

TDF Allocation Errors and Unreconciled Amounts

Audit noted the frequent use of these entries "*Allocation Error*" and "*Unreconciled Amounts*" to reconcile the TDF balance with the balance as per Bank Statements. It is a concern as there are no proper disclosures on what are the economic activities and transactions that make up these balances. Contrariwise, if these balances are related to human posting errors, what sort of practices the Department should consider to mitigate these balances from occurring.

TDF Allocation Errors and Unreconciled Amounts since 2015 are tabulated below;

	2015	2016	2017	2018	2019
Allocation Errors	$ 3,109.00	$ 9,433.00	-$18,324.00	$ 310,534.00	$574,393.00
Unreconciled Amounts	$ 24,904.00	-$159,504.00	-$84,630.00	-$323,682.00	-$ 55,636.00

In addition, audit also noted that TDF opening balances (for projects) for the year 2019 does not agree with TDF closing balance for 2018. A variance of **$62,200** was found of which the 2018 closing balance amount is greater. It is an issue that has the potential to affect the level of assurance placed on TDF Unreconciled Amount balances.

Key Audit Matters

Except for the matter described in the *Basis for Adverse Opinion* section, we have determined that there are no other key audit matters to communicate in our report.

Responsibilities of Management (Ministry of Finance) for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view and in accordance with Public Finance Act, International Public Sector Auditing Standards (IPSAS) and Generally Accepted Accounting Standards (GAAP), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Ministry’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

I did not examine every transaction, nor do I guarantee complete accuracy of the Financial Statements. I evaluated the overall adequacy of the presentation of information in the Financial Statements.

I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Independence

The Office of the Auditor General of Tuvalu have conducted this audit in compliance with all applicable independence requirements stipulated in the Constitution of Tuvalu and in our Audit Act.

Sincerely,

Selai Managreve (Mrs)
Auditor General of Tuvalu (Ag)
Funafuti